Chapter One

Globalization Today

Learning Objectives

After studying this chapter, you should be able to

1.1 Identify the types of companies active in international business.

1.2 Explain globalization and the significance of global markets and production.

1.3 Detail the forces that drive globalization.

1.4 Summarize the main arguments in the debate about globalization.

1.5 Identify the skills this course will help you develop for your career.

A Look at This Chapter

This chapter defines the scope of international business and introduces us to some of its most important topics. We begin by identifying the key players in international business today. We then present globalization, describing its influence on markets and production, and the forces behind its growth. Next, we analyze each main argument in the debate about globalization. This chapter closes by describing how this course can help develop your employability skills and by presenting a model of an integrated global business environment.

A Look Ahead

Chapter 2 introduces us to ethics and key ethical situations companies confront in international business. We present the importance of corporate social responsibility and managing for all stakeholders in international business. We also discuss the drive toward sustainability and a circular economy. Finally, we address the additional key issues of corruption, human rights, and efforts toward diversity, equity, and inclusion.

Apple's Global iMpact

CUPERTINO, California—The Apple iPhone was the world's first-ever smartphone and gave people mobile computing power they never had before. The business models of Uber and Lyft are entirely based on smartphone technology. Companies like TikTok and applications like WhatsApp owe their success to the popularity of smartphones. Steve Jobs once explained that the "i" in iPhone refers mainly to the internet but also stands for *individual*, *instruct*, *inform*, and *inspire*.

Apple earns around 80 percent of its revenue outside the United States. Globalization benefits Apple enormously and is at the core of its global strategy. Globalized production allows Apple to source parts and components worldwide and to assemble its devices wherever it is most cost effective. Apple's hundreds of suppliers are based in as many as 50 countries depending on the device produced. And globalized markets means that Apple can sell its products worldwide with little or no modification.

David Grossman/Alamy Stock Photo

Despite the opportunities that globalization provides Apple and other companies, there are challenges too. Cultural, political, and economic tensions can trigger rising nationalism. A US–China trade war caused a backlash against US imports to China and hurt Apple's iPhone sales there. Lower-priced Chinese competitors improved their smartphones and took market share from Apple. As you read this chapter, consider how the many aspects of globalization impact the activities of international companies everywhere.[1]

Every day, each of us experiences the fruits of international business transactions as we go about our routines. Picture the following: You awaken and turn off the alarm coming from your Apple iPhone, which was designed in the *United States* and assembled in *China* with parts from *Japan*, *South Korea*, *Taiwan*, and several other places. You pop in your AirPods and over a quick breakfast listen to a podcast that was produced by *Britain*'s BBC radio. You slip on your Calvin Klein T-shirt and jeans made in *India* and jump into your Vans shoes that were made in *Vietnam*. You head out the door and hop into your *Korean* Hyundai that was made in *Alabama*. You hit the drive-through at the Starbucks along your route to campus for a latte brewed from beans harvested in *Colombia* and *Ethiopia*. Your day is just one hour old, but in a way, you've already taken a virtual trip around the world. A quick glance at the "Made in" tags on your jacket, backpack, wallet, or other items you have with you right now will demonstrate the pervasiveness of international business transactions. How each of these products was designed and made and how each became available for you to purchase is a result of international business transactions.

international business
Commercial transaction that crosses the borders of two or more nations.

imports
Goods and services purchased abroad and brought into a country.

exports
Goods and services sold abroad and sent out of a country.

International business is any commercial transaction that crosses the borders of two or more nations. You don't have to set foot outside a small town to find evidence of international business. It reaches into each of our lives in ways we don't often realize. No matter where you live, you'll be surrounded by **imports**—goods and services purchased abroad and brought into a country. Your counterparts around the world will undoubtedly spend some part of their day using your nation's **exports**—goods and services sold abroad and sent out of a country. Every year, all the nations of the world export goods worth around \$19 trillion and export services worth nearly \$6 trillion. To put it in perspective, this figure for merchandise exports is around 40 times the annual global revenue of Amazon.[2]

This book describes the work and responsibilities of managers in an international business. It covers an extraordinarily wide range of topics that influence international business activities. We begin this chapter with an overview of the subject and an introduction to the key players in international business. Then, we describe globalization's powerful influence on markets and production and explain the forces behind its expansion. Next, we cover each main point in the debate about globalization, including jobs, wages, income inequality, culture, and more. Then, we explain how this course will help you develop employability skills, such as application of knowledge, reflective thinking, communication, and ethics. Finally, we explain why international business is special by presenting an integrated model of the global business environment.

1.1 Introduction and Key Players

1.1 Identify the types of companies active in international business.

International business is rooted in the cultural, political, economic, and legal moorings of nations. The study of international business involves learning about government policies, company activities, the work of managers, the work and social lives of ordinary people, and a host of social issues. People are at the center of each of these topics and are what makes international business a dynamic and thrilling journey of discovery.

There are periods of international cooperation among nations and periods of pullback. Sometimes nations quarrel over international trade and foreign direct investment policies and other times find themselves working closely together. This geopolitical tension or cooperation then has ripple effects for international companies, managers, workers, and consumers. The ebb and flow of international political and economic cooperation is a hallmark of international business. Each generation faces its own issues, and international business today presents new challenges and opportunities within a new set of realities.

Relations between China and the United States are going through a difficult period. Much of this has to do with fundamental differences between these countries' cultures and systems of politics and economics. The US government barred US companies from doing business with China-based telecom company Huawei without government approval primarily because it feared China's leaders could use Huawei to commit espionage. This followed revelations that Super Micro Computer of San Jose, California, sold computer servers to US businesses containing hidden computer code in chips as well as extra chips that sent information to Chinese intelligence services. These types of events reinforce calls for tighter control over global supply chains to reduce geopolitical risk.[3]

The vulnerability of companies' supply chains has become apparent. Rather than maintain large inventories of component parts, many industries depend on suppliers to deliver parts to the

The first Industrial Revolution was driven by steam power, the second by electricity, and the third by digital technologies. This fourth Industrial Revolution is driven by artificial intelligence, biotechnology, quantum computing, and more. It is blending our digital, physical, and biological worlds and creating vehicles that drive themselves, robot arms used in smart factories, and other innovations. How might the fourth Industrial Revolution alter the production, marketing, and other management activities of companies?

Jenson/Shutterstock

production process as they are needed. A global shortage of semiconductors arose from high demand for consumer electronics and electric vehicles starting in 2020. This caused a shortage of computer chips for braking systems and dashboard displays that forced General Motors, Volkswagen, and other carmakers to close factories temporarily. The chip shortage caused the global auto industry to produce at least 1.5 million fewer cars in 2021.[4] Shipment delays and shortages struck supplies of all sorts of products. Companies began to shelter needed parts from negative surprises by diversifying supply chains and returning some of them to domestic markets.

Across the world, the Covid-19 pandemic caused many businesses to fail while entrepreneurs and other firms sprang into action to satisfy the needs of businesses, hospitals, schools, and individuals in dire straits. The pandemic changed how we studied, worked, dined, socialized, and entertained ourselves. Almost overnight, “going to school” and “going to work” meant finding a quiet place in the home to use a laptop or phone plus video software to log in to online classes and meetings. Demand shot up for video-meeting software such as Cisco’s Webex meetings, Zoom meetings, Microsoft Teams, Google Meet, and more.

A person’s job is a key component of their identity and helps determine their standard of living and certain aspects of their lifestyle. The pandemic allowed many white-collar employees to work from home. After the pandemic subsided, some of them adopted a hybrid arrangement where they spend a portion of the week working from home and a portion in the office. Blue-collar workers and front-line employees, however, still needed to show up for work during the pandemic. Some companies rewarded their employees with bonuses for their efforts in keeping essential goods and services available for the rest of society.[5]

International business is also about the work of executives and managers. The ways they lead their teams of employees are distinctive across cultures. There are similarities, certainly, but culture helps determine how leaders motivate others and accomplish business objectives. Leadership everywhere is as much an art as a science. Managers in other cultures need to know what it takes to motivate team members to dedicate themselves to their work. And an expatriate manager posted abroad who has a grasp of local beliefs and desires can increase their probability of success.

Now the 21st century digital economy is transforming the nature of the skills that businesses require of their employees. As companies undertake digitalization to make productive use of data, work in all sorts of occupations and industries is becoming more complex. In turn, employees are being encouraged to hone a range of technical and social skills and engage in lifelong learning.

We touch on these and other topics in this first chapter and throughout this book. So, let’s begin our journey by exploring the kinds of companies that engage in international business.

1.1.1 Key Players in International Business

Companies of all types and sizes and in all sorts of industries become involved in international business although they vary in the extent of their involvement. A small shop owner might only import supplies from abroad, whereas a large company might have dozens of factories and retail stores located worldwide. Large companies from the highest-income nations still dominate international business. But firms from emerging markets (such as Brazil, China, and India) now vigorously compete for global market share. Small and medium-sized companies are also increasingly active in international business, largely because of advances in technology.

multinational corporation (MNC)
Business that has direct investments abroad in multiple countries.

foreign direct investment
Purchase of physical assets or a significant amount of the ownership of a company in another country to gain a measure of management control.

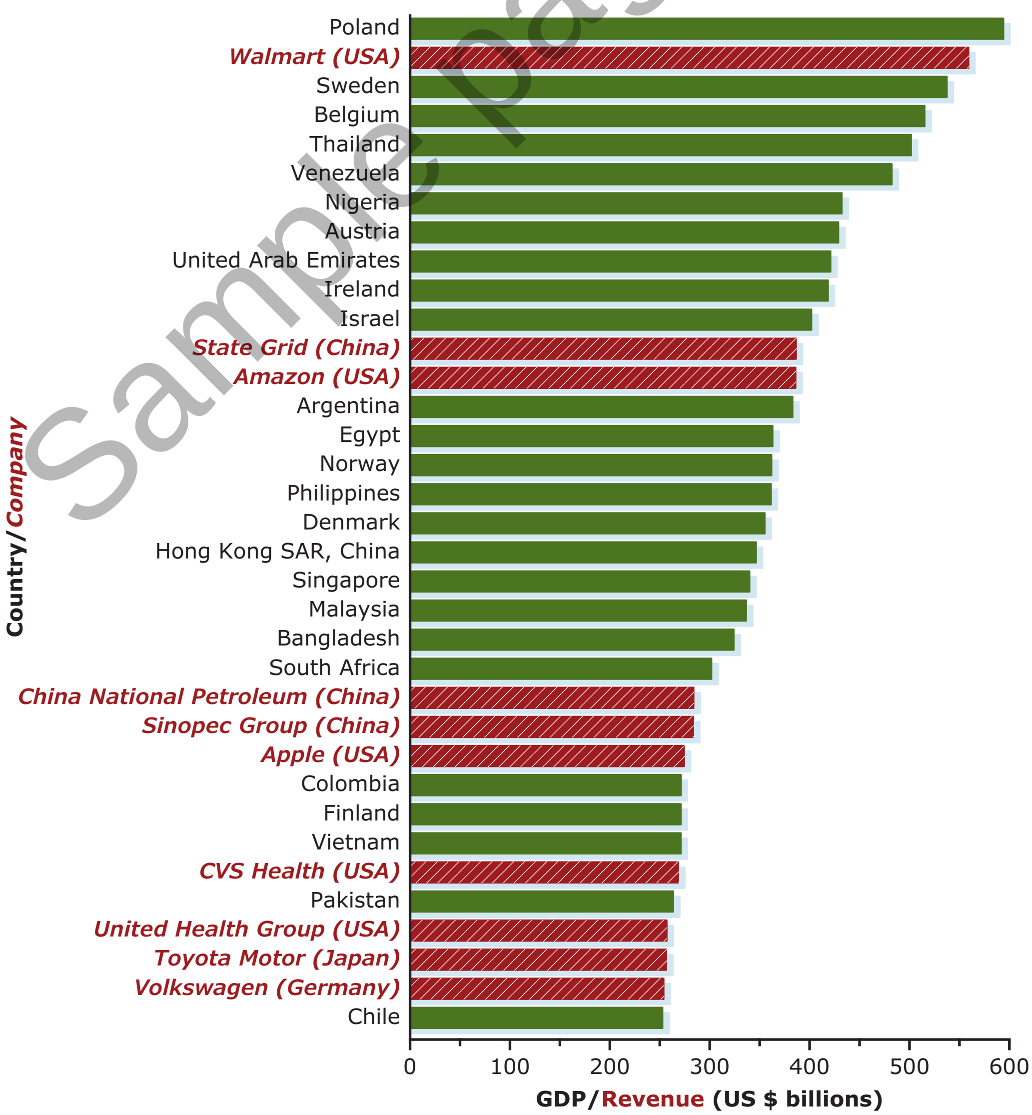
A **multinational corporation (MNC)** is a business that has direct investments (in the form of marketing or manufacturing subsidiaries) abroad in multiple countries. A company that invests directly in operations abroad engages in **foreign direct investment**—the purchase of physical assets or a significant amount of the ownership of a company in another country to gain a measure of management control. In addition to importing and exporting, it is the third main way companies engage in international business activity.

Multinationals generate significant jobs, investment, and tax revenue for the regions and nations they enter. Likewise, they can leave thousands of people out of work when they close or scale back operations. Mergers and acquisitions between multinationals are commonly worth billions of dollars and increasingly involve companies based in emerging markets.

Some companies have more employees than the number of people living in some small countries and island nations. Walmart, for example, has 2.3 million employees. We see the enormous economic clout of multinational corporations when we compare the revenues of the Global 500 ranking of companies with the value of goods and services that countries generate. Figure 1.1 shows

Figure 1.1
Comparing the World's Largest Companies with Selected Countries

Source: Based on data obtained from "Fortune Global 500: The 500 Largest Corporations in the World" (www.fortune.com/global500), August/September 2021; World Bank data set (www.data.worldbank.org).



the world's 10 largest companies (measured in revenue) inserted into a ranking of nations according to their national output (measured in GDP). If Walmart were a country, it would weigh in as a high-income nation and rank just one place behind Poland. Even the nearly $25 billion in revenue generated by Netflix, the 484th largest firm in the world, exceeds the annual output of dozens of countries, including El Salvador and Iceland. As multinational companies continue to grow and run out of customers at home, they seek markets internationally. The 328 million US consumers represent a significant market, but some firms are also appealing to the 7.5 billion potential consumers in the rest of the world. Netflix now earns 44 percent of its revenue and Nike earns 59 percent of its revenue outside the United States.[6]

Information technology has given rise to a new entity, the **born global firm**—a company with a global perspective that engages in international business from inception and quickly achieves a competitive advantage. Many of these companies (also called *global startups*) become international competitors within several years. They do not follow the traditional model for multinational companies, which is to build a strong base in the home market first and only later venture into international markets.

born global firm
Company with a global perspective that engages in international business from inception and quickly achieves a competitive advantage.

Born global firms tend to have *innovative* cultures and *knowledge-based* organizational capabilities that are difficult to imitate. They exploit these resources to quickly build their competitive advantage over rivals. Lists of companies considered born global often include Airbnb, Uber, Spotify, Twitch, and TikTok. Born global firms emerged in the 1990s along with the expansion of the internet and the World Wide Web. It is this global information technology (IT) infrastructure that enables these firms to rapidly expand using their well-designed apps and programs. For some traditional insights into how companies succeed in international markets, see the Global Manager feature, "The Keys to Global Success."

GLOBAL MANAGER The Keys to Global Success

Making everything from 99-cent hamburgers (McDonald's) to $150 million jumbo jets (Boeing), managers of global companies must overcome obstacles when competing in unfamiliar markets. Global managers acknowledge certain common threads in their approaches to management and offer the following advice:

- **Communicate Effectively.** Cultural differences in business relationships and etiquette are central to global business and require cross-cultural competency. Effective global managers welcome uniqueness and ambiguity while demonstrating flexibility, respect, and empathy.
- **Know the Customer.** Successful managers understand how a company's different products serve the needs of international customers. Then, they ensure that the company remains flexible and capable enough to customize products that meet those needs.
- **Emphasize Global Awareness.** Good global managers integrate foreign markets into business strategy from the outset. They ensure that products and services are designed and built with global markets in mind and not used as dumping grounds for the home market's outdated products.
- **Market Effectively.** The world will beat a path to your door to buy your better product only if it knows about it. A poor marketing effort can cause great products to fade into obscurity while an international marketing blunder can bring unwanted media attention. Top global managers match quality products with excellent marketing.
- **Monitor Global Markets.** Successful managers keep a watchful eye on business environments for shifting political, legal, and socioeconomic conditions. They make obtaining accurate information a top priority.

QUICK STUDY 1.1

1. How do you define the terms *international business*, *imports*, and *exports*?
2. What is a multinational corporation, and why is it significant to our study of international business?
3. Why might a company be referred to as a "born global firm"?

1.2 What is Globalization?

Nations historically retained absolute control over the products, people, and capital crossing their borders. But today, economies are increasingly intertwined. This greater interdependence can mean an increasingly freer flow of goods, services, money, people, and information across

1.2 Explain globalization and the significance of global markets and production.

globalization
Trend toward greater economic, cultural, political, and technological interdependence among national institutions and economies.

national borders. **Globalization** is the name we give to this trend toward greater economic, cultural, political, and technological interdependence among national institutions and economies. Cultural, political, economic, and legal events in one country increasingly affect the lives of people in other countries. Globalization is characterized by *denationalization* (national boundaries becoming less relevant) and is different from *internationalization* (entities cooperating across national boundaries).

By knitting the world more tightly together, globalization transforms the way companies do business. But globalization is not on an unalterable upward trajectory. It expands with increasing trade and foreign investment, contracts with divestment of assets and reduced imports and exports, and goes through periods of stabilization. Globalization underwent a period of unprecedented expansion from the 1940s until the financial crisis of 2008. Globalization today is proceeding unevenly with alternating periods of expansion and contraction.

People can approach globalization from very different perspectives. A businessperson might see globalization as an opportunity to source goods and services from lower-cost locations and to pry open new markets. A frontline factory employee might see it either as an opportunity for new work or as a threat to their current job. An economist might see it as an opportunity to examine the impact of globalization on jobs and standards of living. An environmentalist might be concerned with how globalization affects the natural environment. An anthropologist might want to examine the influence of globalization on the culture of a group of people. And a political scientist might be concerned with the impact of globalization on the power of governments relative to that of multinational companies.

Globalization presents challenges as well as opportunities. The falling cost of global communication and travel exposes us to the traits and practices of other cultures. We might find these practices offensive or threatening to our sensibilities and our way of life. Or we might discover new ideas and new ways of doing things that enrich our lives. Likewise, globalization allows us to buy products from individuals and companies on the other side of the world easily and inexpensively online. But this can harm businesses in our local communities and threaten our fellow citizens' livelihoods.

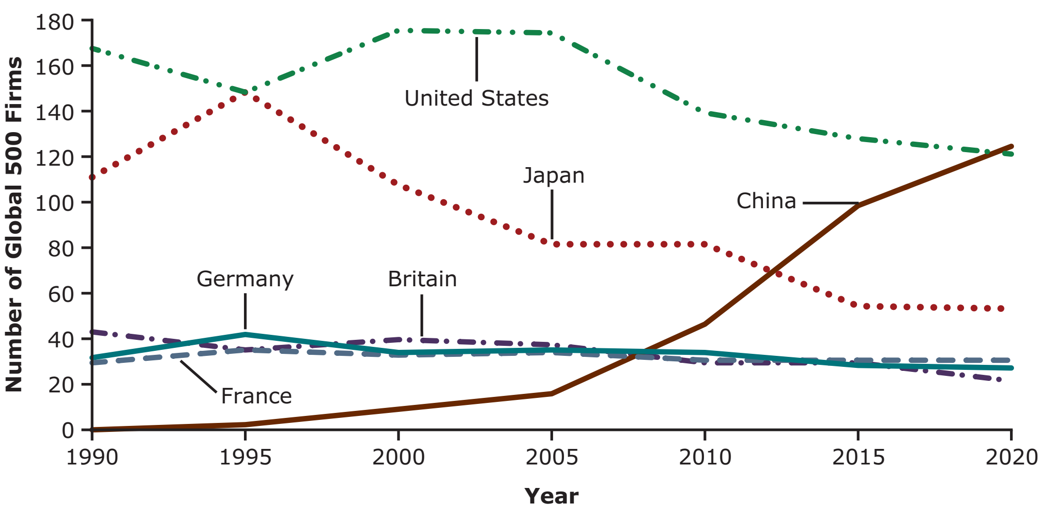
Globalization today involves greater competition and forces companies to grow more competitive in the face of greater rivalry. Over the years, businesses from some countries have grown more competitive and those from other nations have lost ground, relatively speaking. Figure 1.2 shows the home country for each of the 500 largest companies in the world. We see the amazing rise of Chinese firms, going from having no companies in the top 500 in 1990 to having 124 in 2020. We also see a drop in the number of US firms, peaking at 175 top 500 firms in 2000 and 20 years later having 121. Over that same time period, Japan lost more than half of its top spots from 1990 to 2020 and around half of Britain's firms dropped off the list.

gross domestic product (GDP)
Value of all goods and services produced by a domestic economy during a one-year period.

Central to any discussion of globalization is an understanding of a few key terms we will encounter time and again in this book. **Gross domestic product (GDP)** is the value of all goods and services produced by a domestic economy during a one-year period. World GDP is

Figure 1.2
Home Country of the World's Largest Corporations

Source: Based on data obtained from "Fortune Global 500: The 500 Largest Corporations in the World" (www.fortune.com/global500), August/September 2020.



simply the sum of all individual nations' GDP figures. GDP is a somewhat narrower figure than **gross national product (GNP)**—the value of all goods and services produced by a country's domestic and international activities during a one-year period. GNP includes a nation's income generated from exports, imports, and the international operations of its companies. A country's **GDP or GNP per capita** is simply its GDP or GNP divided by its population.

gross national product (GNP)
Value of all goods and services produced by a country's domestic and international activities during a one-year period.

GDP or GNP per capita
Nation's GDP or GNP divided by its population.

1.2.1 Evolution of Globalization

It is helpful to put today's globalization into context. The first age of globalization extended from the mid-1800s to the 1920s.[7] In those days, labor was highly mobile, with 300,000 people leaving Europe each year in the 1800s and 1 million people leaving each year after 1900.[8] Other than in wartime, nations did not even require passports for international travel before 1914. During that first age of globalization, trade and capital flowed more freely than ever before. Global companies from high-income nations extracted raw materials from distant lands and produced all sorts of goods. Large cargo ships plied the seas to deliver their manufactures to faraway markets. The transatlantic cable (completed in 1866) between Europe and the United States allowed news to travel faster than ever before.

How important was trade to the world economy in those days? To answer this question, we explore the ratio of total global exports and imports of goods and services to world gross domestic product. Up until around 1870 the global trade-to-GDP ratio never exceeded 10 percent. This means, on average, countries traded around 10 percent of their total annual output. The drivers of the first age of globalization include the steamship, telegraph, railroad, and, later, the telephone and airplane.

The first age of globalization ended abruptly with the arrival of the First World War, the Russian Revolution, and the Great Depression in the early 1900s. The great flows of goods, capital, and people became a mere trickle. The world remained divided for 75 years from the start of the First World War to the end of the Cold War between the former Soviet Union and the United States. The geographic divide between East and West paralleled an ideological divide between communism and capitalism. After the Second World War, the West experienced steady economic gains, but international flows of goods, capital, and people were confined to their respective capitalist and communist systems and geographies. Figure 1.3 shows that the global trade-to-GDP ratio grew to 27 percent by 1970. In other words, on average, countries now traded 27 percent of their yearly output—a gain of 17 percentage points in 100 years.

A second age of globalization began around 1989 with the collapse of the wall separating communist East Berlin and capitalist West Berlin. One by one, central and eastern European nations moved away from communism and adopted democratic institutions and free-market economic systems. It took until the 1990s for international capital flows, in absolute terms, to recover to levels seen prior to the First World War, but the global economy had finally been *reborn*. The drivers of the second age of globalization include communication satellites, fiber optics, microchips, and the internet.

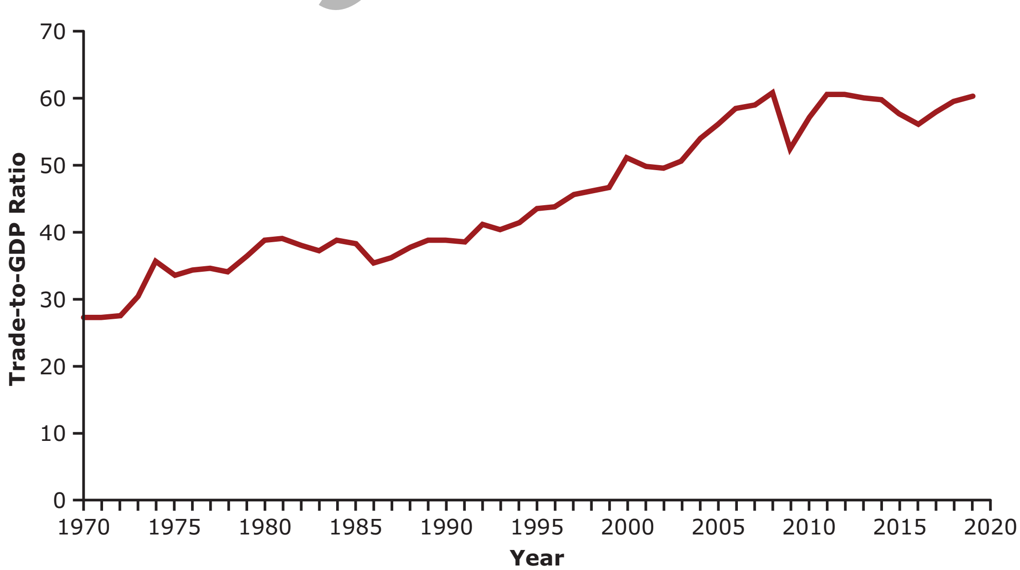


Figure 1.3
World Trade as a Percentage of GDP
Trade-to-GDP Ratio is sum of exports and imports of goods and services measured as a share of gross domestic product.

Source: Based on data obtained from World Development Indicators Database (Washington, D.C.: The World Bank), (www.worldbank.org), various years.

RECENT EVENTS Throughout the 1990s and early 2000s, nations focused increasingly on expanding trade. The European Union grew to include additional countries and integrated their economies more deeply. The free trade agreement came into effect between Canada, Mexico, and the United States (it was revised in 2020). China's entry into the World Trade Organization in 2001 made the country the *de facto* factory of the world. Western companies outsourced labor-intensive jobs to China, which then exported finished and intermediate goods to the rest of the world. China's share of world exports quickly tripled and the volume of global trade surged. China, along with Taiwan, South Korea, and Japan, grew embedded into the seemingly ever-extending supply chains of global companies.[9]

By 2008, the global trade-to-GDP ratio had more than doubled since 1970, growing to around 60 percent. So, on average, countries were trading a remarkable 60 percent of their yearly output (see Figure 1.3). But the global financial crisis struck in 2008 and led to a worldwide recession. Global trade in goods and services fell more than 22 percent from 2008 to 2009. It was the most severe shock to hit the global economy since the Great Depression. The crisis shrank the global economy by 2.2 percent.[10] Despite its severe decline, trade rebounded and within around two years was back to its 2008 level.

Another setback to world trade was the trade war between China and the United States that started in 2018. The strained relationship forced companies to re-examine their strategies of outsourcing to China and their lengthy supply chains that placed distant production and distribution activities at risk. It was in this fragile trade environment that the pandemic struck in early 2020 and companies pulled their supply chains closer to home. Countries called for medical and other key products to be made in their home markets and some nations incentivized their firms to return production activities home or diversify them outside China.[11]

The pandemic and the economic shutdowns it prompted are likely to have *shrunk* the world economy by 8 percent in 2020 (instead of 3 percent expected growth, the global economy likely shrunk 5 percent).[12] The decline of global economic activity dealt a setback to globalization, which some began calling *slowbalization*.[13] Trade staged a strong comeback in 2021 from pent-up demand caused by economic lockdowns, slower production, and shipping delays during the pandemic. The final toll from the pandemic is yet to be determined.[14]

MEASURING GLOBALIZATION Although we intuitively feel that our world is becoming smaller, researchers have created ways to measure the extent of globalization. One index of globalization is that created by the KOF Swiss Economic Institute. This newly revised index ranks nations on 43 variables on three dimensions: economic, social, and political globalization.[15] By incorporating a wide variety of variables, the index attempts to cut through cycles occurring in any single category and to capture the broad nature of globalization. Map 1.1 shows each nation's globalization score according to the KOF Index of Globalization. European nations occupy the top 14 positions, with smaller nations clearly dominating the rankings. The United States appears in 25th place overall, and ranks 59th in economic globalization, 21st in social globalization, and 15th in political globalization.

The world's least-globalized nations account for about half the world's population and are found in Africa, East Asia, South Asia, Latin America, and the Middle East. Some of the least-globalized nations are characterized by political unrest. Other nations with large agricultural sectors export commodities whose market prices are highly volatile and sometimes face trade barriers in developed countries. Still others are heavily dependent on oil exports and suffer erratic prices in energy markets.

But globalization doesn't simply arise on its own. From the largest global firms to individual entrepreneurs, companies of all sizes get involved in international business. These businesses are the ones doing the importing, exporting, and international investing. Commercial banks, financial markets, and other lenders, including private equity, provide financing for these business activities. Governments then provide the boundaries for the kinds of activities companies can engage in and set the laws by which they must operate. The actions of all these parties are facilitating the globalization of markets and production.

1.2.2 Globalization of Markets

Globalization of markets refers to the convergence in buyer preferences in markets around the world. This trend is occurring in many product categories, including consumer goods, industrial products, and business services. Sports apparel brand Adidas and streaming video provider

Two friends created the website airbedandbreakfast.com, inflated three airbeds on their floor, and rented them to guests. Airbnb disrupted the hospitality industry with help from technology and globalization. It now has listings in 191 countries and 81,000 cities, and celebrity influencers post photos and stories of their luxury Airbnb stays on Instagram. Today the company is expanding into the emerging markets of India and China. What other technology companies can you think of that disrupted their industries?

Chonlachai/Shutterstock

Netflix are just two companies that sell *global products*—products marketed in all countries essentially without any changes. The Apple iPad also qualifies as a global product because of its highly standardized features and because of Apple's global marketing strategy and globally recognized brand.

Global markets, products, and competition characterize many industries today, including music streaming (Spotify, Pandora), microprocessors (AMD, Intel), aircraft (Airbus, Boeing), construction equipment (Caterpillar, Mitsubishi), online retail (Amazon, Rakuten), automobiles (Toyota, Ford), financial services (Citicorp, HSBC), business consulting (Deloitte, Accenture), and consumer goods (Procter & Gamble, Unilever). The globalization of markets is important to international business because of the benefits it offers companies.

REDUCES MARKETING COSTS Companies that sell global products can reduce costs by *standardizing* certain marketing activities. A company selling a global product, such as shampoo, computer mice, or skateboards, can make an identical product for the global market and then simply design different packaging to account for the written language in each market. Companies can achieve further cost savings by keeping an online advertising campaign's visual component the same for all markets but translating spoken and written components into local languages.

CREATES NEW MARKET OPPORTUNITIES A company that sells a global product can explore opportunities abroad if its home market is small or becomes saturated. Global furniture retailer IKEA opened its first showroom in 1953 in Älmhult, Sweden. In 1963, the company expanded outside its home market of 7.5 million people to reach neighboring Norway and its 3.6 million inhabitants. Success in these markets took the company next to Switzerland, then to Germany, then to the world. IKEA recently ventured into China and India. These two markets, with around 1.4 billion people each, present enormous potential for IKEA and other retailers as their economies develop and their middle classes expand.

LEVELS UNEVEN INCOME STREAMS A company that sells a product with universal, but seasonal, appeal can use international sales to level its income stream. By supplementing domestic sales with international sales, the company can reduce or eliminate wide variations in sales between seasons and steady its cash flow. For example, a firm that produces suntan and sunblock lotions can match product distribution with the summer seasons in the northern and southern hemispheres in alternating fashion—thereby steadying its income from these global, yet highly

Map 1.1
Globalization Score of Countries


C OCEAN
NORWAY
SWEDEN
FINLAND
ESTONIA
LATVIA
LITHUANIA
BELARUS
POLAND
GERMANY
CZECH REP.
SLOVAK REP.
AUSTRIA
UKRAINE
MOLDOVA
HUNGARY
ROMANIA
SLOVENIA
CROATIA
BOSNIA-HERZEGOVINA
SERBIA
MONTENEGRO
KOSOVO
BULGARIA
NORTH MACEDONIA
ALBANIA
ITALY
GREECE
TURKEY
CYPRUS
TUNISIA
RUSSIAN FEDERATION
KAZAKHSTAN
MONGOLIA
GEORGIA
ARMENIA
AZERBAIJAN
UZBEKISTAN
KYRGYZ REP.
TURKMENISTAN
TAJIKISTAN
DEM. PEOPLE'S REP. OF KOREA
REPUBLIC OF KOREA
JAPAN
SYRIA
LEBANON
ISRAEL
WEST BANK & GAZA
JORDAN
IRAQ
IRAN
AFGHANISTAN
CHINA
KUWAIT
BAHRAIN
QATAR
UNITED ARAB EMIRATES
PAKISTAN
NEPAL
BHUTAN
LIBYA
EGYPT
SAUDI ARABIA
OMAN
BANGLADESH
INDIA
MYANMAR
TAIWAN
HONG KONG SAR, CHINA
MACAU SAR, CHINA
PACIFIC OCEAN
LAO PDR
NIGER
CHAD
SUDAN
ERITREA
YEMEN, REP.
THAILAND
VIETNAM
GUAM
NIGERIA
SOUTH SUDAN
DJIBOUTI
SOMALIA
MALDIVES
CAMBODIA
PHILIPPINES
FED. STS. OF MICRONESIA
MARSHALL ISLANDS
CENTRAL AFRICAN REPUBLIC
ETHIOPIA
SRI LANKA
CAMEROON
BRUNEI
MALAYSIA
SINGAPORE
CONGO REPUBLIC
UGANDA
KENYA
GABON
DEM. REP. OF THE CONGO
RWANDA
BURUNDI
INDIAN OCEAN
PALAU
INDONESIA
PAPUA NEW GUINEA
KIRIBATI
TANZANIA
SEYCHELLES
COMOROS
TIMOR-LESTE
SOLOMON ISLANDS
ANGOLA
ZAMBIA
MALAWI
MOZAMBIQUE
SAMOA
ZIMBABWE
NAMIBIA
MADAGASCAR
MAURITIUS
RÉUNION
VANUATU
FIJI
TONGA
BOTSWANA
AUSTRALIA
NEW CALEDONIA
ESWATINI
SOUTH AFRICA
LESOTHO
NEW ZEALAND
Globalization Score
30 TO 40
40 TO 50
50 TO 60
60 TO 70
70 TO 80
80 TO 90
OVER 90
No data

seasonal, products. Likewise, manufacturers of snowblowers, snow shovels, snowboards, and cold-weather clothing can match distribution to the hemispheres' seasons and keep production capacity at more even levels.

LOCAL BUYERS' NEEDS In pursuit of the potential benefits of global markets, managers must constantly monitor the match between the firm's products and markets in order to not overlook the needs of buyers. The benefit of serving customers with an adapted product might outweigh the benefit of a standardized one. Soft drinks, fast food, and other consumer goods are global products that continue to penetrate markets around the world. Sometimes these products require small modifications to better suit local tastes. For example, in southern Japan, Coca-Cola sweetens its traditional formula to compete with the sweeter-tasting Pepsi. In India, where cows are sacred and the consumption of beef is taboo, McDonald's markets the "Maharaja Mac"—two all-mutton patties on a sesame-seed bun with all the usual toppings.

GLOBAL SUSTAINABILITY Multinationals must also consider the need among all the world's people for **sustainability**—development that meets the needs of the present without compromising the ability of future generations to meet their needs.[16] Most companies today operate in an environment of increased transparency and scrutiny regarding their business activities. The rise of social media has contributed to this trend. Concerned individuals and nongovernmental organizations will quickly use social media to call out any firm caught harming the environment or society. Enlightened firms should always hold in the highest regard the welfare of their employees, customers, suppliers, owners, lenders, communities, and anyone affected by their business activities.

sustainability
Development that meets the needs of the present without compromising the ability of future generations to meet their needs.

For years, forward-looking businesses have employed the motto, "reduce, reuse, and recycle." The idea is to *reduce* the use of resources and waste, *reuse* resources with more than a single-use lifespan, and *recycle* what cannot be reduced or reused. The most dedicated managers and firms promote sustainable communities by adding to that motto, "redesign and reimagine." This means *redesigning* products and processes for sustainability and *reimagining* how a product is designed and used to lessen its environmental impact.[17] We devote a significant portion of the following chapter to a discussion of sustainability.

1.2.3 Globalization of Production

Globalization of production refers to the dispersal of production activities to locations that help a company achieve its cost-minimization or quality-maximization objectives for a good or service. This includes the sourcing of key production inputs (such as raw materials or products for assembly) as well as the international outsourcing of services. Let's now explore the benefits of globalized production.

ACCESS LOWER-COST WORKERS Global production activities allow companies to reduce overall production costs through access to lower-cost labor. For decades, companies located their factories in lower-wage nations in order to churn out all kinds of goods, including toys, small appliances, inexpensive electronics, and textiles. Yet whereas moving production to lower-cost locales traditionally meant *production of goods* almost exclusively, it increasingly applies to the *production of services* such as accounting and research. Although many services must be produced where they are consumed, some can be performed at remote locations where labor costs are lower. Many European and US businesses have moved their customer service and other operations to other nations to slash costs by as much as 60 percent. This allows businesses to pass lower costs on to customers in the form of lower prices and to offer workers in distant locations good-paying jobs that otherwise would not be available.

ACCESS TECHNICAL EXPERTISE Companies also produce goods and services abroad to benefit from technical know-how. India's labor force has a strong work ethic, is tech savvy, is highly proficient in English, and is less costly. Companies in developed nations sometimes set up a company in India to perform key business processes including customer service, technical support, and accounting tasks such as payroll. The practice is popular among US healthcare providers that hire Indian firms to perform data entry, medical billing, coding of medical procedures and diagnoses, record keeping, claims processing, document and dictation digitization, and data analytics. Performing these services in India where the technical expertise resides allows US-based healthcare providers to focus on other efforts.

ACCESS PRODUCTION INPUTS Globalization of production allows companies to access resources that are unavailable or more costly at home. The quest for natural resources draws many companies into international markets. Japan, for example, is a small, densely populated island nation with very few natural resources of its own—especially forests. But Japan's largest paper company, Nippon Seishi, does more than simply import wood pulp. The company owns huge forests and corresponding processing facilities in Australia, Canada, and the United States. This ownership not only gives the firm access to an essential resource but also gives it control over earlier stages in the papermaking process. As a result, the company is guaranteed a steady flow of its key ingredient (wood pulp) and avoids the swings in prices and supply associated with buying pulp on the open market. Likewise, to access cheaper energy resources used in manufacturing, a variety of Japanese firms are relocating production to Vietnam where energy costs are lower.

QUICK STUDY 1.2

1. How does globalization influence the institutions and economies of nations?
2. What has been the evolution of globalization and what is its recent history?
3. What benefits might a company obtain from the globalization of markets?
4. For what reasons might a company wish to globalize its production activities?

1.3 Drivers of Globalization

1.3 Detail the forces that drive globalization.

The broad forces inspiring the globalization of markets and production over the years are *falling barriers to trade and investment* and several forms of *technological innovation*. These forces are bringing companies worldwide into more direct confrontation *and* cooperation. Local industries, once isolated by time and distance, are increasingly accessible to large international companies based many thousands of miles away. Some small- and medium-sized local firms now cooperate with one another or with larger international firms in order to remain competitive. Other local businesses revitalize themselves in a bold attempt to survive the competitive onslaught. And consolidation is occurring as former competitors in many industries link up to challenge others on a worldwide basis.

Let's now explore the drivers of globalization. We first cover falling barriers to trade and investment by discussing the World Trade Organization, regional trade agreements, and international organizations. We then present technological innovation with expanded coverage of several topics, each under its own heading: (1) global e-commerce, (2) digital transformation, and (3) communication and transportation. We spend extra time covering these special topics because of technological innovation's key role in facilitating globalization and its great importance to economic growth worldwide.

1.3.1 Falling Barriers to Trade and Investment

In 1947, political leaders of 23 nations (12 developed and 11 developing economies) made history when they created the **General Agreement on Tariffs and Trade (GATT)**—a treaty designed to promote free trade by reducing tariffs and nontariff barriers to international trade. *Tariffs* are essentially taxes levied on traded goods, and *nontariff barriers* are limits on the quantity of an imported product. The treaty was successful in its early years. After four decades, world merchandise trade had grown 20 times larger, and average tariffs had fallen from 40 percent to 5 percent.

General Agreement on Tariffs and Trade (GATT)
Treaty designed to promote free trade by reducing both tariffs and nontariff barriers to international trade.

Significant progress occurred again with a 1994 revision of the GATT treaty. Nations participating in the treaty further reduced average tariffs on merchandise trade and lowered subsidies (government financial support) for agricultural products. The treaty's revision also clearly defined *intellectual property rights*. This gave protection to copyrights (including computer programs, databases, sound recordings, and films), trademarks and service marks, and patents (including trade secrets and know-how). A major flaw of the original GATT was that it lacked the power to enforce world trade rules. Thus, the creation of the *World Trade Organization* was likely the greatest accomplishment of the GATT revision.

World Trade Organization (WTO)
International organization that enforces the rules of international trade.

WORLD TRADE ORGANIZATION The **World Trade Organization (WTO)** is the international organization that enforces the rules of international trade. The three main goals of the WTO are to support the free flow of trade, help negotiate the further opening of markets, and settle trade disputes among its members. The WTO's power to settle trade disputes and its ability to penalize offending nations set it apart from its predecessor, the GATT. The various WTO agreements are, essentially, contracts between member nations that commit them to maintaining fair and open trade policies. Offenders must realign their trade policies according to WTO guidelines or face fines and, perhaps, trade sanctions (penalties). The WTO replaced the *institution* of GATT but absorbed all of the former GATT *agreements*. Thus, the GATT institution no longer officially exists. Today, the WTO recognizes 164 members and 25 "observers."

Starting in the early 2000s, powerful trading nations began to grow impatient with the WTO. They squabbled over WTO rulings on matters and sometimes flagrantly continued the practice that caused another nation to bring a case to the WTO in the first place. In late 2001, a round of WTO negotiations in Doha, Qatar, failed, and repeated attempts to restart progress never took hold. Critics say the WTO is irrelevant today because it did not adequately address changes in the global trading system over the past two-plus decades, including China's rise and the arrival of the digital economy.[18]

Key to the WTO's hearing of cases is the appellate panel of seven experts who have the final say on trade disputes. In 2019, the United States blocked the naming of new members to that panel, essentially eliminating its power. The arrival of a new WTO Director-General, Ngozi Okonjo-Iweala, in 2021 offered the best chance for WTO reform in years. But an obstacle to free trade is the increased tendency for countries in regional trade fights to claim a national-security exemption, which lies beyond WTO oversight.[19]

REGIONAL TRADE AGREEMENTS In addition to the WTO, smaller groups of nations are integrating their economies by fostering trade and boosting cross-border investment. For example, the *United States-Mexico-Canada Agreement (USMCA)* gathers these three nations into a free-trade bloc. The more ambitious *European Union (EU)* combines 27 countries across Europe. The *Asia Pacific Economic Cooperation (APEC)* consists of 21 member economies committed to creating a free-trade zone around the Pacific. The aims of each of these smaller trade pacts are similar to those of the WTO but are regional in nature. Most trade in Asia and Europe is already intra-regional. This makes sense intuitively—companies typically trade and invest more with neighboring countries than with distant ones.

A key advantage of regional trade agreements is that negotiating with fewer nations can be easier than dealing with the WTO's many more members. If the World Trade Organization remains dysfunctional, some experts foresee regional trade agreements as the way to garner the benefits of

Regional trade agreements cover more than half of all international trade and work alongside the WTO to lower trade barriers worldwide. South Africa is a member of the World Trade Organization and participates in at least seven regional, international, and bilateral trade agreements. Trade agreements help provide well-paying jobs for many South Africans like these individuals who assemble industrial valves at a factory in Johannesburg. In what trade agreements does your country participate?

Sunshine Seeds/Shutterstock

trade. But evidence of a greater regional focus has not yet materialized. Nations are undertaking bilateral and multilateral trade agreements at their normal pace and merchandise trade is flowing its typical distance.[20]

OTHER INTERNATIONAL ORGANIZATIONS Two other institutions play leading roles in fostering globalization. The **World Bank** is an agency created to provide financing for national economic development efforts. The initial purpose of the World Bank was to finance European reconstruction following the Second World War. The bank later shifted its focus to the general financial needs of developing countries, and today it finances many economic development projects in Africa, South America, and Southeast Asia.

World Bank
Agency created to provide financing for national economic development efforts.

The **International Monetary Fund (IMF)** is an agency created to regulate fixed exchange rates and to enforce the rules of the international monetary system. The IMF's stated purposes include promoting international monetary cooperation, facilitating the expansion and balanced growth of international trade, avoiding competitive exchange devaluation, and making financial resources temporarily available to members.

International Monetary Fund
Agency created to regulate fixed exchange rates and to enforce the rules of the international monetary system.

1.3.2 Global E-commerce

Although falling barriers to trade and investment encourage globalization, *technological innovation* is accelerating its pace. Innovations in information technology and transportation methods are making it easier, faster, and less costly to move data, goods, and equipment around the world. Companies use technology to acquire materials and products from distant lands and to sell goods and services abroad. As the cost of computing power falls and new technologies are developed, companies may find it easier and less costly to manage widely dispersed marketing activities and production facilities.

When businesses or consumers use technology to conduct transactions, they engage in **e-commerce**—the use of computer networks to purchase, sell, or exchange products; to service customers; and to collaborate with partners. E-commerce makes it easier for companies to make their products abroad, not simply to import and export finished goods. Let's examine several innovations that have had a considerable impact on globalization.

e-commerce
Use of computer networks to purchase, sell, or exchange products; to service customers; and to collaborate with partners.

THE INTERNET Companies use the internet to quickly and inexpensively contact managers in distant locations to revise sales strategies, check on distribution bottlenecks, sharpen forecasting, and manage inventories. The lower cost of reaching an international customer base especially benefits small firms, which were among the first to use the internet as a global marketing tool. Using the internet enables companies to cut postproduction costs by decreasing the number of intermediaries a product passes through on its way to the customer.

The internet is also used to solve some difficult problems. InnoCentive, a global network of nearly 400,000 creative thinkers, uses internet competitions and crowdsourcing to connect companies and institutions seeking solutions to difficult problems. These engineers, scientists, inventors, and businesspeople with expertise in life sciences, engineering, chemistry, math, technology, and entrepreneurship compete to solve some of the world's toughest problems in return for significant financial awards. InnoCentive is open to anyone, is available in seven languages, and pays cash awards that range from $5,000 to more than $1 million. The company has awarded $20 million to date.[21]

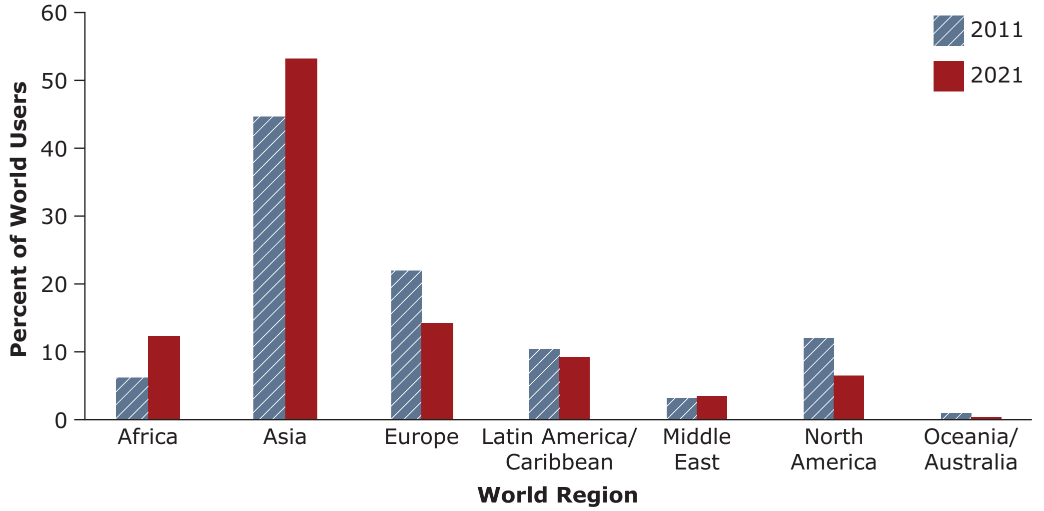
Internet usage continues to expand and reach more of the world's population. Figure 1.4 shows the percentage of the world's total internet users in each of seven world regions in 2011 and 2021. We see that North America comprised 12.0 percent of the world's internet users in 2011 but just 6.5 percent in 2021. By contrast, Africa made up 6.2 percent of world internet users in 2011 but grew to 12.5 percent in 2021, almost twice that of North America. And whereas the internet's availability in North America is nearly 90 percent, the percentage of Africa's population with internet access is only 46 percent. Africa's percentage of world internet users will continue to grow as the internet becomes more widely available. North America's rate will continue to slow as near-maximum availability is achieved. Internet penetration rates for the other regions are Asia (63 percent), Europe (87 percent), Latin America/Caribbean (72 percent), Middle East (71 percent), and Oceania/Australia (67 percent).

The physical and digital worlds are integrating further every day as at least 127 new devices connect to the internet every second. The **Internet of Things (IoT)** includes all devices and equipment that are readable, recognizable, locatable, addressable and/or controllable via the internet.

Internet of Things (IoT)
All devices and equipment that are readable, recognizable, locatable, addressable and/or controllable via the internet.

Figure 1.4
World Internet Users

Source: Based on data obtained from Internet World Stats (www.internetworldstats.com).



This includes devices that communicate with each other and with people, such as home appliances, wearable devices, and automobiles. Experts estimate more than 30 billion IoT connections by 2025, or around 4 IoT devices per person.[22]

Companies use IoT devices in many ways. Rolls-Royce airplane engines contain sensors that transmit information on the engine's status in real time. The sensors send information to the company, which analyzes the data for signs of wear or other issues. This increases flight safety for crew and passengers and can extend an engine's life. Rolls-Royce also uses the data to schedule maintenance for any issues the sensors detect. This proactive strategy increases safety and efficiency and helps prevent costly downtime for unexpected engine repairs.[23]

INTRANETS AND EXTRANETS Internal company websites and information networks (*intranets*) give employees access to company data using personal computers regardless of where they are located. The objective of an intranet is to facilitate communication, cooperation, and collaboration in a virtual space inside an organization. An intranet acts like a company's private internet. Behind the company firewall, team members access digital tools, instant messages, data, and other files within the secure confines of the organization's internal network. Project management, marketing strategy, production, and every area of business benefit from the efficiencies that intranets offer.

An effective marketing tool on Volvo Car Corporation's intranet is a quarter-by-quarter database of marketing and sales information. The cycle begins when headquarters submits its corporate-wide marketing plan to Volvo's intranet. Marketing managers at each subsidiary worldwide then select those activities that apply to their own market, develop their marketing plan, and submit it to the database. This allows managers in every market to view every other subsidiary's marketing plan and to adapt relevant aspects to their own plan. In essence, the entire system acts as a tool for the sharing of best practices across all of Volvo's markets.

An *extranet* is similar to an intranet but extends access to specific parties outside an organization. For example, an extranet can give suppliers access to a company's network so they can restock inventories automatically. An extranet is firewalled off from unrelated areas of the firm's internal business network and from the public internet. Access to the extranet is usually provided through a virtual private network (VPN) portal. An extranet allows an international company to respond more quickly and appropriately to internal and external conditions.

1.3.3 Digital Transformation

Another key area of *technological innovation* involves the changeover from older, analog processes to digital ones. The process of changing information from analog to digital form for use by computers and other information technologies is called **digitization**. Businesses digitize their data and other information to optimize business processes for efficiency gains and cost savings. Digitization is a necessary first step before businesses can undertake subsequent, higher-order technology processes.

digitization
Process of changing information from analog to digital form for use by computers and other information technologies.

Digitalization is the use of digital data and technology to develop a digital platform for new business operations, strategies, or business models. Digitalization directly affects how businesspeople do their work. Businesses used to communicate internally and externally using analog methods, such as landline telephones and couriered packages or mailed letters, whereas they now primarily communicate through digital technologies, including email, social media, chat, video calling, and so forth.[24] Companies can engage in a series of digitalization projects. For example, a firm could install a robust computer network to take orders, bill customers, and order from suppliers. Later, it might train employees on how to use new features on the network that will assist team members who are collaborating on projects.

digitalization
Use of digital data and technology to develop new business operations, strategies, or business models.

Digital transformation is fundamental change in which digital technologies penetrate all areas of operations, strategy, and culture to create customer-focused competitive advantage. It is a far deeper and wider process than digitalization although it can involve the completion of many separate digitalization projects. The changes required to digitally transform a company are typically time-consuming and arduous, but can be vital to the firm's survival. This is why businesses often wait to undertake digital transformation until they are faced with fierce competitive challenges. But when done right, digital transformation creates value for all stakeholders of the business and produces a long-term competitive advantage.

digital transformation
Fundamental change in which digital technologies penetrate all areas of operations, strategy, and culture to produce customer-focused competitive advantage.

Digital transformation is a foundational change in delivering value to customers. Athletic apparel retailer Lululemon recognized early the importance of such change and made moving with the market a critical imperative in its digital transformation strategy. The company launched international websites and mobile applications to provide flexibility for customers who shop from smartphones. The move resulted in significantly increased sales.[25]

Global toy and game company Hasbro changed its marketing strategy to target parents and used in-house data to recommend toys and games for their children. It then created targeted marketing campaigns on social media and other channels. Hasbro's digital strategy helped improve its brand relationship with customers globally by combining nostalgia with digital storytelling. The transformation increased advertising costs by 1,100 percent but increased global sales by $1 billion over the same period. When the industry later faced volatility, Hasbro's digital strategy helped it weather the storm.[26]

Companies are accelerating their digital transformation efforts by investing in automation and moving certain business operations to the internet. Almost 70 percent of boards of directors are prioritizing digital business investment. The market for digital transformation is expected to be worth $3.3 billion by 2025.[27] Around 75 percent of digital transformation initiatives use artificial intelligence (AI) services, mostly employing industrial robots to perform routine tasks.

1.3.4 Communication and Transportation

Operating across borders and time zones complicates the job of coordinating and controlling business activities. *Technological innovation* in the various methods of communication and transportation can ease the task of international management.

COMMUNICATION Communication technology can speed the flow of information and ease the tasks of coordination and control. Videoconferencing is an indispensable tool that managers use to stay in contact with international operations. Managers halfway around the world can meet in virtual face-to-face meetings and save travel time plus the cost of travel, lodging, meals, entertainment, token gifts, and other expenses incurred on international business trips. The rise of videoconferencing dovetails with companies' desire to reduce carbon emissions—cutting travel is a relatively easy first step in that direction.

The pandemic's arrival in 2020 created a strong demand for videoconferencing in the face of reduced business travel. Reports showed that 79 percent of businesses canceled all or most travel during that time, and experts predict around 25 percent of all business travel will disappear for good. Lower-level internal meetings are most likely to permanently migrate to videoconferencing. While virtual meeting software underwent explosive growth, airlines suffered the loss of business travel. Before the pandemic, business class travel comprised 10 percent of ticket sales, 40 percent of revenues, and 80 percent of profits.[28]

Businesspeople who are willing to videoconference on a tablet or smartphone (which includes most people today) can download free apps like FaceTime and Skype and pay no direct costs. Businesses with greater video conferencing needs can subscribe to the enterprise versions of

For anyone who had not participated in a video conference before 2020, the Covid-19 pandemic likely changed that. Economic shutdown and social distancing guidelines worldwide made videoconferencing the norm. Saving the direct expenses and travel time to work meetings are only two benefits of videoconferencing. The technology remained relevant as economies reopened and some individuals established hybrid work arrangements with employers.

Andriy Popov/123RF

Microsoft Teams and Zoom, for example. And companies with the greatest needs can pay several hundred thousand dollars for an in-office communication system that integrates aspects of augmented and virtual reality. The market for videoconferencing is forecast to grow to $11 billion by 2027.[29]

TRANSPORTATION TECHNOLOGIES Retailers worldwide rely on imports to stock their storerooms with finished goods. Manufacturers often supply their factories with raw materials and intermediate products from abroad. Innovation in the shipping industry is helping globalize markets and production by making shipping more efficient and dependable. In the past, a cargo ship would sit in port for up to 10 days while it was unloaded one pallet at a time. Today cargo is loaded onto a 700-foot cargo ship in 20- and 40-foot containers that are unloaded quickly at the destination onto railcars or truck chassis. It now takes 15 hours to unload the same cargo that used to take 10 days.

Operation of cargo ships is now simpler and safer because of computerized charts that pinpoint a ship's movements on the high seas using Global Positioning System (GPS) satellites. Combining GPS with radio frequency identification (RFID) technology allows continuous monitoring of individual containers from port of departure to destination via the Internet of Things. RFID tags can indicate whether a container's doors have been opened and closed on its journey and can send an alert if a container deviates from its planned route. Expansion of the IoT will undoubtedly bring additional advancements to shipping technology.[30] Ships of the future will employ smart technology and may one day become completely autonomous and operated from an onshore base—thereby improving efficiency while reducing the risk of losing lives at sea.

Consumers are becoming increasingly proactive about environmental issues. Innovative companies in the shipping industry are adopting eco-friendly policies and lowering their carbon emissions. They are working with vehicle manufacturers to develop large electric trucks capable of hauling heavy merchandise and exploring ways to design emissions-free ships incorporating wind and solar technologies.[31]

Global markets and production make product delivery a complex engineering task. As companies cut costs by outsourcing activities, supply and distribution channels grow longer and more complex. Corporate logistics departments and logistics specialist firms are helping international companies untangle lengthy supply chains, monitor shipping lanes, and forecast weather patterns. High-wage logistics jobs represent the kind of high-value-added employment that results from the "churning" in labor markets that globalization can cause.

QUICK STUDY 1.3

1. How have falling barriers to trade and investment encouraged globalization?
2. What role has e-commerce, the internet, and digitization played in propelling globalization?
3. How have advancements in communication and transportation technologies affected globalization?

1.4 Globalization Debate

1.4 Summarize the main arguments in the debate about globalization.

It should come as no surprise that globalization can have both positive and negative effects on people, businesses, and nations. Fruitful debate about globalization can promote dialogue about its merits and demerits so that what emerges is a more sober, less naïve notion of its effects. In this way, both sides in the debate could work together to harness the benefits of globalization while minimizing its costs.

Still, opposing sides in the debate tend to hold up results of social and economic studies that support their arguments. These studies sometimes have political agendas, which can cloud objectivity. A group's aims can influence the choice of the data to analyze, the time period to study, the nations to examine, and so forth.

Be that as it may, we open our coverage of the debate with the arguments about globalization's impact on jobs and wages. We follow that with debates about income inequality, culture, national sovereignty, and the environment.

1.4.1 Globalization Harms Jobs and Wages

Some groups claim that *globalization eliminates manufacturing jobs in developed nations*.[32] They criticize international firms for globalizing their value chains and sending good-paying manufacturing jobs abroad to developing countries where wages are lower. They argue that a label reading "Made in China" translates to "Not Made Here." Critics admit that buying imports from lower-wage nations translates into lower prices for TVs, sporting goods, and so on, but say this is little consolation for workers who lose their jobs. It is estimated that the United States lost 6 million of its 17 million factory jobs from 2000 to 2010.[33]

Critics also say *globalization causes worker dislocation that gradually lowers wages*. When a manufacturing job is lost in a developed nation, the worker's new job (assuming new work is found) might pay less than the previous one. They argue this decreases employee loyalty, employee morale, and job security. Critics say powerful retailers continually force manufacturers to accept lower profits so retailers can slash prices to consumers. This can force suppliers to pay lower wages and can jeopardize working conditions. They say the fact that wages for US blue-collar jobs were flat or grew only 5 percent since the late 1970s is evidence of this.[34]

Critics also charge that *globalization exploits workers in lower-wage nations*. These critics vehemently oppose the outsourced call center jobs of Western companies. They say these jobs force young Asians to disguise their nationality, adopt fake Western accents, and work nights when their US customers are awake halfway around the world.[35] Critics also say that labor's power is diminished worldwide when companies locate operations to developing nations where labor laws are less restrictive and labor is less costly. Figure 1.5 shows that Western firms can outsource information technology work to emerging markets and reap great savings. International outsourcing will remain popular as long as these economic disparities exist. The average salary of a computer programmer in the United States is many times that of one in China and Lithuania.

1.4.2 Globalization Improves Jobs and Wages

Supporters make several arguments in favor of globalization. First, they say *globalization increases wealth and efficiency in both developed and developing nations*. They argue that openness to international trade increases national production (by increasing efficiency) and raises per capita income (by passing savings on to consumers). For instance, squeezing inefficiencies out of supply chains constrains inflation and boosts productivity. They say removing all remaining barriers to free trade would significantly boost worldwide income and greatly benefit developing nations.

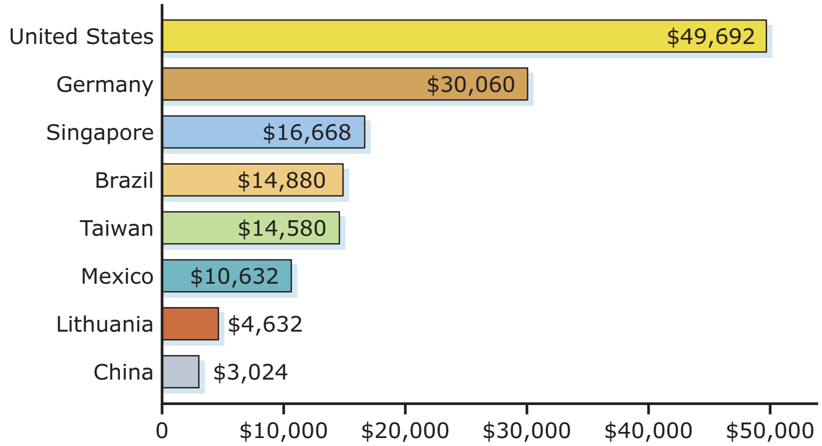


Figure 1.5

Comparing Salaries of Information Technology Workers

Source: Based on data obtained from the *International Average Salary Income Database* (www.worldsalaries.org).

Globalization supporters believe *globalization creates positive benefits by generating labor market flexibility in developed nations*. Some claim that there are benefits from worker dislocation, or "churning" as it is called when there is widespread job turnover throughout an economy. Flexible labor markets allow workers to be redeployed rapidly to sectors of the economy where they are highly valued and in demand. For example, this allows employees, particularly young workers, to gain experience and skills with an initial employer, then move to a different job that is a better match for them.

Those in favor of globalization argue that *globalization and international outsourcing help to advance developing nations' economies and living standards*.[36] India initially became an attractive location for the software-writing operations of foreign firms because of its lower-cost, well-qualified, English-speaking technicians. Young graduates also found jobs working in telephone call centers and in business support services. Young workers in the Philippines, too, are elevating their living standards with good-paying imported jobs in the areas of financial accounting, payroll, and benefits services.

SUMMARY OF THE JOBS AND WAGES DEBATE Theory states that international trade (and by extension globalization) raises standards of living for nations but it does not say all sectors of the economy will benefit. In developed economies, sectors that export high value-added products will likely create jobs, and sectors that import low value-added products will likely shed jobs. So far, this has been globalization's track record. It has rewarded skilled workers who have higher value-added jobs with rising pay. Workers having lower value-added jobs cannot compete with workers in lower-wage nations and experience wage stagnation and job losses.[37]

The key point of difference between the two sides in the debate, it seems, is whether the overall gains that accrue to a nation's economy are worth the lost livelihoods that some individuals suffer. Those in favor of globalization say individual pain is worth the collective gain; those against globalization say it is not. A broad consensus today seems to be emerging that the winners need to do a better job sharing the gains of globalization with workers who benefit relatively less. This leads us to the next topic to discuss—inequality.

1.4.3 Debate about Income Inequality

Perhaps no controversy swirling around globalization is more complex than the debate about its role in income inequality. After a long period of increased globalization in the 1990s and early 2000s, many people experienced hardship from the financial crisis of 2008 and the pandemic of 2020. Today, lost manufacturing jobs and stagnant wages for the middle class in developed nations is putting a spotlight on income inequality and the need to make prosperity more inclusive.

Globally, income growth was sluggish or nonexistent for the 49 percent of income earners between the bottom 50 percent and the top 1 percent from 1980 to 2018. Meanwhile, the top 1 percent of income earners worldwide saw their share of global income grow from 16 percent to 20 percent. And the top 0.1 percent of income earners captured as much income growth as the entire bottom half of the world's wage earners. This increase in wealth at the very top is occurring globally and includes emerging markets.[38]