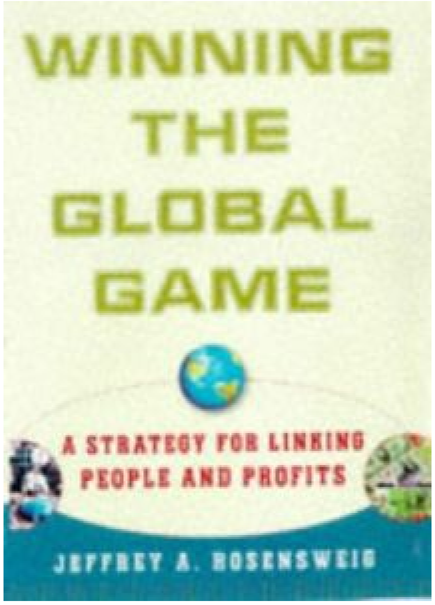

Book Winning the Global Game

A Strategy for Linking People and Profits

Jeffrey A. Rosensweig
Free Press, 1998

Recommendation

Jeffrey A. Rosenweig's scholarly study of the global economy is detailed, thought-provoking and rich in source material. Intelligently and clearly written, it is by no means light reading, and wasn't intended to be. Rosensweig covers each corner of the globe, putting such issues as population, development and economic status in perspective. He expertly guides you through complex historical and financial issues and information, and manages to connect all the dots. *BooksInShort* recommends this serious book to executives, managers and other thoughtful participants who are interested in present and future global commerce. "Serious" is the approach here, no dilettantes allowed.

Take-Aways

- A global economy can bring companies more profits and help people worldwide.
- Nations with more than 80% of the world's population are involved in less than 20% of international business activity.
- Developing nations have enormous business potential.
- In terms of U.S. dollars, foreign trade is booming.
- The most basic measure of a country's openness to trade is the ratio of its exports or imports to its total production: its gross domestic product or GDP.
- In the U.S., both imports and exports have risen as a share of GDP.
- U.S. trade share of GDP is rising quickly because of the North American Free Trade Agreement (Nafta) and other integrative forces.
- Foreign investment is on the rise and the entire world's economy is growing toward globalization.
- China and India are emerging as great national economies.
- U.S. companies can expand into foreign markets with a region-by-region, time-phased strategy.

Summary

Globalization or Globaloney?

A global, open, capitalist economy can help businesses profit and assist people all over the world. Today, the world economy is at a crossroads. Today's policy actions and strategic decisions will lead to a positive economic outcome, or a negative one. It's easy to be a pessimist when you compare the increasingly wealthy 26 countries that dominate the world's economy (and yet make up less than 20% of the world's population) with the countries that are falling behind economically. Devastating poverty, environmental destruction, resource depletion and spreading disease in nations will have a growing negative impact.

> "For billions of people on this Earth, talk of the prosperous and growing global economy is just a cruel reminder of their own abject poverty."

For example, babies born in some areas of Africa and Southwest Asia today have less than a 75% probability of living until the age of five, and almost no probability of realizing their potential. While business can try to run from them, it can't hide from global environmental and human degradation. A truly global business strategy is an investment in children worldwide as well as a way to achieve profits.

> "We cannot overemphasize that businesses looking to grow must incorporate in their strategies the relative demographic decline of Europe and Japan. Incredibly, those two key regions for business will experience absolute declines in population."

The most populated areas on the planet are largely outside the focus of the world's most advanced and biggest companies. Countries that comprise more than 80% of the world's population are involved in less than 20% of international business activity. What is more, the world's biggest projected population growth is in these impoverished, neglected, developing areas. Only visionary leadership can change these stark realities into more optimistic scenarios. That positive business leadership is possible. Corporate leaders can make a difference if they respect the environment and the human potential of people in developing nations. This strategy also is a profitable path for business leaders, and offers plenty of incentive for them to "do the right thing."

> "Most of the world's population, and almost all of its population growth, are in nations outside the traditional nexus of international business."

Is globalization just a buzzword, or is it the future of business? Is talk about a globalizing economy strategically useful, or is it just a bunch of "globaloney?" The answer lies in the data and the trends, both of which show that globalization is an emerging reality. This fact on the ground necessitates the creation of informed business approaches and personal strategies, not only for survival, but also for prosperity in the coming global economy.

> "The conclusion is that, measured by purchasing power exchange rates, China obviously has a fairly large total economy; however, China will not soon surpass the United States as the world's most powerful economy. That convergence, if it is to occur at all, is still decades away."

To determine the reality of a globalizing economy, first you need to understand exactly what constitutes an international business. At its core, international business has two major components: international trade and foreign investment.

When a domestic firm decides to sell its product to foreign nations, that firm begins to engage in the first realm of international business - international trade, the selling of a product across a national border.

> "To test if globalization is a reality, we need to get a handle on what constitutes international business."

As international markets grow, that firm may decide to produce its product in foreign nations, too. This is the next phase of the product's international life cycle. The company may decide to make products overseas to eliminate transportation costs or import restrictions, or to take advantage of cheaper labor in other nations.

> "In terms of U.S. dollars or other nominal values, trade is clearly booming, which has led many casual observers to

> trumpet this as the 'era of globalization.'"

Establishing an overseas subsidiary, investing in a joint venture in another country or owning a controlling or majority interest in a business unit overseas is called foreign direct investment (FDI). A firm that invests overseas, but doesn't have a controlling or majority interest in the foreign entity, is said to have a portfolio investment.

Trends in International Trade

In terms of U.S. dollars, foreign trade is booming. Because of this, some observers call this "the era of globalization." In the last quarter of the 20th century, exports from the United States increased nearly 15-fold, without adjusting for inflation. Even with that adjustment, the growth is tremendous, as indicated by trade figures and many other measurements. Many indicators, including trade figures, show how much the U.S. economy has globalized. The most basic measure of a country's openness to trade is the ratio of its exports or imports to its total production, the gross domestic product (GDP). In fact, this ratio is often the primary measure of the extent of globalization of a country's economy.

> "An examination of globalization of ownership on a world scale reveals that worldwide international investment activities confirm and even amplify the message from international trade growth: that trends toward the globalization of business are much more than mere rhetoric."

A nation's trade balance is determined by subtracting the country's import expenditures from its export revenues. Based on the U.S. trade balance from 1975 to 2000, globalization of the U.S. economy is a fact. Both imports and exports have risen sharply as a share of the GDP, a trend that shows no sign of slowing.

> "East Asia shows signs of economic integration that go well beyond the very informal relationships dominated by Japan and Korea at the beginning of the 1990s."

Another trend is evident, but it does not represent as much good news as the across the board U.S. trade balance. During the 1980s and 1990s, exports rose strongly as a share of the GDP, but imports rose even more dramatically. Yes, the U.S. is more globally involved, but during the last 20 years, the most rapid increases have been on the import side. This means the U.S. balance of trade has shifted from years of trade surpluses in earlier decades to successively increasing trade deficits in the last two decades. These trade deficits have not been caused by any export declines, but indicate, instead, the United State's increasing imports.

> "Business leaders, in recent years, have realized that they can profitably improve their organizations by applying key tenets of systems thinking."

The formation of Nafta - the North American Free Trade Agreement - is one reason the U.S. trade share of GDP is rising so quickly. Nafta and other integrating forces show that globalization is alive and well in other countries, too. Canada, the U.S.'s biggest trade partner, is in the midst of globalization. In 1996, The Wall Street Journal reported, "Exports now account for 43% of Canada's gross domestic product, up from just 29% in 1990." In the same period, Canada's imports rose from 25% to 36% of its GDP.

Global Globalization

The entire world's economy is growing toward globalization. The internationally traded portion of world output constitutes a growing share of total world production. The ratio of trade to world output rose by more than 50% between 1983 and 1998. The world's economy has grown very steadily since 1983, but the most dynamic aspect of its output growth has been the internationally traded segment. This is strong evidence of globalization. In terms of world trade volumes, this rapid growth is accelerating. Two key factors account for the rapid increase in global trade volumes:

1. The advance of communication and information technology that encourages international business.
2. Institutional progress in removing barriers to international trade.

> "The data support the notion that India is right in the middle of a demographic transition and is making steady, if not rapid, economic progress."

Asia Foreign investment is growing very rapidly, but the growth primarily affects wealthy, advanced countries. The trend applies to emerging, developing countries, but on a different scale. Some nations, such as South Korea, Singapore and Taiwan (Republic of China), which formerly fell into the category of developing nations, now are wealthy enough to have their own globalizing companies. Indonesia, which has the world's fourth largest population (approximately 200 million people), also is undergoing economic globalization. Today, Indonesia's growth in selling exports and attracting foreign investors nearly rivals China's. In fact, the two countries show a similar pattern of global growth, although China outpaces Indonesia in the magnitude of that growth. Vietnam is beginning to emerge globally and to grow economically by attracting foreign investment, industrializing and increasing its exports.

> "To prosper in the intensely competitive emerging global economy, firms will need to focus on the identification of core competencies. They must determine which products to sell, that is, what industry to specialize in."

Despite all of this good news, the increased flows of investments to developing nations isn't widely or equally distributed. These flows are primarily aimed at East Asia and Latin America, not South Asia, West Asia or Africa.

Hot Spots: Emerging National Economies

China is one of the next great national economies. By 2030, its GDP should surpass $20 trillion in U.S. dollars. China's economic power may be growing into something impressive, but its rather small per capita income reveals its limited standard of living and the constrained buying power of most mainland Chinese. Because of this factor, China will not soon surpass the U.S. as the world's most powerful economy. If that ever happens, it will take decades.

India probably will have a larger population than China by 2050. Currently, India is approaching one billion people, which is well below China's total, but still much closer to China than to the third-place country in population, the United States. India's population is more than three times that of any other nation, except China. India's economy finally has begun to grow, though not nearly as rapidly as China's. Still, India's GDP has prompted impressive progress in its living standards. India is nearing income levels that soon will enable hundreds of millions of its citizens to become new consumers of global products.

India's economy is slightly smaller than Germany's, but because of its growing population, one day it is likely to surpass both Germany and Japan. That will make India into the world's third largest national economy. Japan has a standing population that will decline below 120 million by 2030. But India adds approximately 17 million people each year, so by 2020 India will have a population that is more than 10 times that of Japan. If India's current productivity growth continues, then also by 2020, its workers should reach at least one-tenth of the average output per Japanese worker.

Preparing for the Global Century

The United States remains the richest national market for companies to pursue. In the 21st century, however, it would be a great risk for any company to concentrate only on U.S. domestic business. Companies should adopt global strategies. The U.S. economy is deeply linked with the increasingly global economy, and therein lies the reason to go global, but with a time-phased expansion strategy. Your firm's progressive expansion strategy should call for building your markets in similarly affluent nations such as Canada, Japan, Hong Kong, Taiwan and the countries of Western Europe.

The next step should be expansion into Latin America. Many U.S. firms already are working in Mexico. In terms of economic development, a number of nations in South America already have enough scale and/or speed to warrant inclusion in this strategy, including Argentina, Brazil, Chile and, in some industries, Colombia. Chile, because it is the most economically advanced, already has been able to attract many corporations, despite the country's relatively small population. Home Depot chose Chile as its first location outside of North America.

Further expansion should next look to East Asia, then Africa, followed by South and Central Asia. Of course, people in Africa, the Middle East and Central Asia also want opportunity. This is a great, untapped human resource, and the region also has enormous natural resources. Even now, billions of dollars of joint ventures and investments are underway.

A time-phased global expansion strategy can work for U.S. companies and fuel their growth, but only if the U.S. can continue to compete and lead economically by managing its companies (and by people managing their lives) in a way that truly respects and promotes the nation's diversity.

About the Author

Jeffrey A. Rosensweig teaches finance and international business at Emory University, where he is a six-time winner of the distinguished Educator Award. An honors graduate from Yale, Professor Rosensweig has served as senior international economist at the Federal Reserve Bank of Atlanta.