

# Engg1803 Professional Engineering

## Globalisation

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# IKEA

- Established in 1943 (by a 17 year old!)
- Aimed at using simple materials to produce low cost furniture for Swedish middle class
- Caught the post war boom in young households
- Caught the growth of the global middle class
- Now 230 stores in 33 countries
- Sales >A\$20 billion
- 1,300 suppliers in 53 countries

# Globalization Defined

Globalization: the ongoing social, economic, and political process that deepens and broadens the relationships and interdependencies amongst nations—their people, their firms, their organizations, and their governments

International business facilitates the globalization process.

# Reasons for Recent International Business Growth

## Liberalization of Cross-Border Movements:

goods, **services**, labour, Capital

## Expansion of Technology:

transportation, telecommunications; *Transportation & telecomm's costs are more conducive for international operations.*

## Development of Supporting Institutional Arrangements:

development by business and governments of institutions that enable us to effectively apply that technology.

## Increase in Global Competition:

new products become global; Globalization of production

**Reinforcing Dynamic**

# Technology

- Transport
  - Containerisation- cost dropped by ~70%
  - Jet transport- cost dropped by ~80%
  - Investment in infrastructure
- Telecommunications- cost dropped by ~99%
- Internet- e-commerce, coordination of all activities. Link to digitisation

# Globalization

- o Trade and investment barriers are disappearing.
- o Perceived distances are shrinking due to advances in transportation & telecommunications.
- o Material culture is beginning to look similar.
- o National economies merging into an interdependent global economic system.

# The Globalization of the World Economy

- Globalization of markets
- Globalization of production
- Decline of barriers to trade (WTO)
- Increased technological capabilities

70,000 international firms with 700,000 foreign affiliates that generate \$19 trillion in sales in 2004

Intra-firm trade

Source: Crab/Rutgers

# The Largest Global Markets

Not  
Consumer  
Goods

## Industrial Goods and Materials

Commodities such as aluminium, oil & wheat.  
Industrial products such as microprocessors, aircraft.  
Financial assets such as U.S. Treasury bills and Eurobonds

# Globalization of production

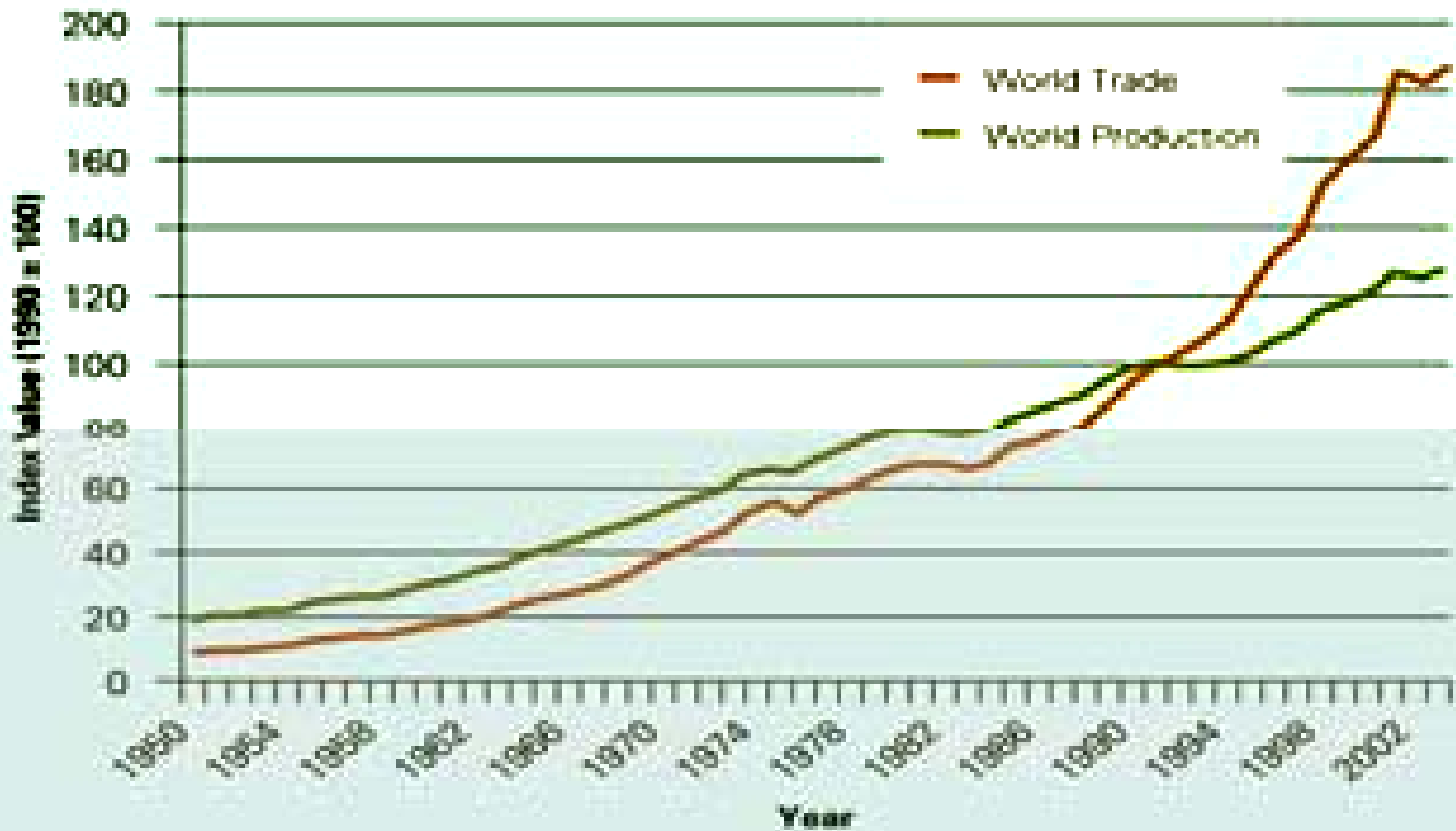
Refers to sourcing of goods and services from locations around the world to take advantage of

- Differences in cost or quality of the factors of production

- Labor
- Land
- Capital
- Knowledge
- Linkages/Dynamism

*Companies hope to lower their overall cost structure and/or improve the quality or functionality of their product offering - increasing their competitiveness*

Source: Hill, Global Business Today, 2008



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# Modes of International Business

- o **Merchandise Exports and Imports:**
- o **Performance of Services:** fees; turnkey operations; management contracts
- o **Use of Assets:** licensing agreements; royalties; franchising
- o **Investments:**
  - o **Foreign Direct Investment:** gives the investor a controlling Interest in a foreign company. Gives access to:foreign markets & resources
  - o **Portfolio Investment:** stock in a company or loans to a company or country in the form of bonds, bills, or notes that the investor purchases.

# Other Modes of International Business

- **Strategic Alliances**
- **MNCs, MNEs, TNCs,**  
Global Company,  
Multidomestic Company
- **Born Globals**

# Impact of Global Business

## Direct Foreign Investment

A method of investment in which a company builds a new business or buys an existing business in a foreign country.

Has doubled in the past decade making world markets much more competitive than they used to be.

US\$25B in 1975 → US\$1,200 B. I 2000

# Trade Rules & Agreements

## Trade Barriers

A government-imposed regulation that increases the cost and restricts the number of imported goods.

- Tariff
- Non-tariff barriers
  - Quotas
  - Voluntary export restraints
  - Subsidies

# Forms of Globalization

## *Exporting*

- Selling a domestically produced product to customers in foreign countries.

## *Franchise*

- By this form of organizing itself globally, in the last decade McDonald's has doubled its number of overseas stores.

## *Joint- venture*

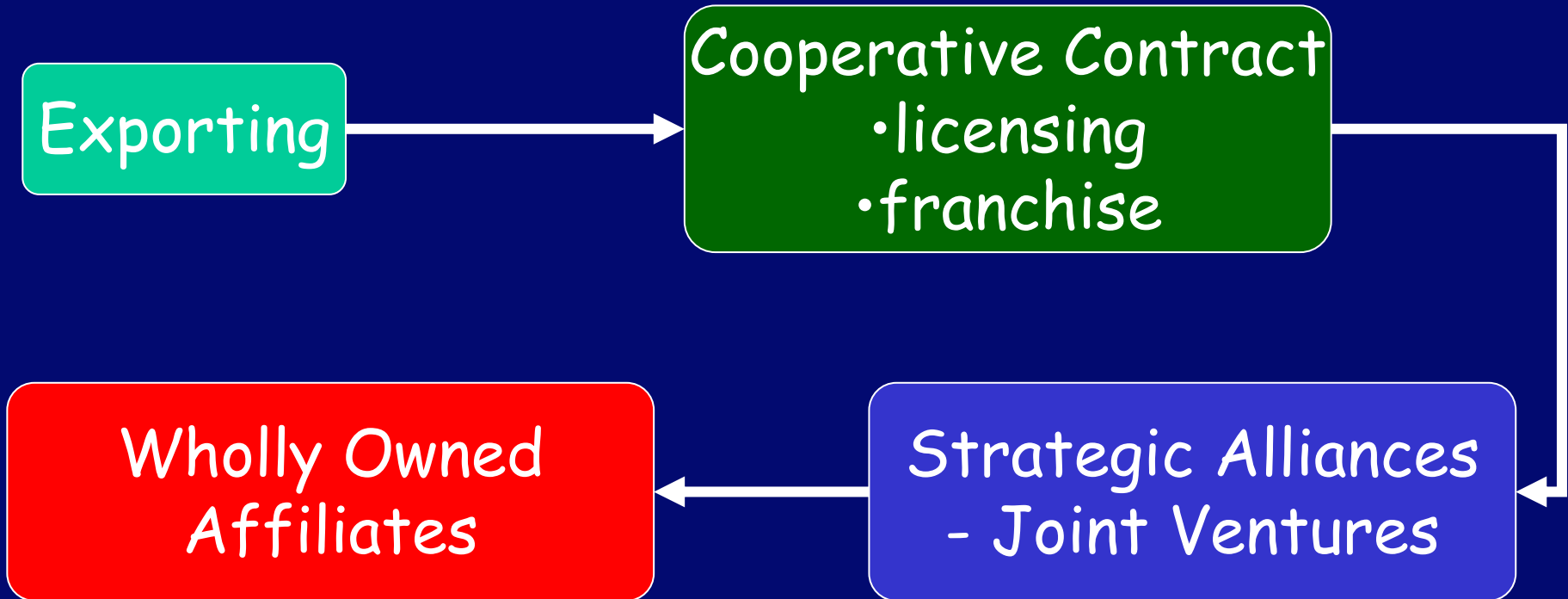
- A strategic alliance in which two existing companies collaborate to form a third company.

# Average Tariff Rates on Manufactured Products as Percent of Value

	1913	1950	1990	2000
France	21%	18%	5.9%	3.9%
Germany	20	26	5.9	3.9
Italy	18	25	5.9	3.9
Japan	30		5.3	3.9
Holland	5	11	5.9	3.9
Sweden	20	9	4.4	3.9
Britain		23	5.9	3.9
U.S.A.	44	14	4.8	3.9

# Forms for Global Business

## Phase Model of Globalization



Source: Hill, *Global Business Today*, 2008

# The National Composition of the Largest Multinationals

	1973	1990	1997	2000
U.S.A.	48.5%	31.5%	32.4%	26%
Japan	3.5	12	15.7	17
U.K.	18.8	6.8	6.6	8
France	7.3	10.4	9.8	13
Germany	8.1	9	12.7	12

# Globalization: Pros & Cons

## *Pros*

- Increased revenue opportunity through global sales.
- Reduced costs by producing in 'low cost' countries.

## *Cons*

- Different nations = different problems.
- Similarities between nations may be superficial.
- Global planning may be easy, but global execution is not.

## *Critiques*

- Interdependence
- Threats to national sovereignty
- Growing inequality
- Firms using lax labour and environmental regulations
- Loss of jobs in developed countries

Source: Crab/Rutgers