CHAPTER ONE

GLOBAL BUSINESS ENVIRONMENT

CHAPTER ONE

Globalization

Learning Objectives

After studying this chapter, you should be able to

1. Describe the process of globalization and how it affects markets and production.
2. Identify the two forces causing globalization to increase.
3. Summarize the evidence for each main argument in the globalization debate.
4. Identify the types of companies that participate in international business.
5. Describe the global business environment and identify its four main elements.

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 presenting globalization—describing its influence on markets and production and the forces behind its growth. Each main argument in the debate over globalization is also analyzed in detail. We then identify the key players in international business today. This chapter closes with a model that depicts international business as occurring within an integrated global business environment.

A LOOK AHEAD

Part 2, encompassing Chapters 2, 3, and 4, introduces us to different national business environments. Chapter 2 describes important cultural differences among nations. Chapter 3 examines different political and legal systems. And Chapter 4 presents the world’s various economic systems and issues surrounding economic development.
Emirates’ Global Impact

DUBAI, United Arab Emirates—The Emirates Group, founded in 1985 and headquartered in Dubai, is one of the world’s leading commercial air transportation service providers. Emirates has built up a strong brand name as a leader in the aviation industry, particularly in terms of its excellent customer service and its very rapid growth. It provides passenger, cargo, and postal carriage services to approximately 100 destinations worldwide. The company is also involved in the wholesale and retail of consumer goods, in-flight and institutional catering, holiday services, and hotel operations in Europe, the Middle East, the Far East, Africa, Asia, Australasia, and North America.

The Group’s operations are global in many ways. Emirates is renowned for its excellent customer service, but how does it attract new customers and keep current customers happy when it operates worldwide in many different countries and cultures? The answer is that global customers need global services too. If you visit Emirates’ Web site (see www.emirates.com) you will see it has multi-language booking services, customized in-flight entertainment and provides international food and drink during the flight. Furthermore, Emirates Group employs about 50,000 people, and it’s interesting to note that its cabin crew is highly diverse in terms of nationality, religion, and languages. In fact, the group operates a global recruitment process, and its staff, from cabin crew to engineers, comes from all over the world. As you read this chapter, consider how globalization is reshaping our personal lives and altering the activities of international companies.1

Source: © Mccarthystudio/Dreamstime.
Globalization is reshaping our lives and leading us into uncharted territory. As new technologies drive down the cost of global communication and travel, we are increasingly exposed to the traits and practices of other cultures. As countries reduce barriers to trade and investment, globalization forces their industries to grow more competitive if they are to survive. And as multinationals from advanced countries and emerging markets seek out customers, competition intensifies on a global scale. These new realities of international business are altering our cultures and transforming the way companies do business.

**International Business Involves Us All**

The dynamic nature of international business affects each of us personally. In our daily communications, we encounter terms such as outsourcing, emerging markets, competitive advantage, sustainability, and social responsibility. And each of us experiences the result of dozens of international transactions every day.

The General Electric alarm clock/radio (www.ge.com) that woke you was likely made in China. The breaking news buzzing in your ears was produced by Britain’s BBC radio (www.bbc.co.uk). You slip on your Adidas sandals (www.adidas.com) made in Indonesia, Abercrombie & Fitch T-shirt (www.abercrombie.com) made in the Northern Mariana Islands, and American Eagle jeans (www.ae.com) made in Mexico. You pull the charger off your Nokia phone (www.nokia.com), which was designed in Finland and manufactured in the United States with parts from Taiwan, and head out the door. You hop into your Korean Hyundai (www.hmmausa.com) that was made in Alabama, and pop in a CD performed by the English band Coldplay (www.coldplay.com). You swing by the local Starbucks (www.starbucks.com) to charge your own batteries with coffee brewed from a blend of 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, watch, wallet, or other items with you right now will demonstrate the pervasiveness of international business transactions.

**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. 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 and services worth nearly $15 trillion. That figure is around 40 times the annual global revenue of Wal-Mart Stores (www.walmart.com).

**Technology Makes It Possible**

Technology is perhaps the most remarkable facilitator of societal and commercial changes today. Consumers use technology to reach out to the world on the Internet—gathering and sending information and purchasing all kinds of goods and services. Companies use technology to acquire materials and products from distant lands and to sell goods and services abroad.

When businesses or consumers use technology to conduct transactions, they engage in **e-business (e-commerce)**—the use of computer networks to purchase, sell, or exchange products; service customers; and collaborate with partners. E-business is making it easier for companies to make their products abroad, not simply import and export finished goods.

Consider how Hewlett-Packard (HP) (www.hp.com) designed and built a computer server for small businesses. Once HP identified the need for a new low-cost computer server, it seized the rewards of globalization. HP dispersed its design and production activities throughout a specialized manufacturing system across five Pacific Rim nations and India. This helped the company minimize labor costs, taxes, and shipping delays yet maximize productivity when designing, building, and distributing its new product. Companies use such innovative production and distribution techniques to squeeze inefficiencies out of their international operations and boost their competitiveness.
Workers at a factory in Indonesia inspect electronic parts bound for global markets. Today, companies can go almost anywhere in the world to tap into local expertise and favorable business climates. For example, U.S. businesses exploit technology by subcontracting work to Chinese companies that write computer software code and then e-mail their end-product to the U.S. clients. In this way, companies can lower costs, increase efficiency, and grow more competitive. In what other ways might technology and global talent facilitate international business activity?

Source: AFP Photo/Bob Low/Newscom.

Global Talent Makes It Happen

Media companies today commonly engage in a practice best described as a global relay race. Fox and NBC Universal created Hulu (www.hulu.com), one competitor of YouTube, as a cool venue for fans to watch TV shows online. Hulu employs two technical teams—one in the United States and one in China—to manage its Web site. Members of the team in Santa Monica, California, work late into the night detailing code specifications that it sends to the team in Beijing, China. The Chinese team then writes the code and sends it back to Santa Monica before the U.S. team gets to work in the morning.2

Some innovative companies use online competitions to tap global talent. InnoCentive (www.innocentive.com) connects companies and institutions seeking solutions to difficult problems using a global network of more than 145,000 creative thinkers. These engineers, scientists, inventors, and businesspeople with expertise in life sciences, engineering, chemistry, math, computer science, 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 as little as $2,000 to as much as $1 million.3

This chapter begins by presenting globalization—we describe its powerful influence on markets and production and explain the forces behind its expansion. Following coverage of each main point in the debate over globalization, we examine the key players in international business. We then explain why international business is special by presenting the dynamic, integrated global business environment. Finally, the appendix at the end of this chapter contains a world atlas to be used as a primer for this chapter’s discussion and as a reference throughout the remainder of the book.

Quick Study

1. Define the term international business, and explain how it affects each of us.
2. What do we mean by the terms imports and exports?
3. Explain how e-business (e-commerce) is affecting international business.
Globalization

Although nations historically retained absolute control over the products, people, and capital crossing their borders, economies are becoming increasingly intertwined. **Globalization** is the trend toward greater economic, cultural, political, and technological interdependence among national institutions and economies. Globalization is a trend characterized by *denationalization* (national boundaries becoming less relevant) and is different from *internationalization* (entities cooperating across national boundaries). The greater interdependence that globalization is causing means an increasingly freer flow of goods, services, money, people, and ideas across national borders.

As its definition implies, globalization involves much more than the expansion of trade and investment among nations. Globalization embraces concepts and theories from political science, sociology, anthropology, and philosophy as well as economics. As such, it is not a term exclusively reserved for multinational corporations and international financial institutions. Nor is globalization the exclusive domain of those with only altruistic or moral intentions. In fact, globalization has been described as going “well beyond the links that bind corporations, traders, financiers, and central bankers. It provides a conduit not only for ideas but also for processes of coordination and cooperation used by terrorists, politicians, religious leaders, anti-globalization activists, and bureaucrats alike.”

For our purposes, this discussion focuses on the business implications of globalization. Two areas of business in which globalization is having profound effects are the globalization of markets and production.

**Globalization of Markets**

**Globalization of Markets** refers to 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. Clothing retailer L.L. Bean (www.llbean.com), shoe producer Nike (www.nike.com), and electronics maker Sony (www.sony.com) are just a few companies that sell *global products*—products marketed in all countries essentially without any changes. For example, Apple’s iPad qualifies as a global product because of its highly standardized features and the company’s global marketing strategy and global brand.

Global products and global competition characterize many industries and markets, including semiconductors (Intel, Philips), aircraft (Airbus, Boeing), construction equipment (Caterpillar, Mitsubishi), autos (Honda, Volkswagen), financial services (Citicorp, HSBC), air travel (Lufthansa, Singapore Airlines), accounting services (Ernst & Young, KPMG), consumer goods (Procter & Gamble, Unilever), and fast food (KFC, McDonald’s). The globalization of markets is important to international business because of the benefits it offers companies. Let’s now look briefly at each of these benefits.

**Reduces Marketing Costs** Companies that sell global products can reduce costs by *standardizing* certain marketing activities. A company selling a global consumer good, such as shampoo, can make an identical product for the global market and then simply design different packaging to account for the language spoken in each market. Companies can achieve further cost savings by keeping an ad’s visual component the same for all markets but dubbing TV ads and translating print ads into local languages.

**Creates New Market Opportunities** A company that sells a global product can explore opportunities abroad if the home market is small or becomes saturated. For example, China holds enormous potential for e-business with more than 400 million Internet users, which is greater than the population of the entire United States. But while more than 70 percent of people in the United States actively surf the Web, just 30 percent of people in China do. So, the battle for market share in the Middle Kingdom is raging between the top two online search engines—Google (www.google.cn) and Yahoo! (www.cn.yahoo.com). Seeking sales growth abroad can be absolutely essential for an entrepreneur or small company that sells a global product but has a limited home market.
Ecstatic customers display their new iPads in Mexico City. The iPad is Apple’s (www.apple.com) first tablet computer and a global success that excites style-lovers the world over. The iPad lets users surf the Web, write e-mail, flip through photos, and watch movies—all on a device that is only 0.5 inches thick. Thousands of applications expand the iPad’s capabilities even further and more are created daily. Apple standardized the iPad to reduce production and marketing costs and to support its powerful global brand.

Source: STR/Newscom.

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 seasonal, products.

YET LOCAL NEEDS ARE IMPORTANT Despite the potential benefits of global markets, managers must constantly monitor the match between the firm’s products and markets to not overlook the needs of buyers. The benefit of serving customers with an adapted product may outweigh the benefit of a standardized one. For instance, soft drinks, fast food, and other consumer goods are global products that continue to penetrate markets around the world. But sometimes these products require small modifications to better suit local tastes. In southern Japan, Coca-Cola (www.cocacola.com) sweetens its traditional formula to compete with sweeter-tasting Pepsi (www.pepsi.com). In India, where cows are sacred and the consumption of beef is taboo, McDonald’s (www.mcdonalds.com) markets the “Maharaja Mac”—two all-mutton patties on a sesame-seed bun with all the usual toppings.

Globalization of Production

Many production activities are also becoming global. 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 that companies obtain from the globalization of production.

ACCESS LOWER-COST WORKERS Global production activities allow companies to reduce overall production costs through access to low-cost labor. For decades, companies located their factories in low-wage nations to churn out all kinds of goods, including toys, small appliances, inexpensive electronics, and textiles. Yet whereas moving production to low-cost
locale traditionally meant *production of goods* almost exclusively, it increasingly applies to the *production of services* such as accounting and research. Although most services must be produced where they are consumed, some services can be performed at remote locations where labor costs are lower. Many European and U.S. businesses have moved their customer service and other nonessential operations to places as far away as India to slash costs by as much as 60 percent.

**ACCESS TECHNICAL EXPERTISE** Companies also produce goods and services abroad to benefit from technical know-how. Film Roman (www.filmroman.com) produces the TV series *The Simpsons*, but it provides key poses and step-by-step frame directions to AKOM Production Company (www.akomkorea.com) in Seoul, South Korea. AKOM then fills in the remaining poses and links them into an animated whole. But there are bumps along the way, says animation director Mark Kirkland. In one middle-of-the-night phone call, Kirkland was explaining to the Koreans how to draw a shooting gun. “They don’t allow guns in Korea; it’s against the law,” says Kirkland. “So they were calling me [asking]: ‘How does a gun work?’” Kirkland and others put up with such cultural differences and phone calls at odd hours to tap a highly qualified pool of South Korean animators.7

**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

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**GLOBAL CHALLENGES**

Managing Security in the Age of Globalization

The globalization of markets and production creates new challenges for companies. As well as the need to secure lengthy supply chains and distribution channels, companies must secure their facilities, information systems, and reputations.

• **Facilities Risk.** Careful planning and facilities assessment (around $12,000 for a midsized company; $1 million for a large firm) can be well worth the cost. Large companies with top-notch property risk management programs are said to produce more stable earnings. And companies practicing weak risk management experience 55 times greater risk of property loss due to fire and 29 times greater risk of property loss caused by natural hazards.

• **Information Risk.** Computer viruses, software worms, malicious code, and cyber criminals cost companies around the world millions of dollars each year. The usual suspects include disgruntled employees and dishonest competitors, but often are hackers who steal customers’ personal and financial data that is then sold worldwide to the highest bidder. Upon quitting their jobs, some employees simply walk away with digital devices containing confidential memos, competitive data, and private e-mails.

• **Reputational Risk.** News regarding the actions of today’s largest corporations spreads worldwide quickly. Reputational risk is anything that can harm a firm’s image, including accounting irregularities, product recalls, workers’ rights violations, and involvement in a lawsuit. The damaged reputation of Goldman Sachs following its $550 million settlement with the Securities and Exchange Commission (for its actions before and during the financial meltdown on Wall Street) is estimated to have cost the firm nearly 40 percent ($6 billion) of its brand value in one year.

• **The Challenge.** Like the risks themselves, the challenges are also varied. First, companies should identify all potential risks to their facilities and develop a best-practice property risk program. Second, employees should change passwords often, guard computers and mobile devices with software patches, and return company-owned digital devices when leaving the firm. Third, as they come under ever-increasing scrutiny, companies should act ethically and within the law to protect their reputations.

• **Want to Know More?** Visit leading risk consultancy Kroll (www.krollworldwide.com), leading Internet security firm Check Point Software Technologies (www.checkpoint.com), and Internet security agency CERT Coordination Center (www.cert.org).

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 gives the firm not only access to an essential resource but also control over earlier stages in the papermaking process. As a result, the company is guaranteed a steady flow of its key ingredient (wood pulp) that is less subject to 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 China and Vietnam, where energy costs are lower.

Despite its benefits, globalization also creates new risks and accentuates old ones for companies. To read about several key risks that globalization heightens and how companies can better manage them, see this chapter’s Global Challenges feature, titled “Managing Security in the Age of Globalization.”

Quick Study

1. Define globalization. How does denationalization differ from internationalization?
2. List each benefit a company might obtain from the globalization of markets.
3. How might a company benefit from the globalization of production?

Forces Driving Globalization

Two main forces underlie the globalization of markets and production: falling barriers to trade and investment and technological innovation. These two features, more than anything else, are increasing competition among nations by leveling the global business playing field. Greater competition is simultaneously driving 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 are compelled to cooperate with one another or with larger international firms to remain competitive. Other local businesses revitalize themselves in a bold attempt to survive the competitive onslaught. And on a global scale, consolidation is occurring in many industries as former competitors link up to challenge others on a worldwide basis. Let’s now explore in greater detail the pivotal roles of the two forces driving globalization.

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 both 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.

Significant progress occurred again with a 1994 revision of the GATT treaty. Nations that had signed on to 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—giving 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. Likely the greatest accomplishment of the 1994 revision was the creation of the World Trade Organization.

World Trade Organization (WTO) International organization that enforces the rules of international trade.
and settle trade disputes among its members. It is the power of the WTO to settle trade disputes that really sets 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). Because of its ability to penalize offending nations, the WTO’s dispute settlement system truly is the spine of the global trading system. 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 153 members and 30 “observer” members.

The WTO launched a new round of negotiations in Doha, Qatar, in late 2001. The renewed negotiations were designed to lower trade barriers further and to help poor nations in particular. Agricultural subsidies that rich countries pay to their own farmers are worth $1 billion per day—more than six times the value of their combined aid budgets to poor nations. Because 70 percent of poor nations’ exports are agricultural products and textiles, wealthy nations had intended to further open these and other labor-intensive industries. Poor nations were encouraged to reduce tariffs among themselves and were to receive help in integrating themselves into the global trading system. Although the Doha round was to conclude by the end of 2004, negotiations are proceeding more slowly than was anticipated.8

**REGIONAL TRADE AGREEMENTS** In addition to the WTO, smaller groups of nations are integrating their economies as never before by fostering trade and boosting cross-border investment. For example, the North American Free Trade Agreement (NAFTA) gathers three nations (Canada, Mexico, and the United States) into a free-trade bloc. The more ambitious European Union (EU) combines 27 countries. 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. Moreover, some nations are placing greater emphasis on regional pacts because of resistance to worldwide trade agreements.

**TRADE AND NATIONAL OUTPUT** Together, the WTO agreements and regional pacts have boosted world trade and cross-border investment significantly. Trade theory tells us that openness to trade helps a nation to produce a greater amount of output. Map 1.1 illustrates that growth in national output over a recent 10-year period is significantly positive. Economic growth is greater in nations that have recently become more open to trade, such as China, India, and Russia, than it is in many other countries. Much of South America is also growing rapidly, while Africa’s experience is mixed.

Let’s take a moment in our discussion to define a few terms that we will encounter time and again throughout this book. **Gross domestic product (GDP)** is the value of all goods and services produced by a domestic economy over a one-year period. GDP excludes a nation’s income generated from exports, imports, and the international operations of its companies. We can speak in terms of world GDP when we sum 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 over a one-year period. A country’s **GDP or GNP per capita** is simply its GDP or GNP divided by its population.

**Technological Innovation** Although falling barriers to trade and investment encourage globalization, technological innovation is accelerating its pace. Significant advancements in information technology and transportation methods are making it easier, faster, and less costly to move data, goods, and equipment around the world. Let’s examine several innovations that have had a considerable impact on globalization.

**E-MAIL AND VIDEOCONFERENCING** Operating across borders and time zones complicates the job of coordinating and controlling business activities. But technology can speed the flow of information and ease the tasks of coordination and control. Electronic mail (e-mail) is an
indispensable tool that managers use to stay in contact with international operations and to respond quickly to important matters. Videoconferencing allows managers in different locations to meet in virtual face-to-face meetings. Primary reasons for 25 to 30 percent annual growth in videoconferencing include lower-cost bandwidth (communication channels) used to transmit information, lower-cost equipment, and the rising cost of travel for businesses. Videoconferencing equipment can cost as little as $5,000 and as much as $340,000. A company that does not require ongoing videoconferencing can pay even less by renting the facilities and equipment of a local conference center.9

INTERNET AND WORLD WIDE WEB Companies use the Internet to quickly and cheaply contact managers in distant locations, for example, to inquire about production runs, revise sales strategies, and check on distribution bottlenecks. They also use the Internet to achieve longer term goals, such as sharpen their forecasting, lower their inventories, and improve communication with suppliers. The lower cost of reaching an international customer base especially benefits small firms, which were among the first to use the Web as a global marketing tool. Further gains arise from the ability of the Internet to cut postproduction costs by decreasing the number of intermediaries a product passes through on its way to the customer. Eliminating intermediaries greatly benefits online sellers of books, music, and travel services, among others.

COMPANY INTRANETS AND EXTRANETS Internal company Web sites and information networks (intranets) give employees access to company data using personal computers. A particularly effective marketing tool on Volvo Car Corporation’s (www.volvocars.com) 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.

Extranets give distributors and suppliers access to a company’s database to place orders or restock inventories electronically and automatically. These networks permit international companies (along with their suppliers and buyers) to respond to internal and external conditions more quickly and more appropriately.

ADVANCEMENTS IN TRANSPORTATION TECHNOLOGIES Retailers worldwide rely on imports to stock their storerooms with finished goods and to supply factories with raw materials and intermediate products. 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 up to 10 days while it was unloaded one pallet at a time. But because cargo today is loaded onto a ship in 20- and 40-foot containers that are quickly unloaded onto railcars or truck chassis at the final destination, a 700-foot cargo ship is routinely unloaded in just 15 hours.

Operation of cargo ships is now simpler and safer due to 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. RFID can tell whether a container’s doors are opened and closed on its journey and can monitor the temperature inside refrigerated containers.10

Measuring Globalization

Although we intuitively feel that our world is becoming smaller, researchers have created ways to measure the extent of globalization. One of the most comprehensive indices of globalization is that created by A.T. Kearney (www.atkearney.com), a management consultancy, and Foreign Policy magazine (www.foreignpolicy.com).11 The index ranks 72 nations, which altogether account for 97 percent of the world’s GDP and 88 percent of its population. Each
nation’s ranking in the index comprises a compilation of more than a dozen variables within four categories:

1. **Economic integration.** Trade, foreign direct investment, portfolio capital flows, and investment income.
2. **Personal contact.** International travel and tourism, international telephone traffic, remittances, and personal transfers (including compensation to employees).
3. **Technological connectivity.** Internet users, Internet hosts, and secure servers.
4. **Political engagement.** Memberships in international organizations, personnel and financial contributions to U.N. Security Council missions, international treaties ratified, and governmental transfers.

By incorporating a wide variety of variables, the index is apt to cut through cycles occurring in any one of the four areas listed above. And by encompassing social factors in addition to economic influences, it tends to capture the broad nature of globalization. Table 1.1 shows the 10 highest-ranking nations in the latest Globalization Index. It shows each nation’s overall rank and its rank on each dimension described earlier: (1) economic integration, (2) personal contact, (3) technological connectivity, and (4) political engagement. Europe accounts for 5 of the top 10 spots, and the United States appears in seventh place on the list. The United States is the first large nation to make it into the top ranks—due largely to its technological superiority. Large nations often do not make it into the higher ranks because they tend to depend less on external trade and investment.

The world’s least-global nations also deserve mention. The least-global nations account for around half the world’s population and are found in Africa, East Asia, South Asia, Latin America, and the Middle East. One remarkable commonality among these nations is their low levels of technological connectivity. These nations will likely have a difficult struggle ahead if they are to overcome their lack of global integration.

Some of the least-global nations are characterized by never-ending political unrest and corruption (Bangladesh, Indonesia, and Venezuela). Other nations with large agricultural sectors face trade barriers in developed countries and are subject to highly volatile prices on commodity markets (Brazil, China, and India). Still others are heavily dependent on oil exports but are plagued by erratic prices in energy markets (Iran and Venezuela). Kenya has suffered from recurring droughts, terrorism, and burdensome visa regulations that hurt tourism. Finally, Turkey and Egypt, along with the entire Middle East, suffer from continued concerns over terrorism, high barriers to trade and investment, and heavy government involvement in the economy. To deepen their global links, each of these nations will need to make great strides in their economic, social, technological, and political environments.

**TABLE 1.1 Globalization’s Top 10**

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<th>Personal</th>
<th>Technological</th>
<th>Political</th>
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<td>21</td>
<td>25</td>
<td></td>
</tr>
</tbody>
</table>

Source: Based on “The Globalization Index,” Foreign Policy, November/December 2007, pp. 68–76.
Quick Study

1. What two main forces underlie the expansion of globalization?
2. How have global and regional efforts to promote trade and investment advanced globalization?
3. How does technological innovation propel globalization?
4. What factors make some countries more global than others?

Untangling the Globalization Debate

Globalization means different things to different people. A businessperson may see globalization as an opportunity to source goods and services from lower-cost locations and to pry open new markets. An economist may see it as an opportunity to examine the impact of globalization on jobs and standards of living. An environmentalist may be concerned with how globalization affects our ecology. An anthropologist may want to examine the influence of globalization on the culture of a group of people. A political scientist may be concerned with the impact of globalization on the power of governments relative to that of multinational companies. And an employee may view globalization either as an opportunity for new work or as a threat to his or her current job.

It is because of the different lenses through which we view events around us that the globalization debate is so complex. Entrepreneurs, small business owners, and globetrotting managers need to understand globalization and the arguments of those who oppose it. In the pages that follow, we explain the main arguments of those opposed to globalization and the responses of those in favor of it. But before we address the intricacies of the debate, it is helpful to put today’s globalization into its proper context.

Today’s Globalization in Context

Many people forget that there was a first age of globalization that extended from the mid-1800s to the 1920s. 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. Other than in wartime, nations did not even require passports for international travel before 1914. And like today, workers in wealthy nations back then feared competition for jobs from high- and low-wage countries.

Trade and capital flowed more freely than ever during that first age of globalization. Huge companies from wealthy nations built facilities in distant lands to extract raw materials and produce all sorts of goods. Large cargo ships plied the seas to deliver their manufactures to distant markets. The transatlantic cable (completed in 1866) allowed news between Europe and the United States to travel faster than ever before. The drivers of that first age of globalization included the steamship, telegraph, railroad, and, later, the telephone and airplane.

That first age of globalization was abruptly halted by the arrival of the First World War, the Russian Revolution, and the Great Depression. A backlash to fierce competition in trade and unfettered immigration in the early 1900s helped usher-in high tariffs and barriers to immigration. The great flows of goods, capital, and people common before the First World War became a mere trickle. For 75 years from the start of the First World War to the end of the Cold War, the world remained divided. There was a geographic divide between East and West and 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.

Fast-forward to 1989 and the collapse of the wall separating East and West Berlin. One by one, central and eastern European nations threw off the chains of communism, embraced freedom, and began a march toward democratic institutions and free-market economic systems. Although it took until the 1990s for international capital flows, in absolute terms, to recover to levels seen prior to the First World War, the global economy had finally been reborn. Lowering the cost of telecommunications and binding our world more tightly together
are the drivers of this second age of globalization—communication satellites, fiber optics, microchips, and the Internet.

**Introduction to the Debate**

In addition to the World Trade Organization presented earlier, several other supranational 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 ([www.worldbank.org](http://www.worldbank.org)) was to finance European reconstruction following the Second World War. It 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. The **International Monetary Fund (IMF)** is an agency created to regulate fixed exchange rates and enforce the rules of the international monetary system. Today, the IMF ([www.imf.org](http://www.imf.org)) has 185 member countries. Some of the purposes of the IMF include promoting international monetary cooperation; facilitating expansion and balanced growth of international trade; avoiding competitive exchange devaluation; and making financial resources temporarily available to members.

At this point we should note one caveat. Each side in the debate over globalization tends to hold up results of social and economic studies they say show “definitive” support for their arguments. Yet many organizations that publish studies on globalization have political agendas, such as decreasing government regulation or expanding government programs. This can make objective consideration of a group’s claims and findings difficult. A group’s aims may influence the selection of the data to analyze, the time period to study, the nations to examine, and so forth. It is essential to take into account such factors anytime we hear a group arguing the beneficial or harmful effects of globalization.

Let’s now engage the debate over globalization by examining its effects on: (1) jobs and wages, (2) labor and environmental regulation, (3) income inequality, (4) national sovereignty, and (5) cultures.

**Quick Study**

1. How does this current period of globalization compare with the first age of globalization?
2. Explain the original purpose of the **World Bank** and its mandate today.
3. What are the main purposes of the **International Monetary Fund**?
Globalization's Impact on Jobs and Wages

We open our coverage of the globalization debate with an important topic for both developed and developing countries—the effect of globalization on jobs and wages. We begin with the arguments of those against globalization and then turn our attention to how supporters of globalization respond.

AGAINST GLOBALIZATION Groups opposed to globalization blame it for eroding standards of living and ruining ways of life. Specifically, they say globalization eliminates jobs and lowers wages in developed nations and exploits workers in developing countries. Let’s explore each of these arguments.

Eliminates Jobs in Developed Nations Some groups claim that globalization eliminates manufacturing jobs in developed nations. They criticize the practice of sending good-paying manufacturing jobs abroad to developing countries where wages are a fraction of the cost for international firms. It is argued that a label reading “Made in China” translates to “Not Made Here.” Although critics admit that importing products from China (or another low-wage nation) lowers consumer prices for televisions, sporting goods, and so on, they say this is little consolation for workers who lose their jobs.

To illustrate their argument, globalization critics point to the activities of big-box retailers such as Costco (www.costco.com) and Wal-Mart (www.walmart.com). It is difficult to overstate the power of these retail giants and symbols of globalization. It is said that by relentlessly pursuing low-cost goods, these retailers force their suppliers to move to China and other low-wage nations.14

Lowers Wages in Developed Nations Opposition groups say globalization causes worker dislocation that gradually lowers wages. They allege that, when a manufacturing job is lost in a wealthy nation, the new job (assuming new work is found) pays less than the previous one. Some evidence does suggest that a displaced manufacturing worker, especially an older one, receives lower pay in a subsequent job. Those opposed to globalization say this decreases employee loyalty, employee morale, and job security. They say this causes people to fear globalization and any additional lowering of trade barriers.

Big-box retailers come under fire in this discussion also. Globalization critics say powerful retailers continually force manufacturers in low-wage nations to accept lower profits so the retailers can slash prices to consumers. As a result of these business practices, critics charge, powerful retailers force down wages and working conditions worldwide.

Exploits Workers in Developing Nations Critics charge that globalization and international outsourcing exploit workers in low-wage nations. One notable critic of globalization is Naomi Klein (www.naomiklein.org). She vehemently opposes the outsourced call center jobs of Western companies, such as Victoria’s Secret (www.victoriassecret.com) and Delta Airlines (www.delta.com). Klein says such jobs force young Asians to disguise their nationality, adopt fake Midwestern accents, and work nights when their U.S. customers are awake halfway around the world. Klein maintains that free trade policies are “a highly efficient engine of dispossession, pushing small farmers off their land and laying off public-sector workers.”15

FOR GLOBALIZATION Supporters of globalization credit it with improving standards of living and making possible new ways of life. They argue that globalization increases wealth and efficiency in all nations, generates labor market flexibility in developed nations, and advances the economies of developing nations. Let’s now examine each of these arguments.

Increases Wealth and Efficiency in all Nations Some economists believe globalization increases wealth and efficiency in both developed and developing nations. Globalization supporters argue that openness to international trade (the ratio of trade to national output) increases national production (by increasing efficiency) and raises per capita income (by passing savings on to consumers). For instance, by squeezing inefficiencies out of the retail supply chain, powerful global retailers help restrain inflation and boost productivity. Some economists predict that removing all remaining barriers to free trade would significantly boost worldwide income and greatly benefit developing nations.

Generates Labor Market Flexibility in Developed Nations Globalization supporters believe globalization creates positive benefits by generating labor market flexibility in developed nations. It is claimed that benefits derive 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. This also allows employees, particularly young workers, to change jobs easily with few negative effects. For instance, a young person can gain experience and skills with an initial employer and then move to a different job that provides a better match between employee and employer.

**Advances Economies of Developing Nations** Those in favor of globalization argue that globalization and international outsourcing help to advance developing nations’ economies. India initially became attractive as a location for software-writing operations because of its low-cost, well-trained, English-speaking technicians. More recently, telephone call centers that provide all sorts of customer services offer bright futures to young graduates who will not become doctors and lawyers. Millions of young Indians view such a job as a ticket to working for an international firm at a good salary.

Today, the relentless march of globalization is making India a base for business process outsourcing—including financial, accounting, payroll, and benefits services. A burgeoning back-office industry worth billions of dollars in India is significantly elevating living standards. The reason is simple. The world’s largest corporations and law firms now outsource legal work such as document review, due diligence, contract management, and other activities to Indian law firms for one-tenth to one-third what they pay Western firms. Figure 1.1 illustrates why India is is also popular as a location to outsource information technology (IT) jobs. The salary of an IT worker in the United States is nearly 10 times that of an IT worker in India. So long as such economic disparities exist, international outsourcing will continue to grow more popular.

**Summary of the Jobs and Wages Debate** All parties appear to agree that dislocation in labor markets is a byproduct of globalization. In other words, although globalization eliminates some jobs in a nation, it creates jobs in other sectors of the nation’s economy. Yet, while some people lose their jobs and find new employment, it can be very difficult for others to find new work. The real point of difference between the two sides in the debate, it seems, is whether overall gains that (may or may not) accrue to national economies are worth the lost livelihoods that individuals (may or may not) suffer. Those in favor of globalization say individual pain is worth the collective gain, whereas those against globalization say it is not.

**Globalization’s Impact on Labor, the Environment, and Markets** Critics of globalization say companies locate operations to where labor and environmental regulations are least restrictive and, therefore, least costly. They argue this puts downward pressure on labor and environmental protection laws in all countries as nations compete to attract international firms. Let’s now examine these claims and the responses of globalization supporters.

**LABOR STANDARDS** Trade unions claim globalization reduces labor’s bargaining power and lowers global labor standards when international firms are permitted to continually move to nations with lower labor standards. One place to test this assertion is in developing nations’

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**FIGURE 1.1**

**Comparing Salaries of IT Workers**

*Source: Based on Rachael King, “The New Economics of Outsourcing,” Bloomberg Businessweek (www.businessweek.com), April 7, 2008.*

<table>
<thead>
<tr>
<th>Country</th>
<th>Average Annual Salary of an IT Worker</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>$75,000</td>
</tr>
<tr>
<td>Mexico</td>
<td>$15,000</td>
</tr>
<tr>
<td>Brazil</td>
<td>$30,000</td>
</tr>
<tr>
<td>Argentina</td>
<td>$45,000</td>
</tr>
<tr>
<td>India</td>
<td>$60,000</td>
</tr>
</tbody>
</table>
export-processing zones (EPZs)—special areas in which companies engage in tariff-free importing and exporting. More than 850 EPZs employ 27 million people worldwide. Yet a study by the International Labor Organization (www.ilo.org), hardly a pro-business group, found no evidence to support the claim that nations with a strong union presence suffered any loss of investment in their EPZs. In fact, another study by the World Bank found that the higher occupational safety and health conditions an EPZ had in place, the greater foreign investment it attracted.\textsuperscript{18} The evidence fails to support critics’ allegations that economic openness and foreign investment contribute to lower labor standards.

ENVIRONMENTAL PROTECTION Some environmental groups say globalization causes a “race to the bottom” in environmental conditions and regulations. Yet studies show that pollution-intensive U.S. firms tend to invest in countries with stricter environmental standards. Many developing nations, including Argentina, Brazil, Malaysia, and Thailand, liberalized their foreign investment environment while simultaneously enacting stricter environmental legislation. If large international companies were eager to relocate to nations having poor environmental protection laws, they would not have invested in these countries for decades. Additional evidence that closed, protectionist economies are worse than open ones at protecting the environment includes Mexico before NAFTA, Brazil under military rule, and the former Warsaw Pact of communist nations—all of which had extremely poor environmental records. Again, the evidence does not support claims of lower environmental standards as a result of economic openness and globalization.

FUTURE MARKETS Opponents to globalization claim international firms exploit local labor markets and the environment to produce goods that are then exported back to the home country. Such claims may not only perpetuate a false image of corporations but may also have no factual basis. International firms today support reasonable labor and environmental laws because (if for no other reason) they want to expand future local markets for their goods and services. When analyzing a country prior to investing, companies today often examine a location for its potential as a future market as well as a production base. Less than 5 percent of U.S. firms invest in developing countries to obtain low-cost resources and then export finished products back to the United States. For additional insights into how managers today succeed by respecting unfamiliar markets, see the Global Manager’s Briefcase, titled “The Keys to Global Success.”

### GLOBAL MANAGER’S BRIEFCASE

**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 competence. 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 enough and capable to customize products to 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 can beat a path to your door to buy your “better mousetrap” 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. What are the claims of those who say globalization eliminates jobs, lowers wages, and exploits workers?
2. Identify the arguments of those who say globalization creates jobs and boosts wages.
3. Why do critics say globalization adversely affects labor standards, environmental regulations, and future markets?
4. How do supporters of globalization argue that it does not harm labor standards, environmental regulations, and future markets?

Globalization and Income Inequality

Perhaps no controversy swirling around globalization is more complex than the debate over its effect on income inequality. Here, we focus on three main branches of the debate: inequality within nations, inequality between nations, and global inequality.

Inequality within nations

The first inequality debate is whether globalization is increasing income inequality among people within nations. Opponents of globalization argue that freer trade and investment allows international companies to close factories in high-wage developed nations and to move them to low-wage developing nations. They argue this increases the wage gap between white-collar and blue-collar occupations within rich nations.

Two studies of developed and developing nations find contradictory evidence on this argument. The first study of 38 countries over nearly 30 years supports the increasing inequality argument. The study finds that, as a nation increases its openness to trade, income growth among the poorest 40 percent of a nation’s population declines while income growth among other groups increases. The second study of 80 countries over 40 years fails to support the increasing inequality argument. It finds that incomes of the poor rise one-for-one with overall economic growth and concludes that the poor benefit from international trade along with the rest of a nation. The mixed findings of these two studies are typical of a large set of research examining inequality between developed and developing nations.

Two studies of developing nations only are more consistent in their findings. One study finds that an increase in the ratio of trade to national output of 1 percent raises average income levels by 0.5 to 2 percent. Another study shows that incomes of the poor keep pace with growth in average incomes in economies (and periods) of fast trade integration, but that the poor fall behind during periods of declining openness. Results of these two studies suggest that, by integrating their economies into the global economy, developing nations (by far the nations with the most to gain) can boost incomes of their poorest citizens.

A new approach being developed takes a multidimensional view of poverty and deprivation. Proponents of this approach say that the problem with focusing on income alone is that higher income does not necessarily translate into better health or nutrition. The new approach examines whether a household lacks any of 10 basic things, including whether the family home has a dirt floor, a decent toilet, electricity service; whether children are enrolled in school; and whether family members are malnourished or must walk more than 30 minutes to obtain clean drinking water. A household is considered poor if it is deprived on over 30 percent of the indicators. This new approach reveals important differences among poor regions. For example, while material measures contribute more to poverty in sub-Saharan Africa, malnutrition is a bigger factor in South Asia.

Inequality between nations

The second inequality debate is whether globalization is widening the gap in average incomes between rich and poor nations. If we compare average incomes in high-income countries with average incomes in middle- and low-income nations, we do find a widening gap. But averages conceal differences between nations.

On closer inspection, it appears the gap between rich and poor nations is not occurring everywhere: one group of poor nations is closing the gap with rich economies, while a second group of poor countries is falling further behind. For example, China is narrowing the income gap between itself and the United States as measured by GDP per capita, but the gap between Africa and the United States is widening. China’s progress is no doubt a result of its integration with the world.
economy and annual economic growth rates of around 9 percent. Another emerging market, India, is also narrowing its income gap with the United States by embracing globalization. Developing countries that embrace globalization are increasing personal incomes, extending life expectancies, and improving education systems. In addition, post-communist countries that welcomed world trade and investment experienced high growth rates in GDP per capita. But nations that remain closed off from the world economy have performed far worse.

**GLOBAL INEQUALITY** The third inequality debate is whether globalization is increasing global inequality—widening income inequality between all people of the world, no matter where they live. A recent study paints a promising picture of declining poverty. This study finds that the percent of world population living on less than a dollar a day (a common poverty gauge) fell from 17 percent to just 7 percent over a 30-year period, which reduced the number of people in poverty by roughly 200 million. Yet a widely cited study by the World Bank finds that the percent of world population living on less than a dollar a day fell from 33 percent to 18 percent over a 20-year period, which reduced the number of people in poverty from 1.5 billion to 1.1 billion. For a variety of reasons, the real picture likely lies somewhere in between these two studies’ estimates. For example, whereas the World Bank study used population figures for developing countries only, the first study used global population in its analyses, which lowered poverty estimates, all else being equal. What is important is that most experts agree that global inequality has fallen, although they disagree on the extent of the fall.

What must it be like to live on less than a dollar a day in abject poverty in sub-Saharan Africa, South Asia, or elsewhere is too difficult for most of us to comprehend. The continent of Africa presents the most pressing problem. Home to 13 percent of the world’s population, Africa accounts for just 3 percent of world GDP. Rich nations realize they cannot sit idly by while so many of the world’s people live under such conditions.

What can be done to help the world’s poor? First of all, rich nations could increase the amount of foreign aid they give to poor nations—foreign aid as a share of donor country GDP is at historically low levels. Second, rich nations can accelerate the process of forgiving some of the debt burdens of the most heavily indebted poor countries (HIPCs). The HIPC initiative is committed to reducing the debt burdens of the world’s poorest countries. This initiative would enable these countries to spend money on social services and greater integration with the global economy instead of on interest payments on debt.

**Summary of the Income Inequality Debate** For the debate over inequality within nations, studies suggest that developing nations can boost incomes of their poorest citizens by embracing globalization and integrating themselves into the global economy. In the debate over inequality...
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between nations, nations open to world trade and investment appear to grow faster than rich nations do. Meanwhile, economies that remain sheltered from the global economy tend to be worse off. Finally, for the debate over global inequality, although experts agree inequality has fallen in recent decades, they disagree on the extent of the drop.

Globalization and National Sovereignty

National sovereignty generally involves the idea that a nation-state: (1) is autonomous; (2) can freely select its government; (3) cannot intervene in the affairs of other nations; (4) can control movements across its borders; and (5) can enter into binding international agreements. Opposition groups allege that globalization erodes national sovereignty and encroaches on the authority of local and state governments. Supporters disagree, saying that globalization spreads democracy worldwide and that national sovereignty must be viewed from a long-term perspective.

GLOBALIZATION: MENACE TO DEMOCRACY? A main argument leveled against globalization is that it empowers supranational institutions at the expense of national governments. It is not in dispute that the World Trade Organization, the International Monetary Fund, and the United Nations are led by appointed, not democratically elected, representatives. What is debatable, however, is whether these organizations unduly impose their will on the citizens of sovereign nations. Critics argue that, by undercutting the political and legal authority of national, regional, and local governments, such organizations undercut democracy and individual liberty.

Opponents of globalization also take issue with the right of national political authorities to enter into binding international agreements on behalf of citizens. Critics charge that such agreements violate the rights of subfederal (local and state) governments. For example, state and local governments in the United States had no role in creating the North American Free Trade Agreement (NAFTA). Yet WTO rules require the U.S. federal government to take all available actions (including enacting preemptive legislation or withdrawing funding) to force subfederal compliance with WTO terms. Protesters say such requirements directly attack the rights and authority of subfederal governments.27

GLOBALIZATION: GUARDIAN OF DEMOCRACY? Globalization supporters argue that an amazing consequence of globalization has been the spread of democracy worldwide. In recent decades, the people of many nations have thrown off the chains of authoritarianism and are now better educated, better informed, and more empowered. Supporters say globalization has not sent democracy spiraling into decline but instead has been instrumental in spreading democracy to the world.

Backers of globalization also contend that it is instructive to take a long-term view on the issue of national sovereignty. Witnessing a sovereign state’s scope of authority altered is nothing new, as governments have long given up trying to control issues that they could not resolve. In the mid-1600s, governments in Europe surrendered their authority over religion because attempts to control it undermined overall political stability. Also, Greece in 1832, Albania in 1913, and the former Yugoslavian states in the 1990s had to protect minorities in exchange for international recognition. And over the past 50 years, the United Nations has made significant progress on worthy issues such as genocide, torture, slavery, refugees, women’s rights, children’s rights, forced labor, and racial discrimination. Like the loss of sovereignty over these issues, globalization supporters say lost sovereignty over some economic issues may actually enhance the greater good.28

Globalization’s Influence on Cultures

National culture is a strong shaper of a people’s values, attitudes, customs, beliefs, and communication. Whether globalization eradicates cultural differences between groups of people or reinforces cultural uniqueness is a hotly debated topic.

Protesters complain that globalization is homogenizing our world and destroying its rich diversity of cultures. Critics say that in some drab, new world we all will wear the same clothes bought at the same brand-name shops, eat the same foods at the same brand-name restaurants, and watch the same movies made by the same production companies.
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CULTURE MATTERS

The Global Consumer

The debate over globalization’s influence on culture evokes strong opinions. Some say globalization promotes sameness among cultures while others say it fosters cultural individuality. Here are a few main arguments in this debate.

• **Material Desire.** Critics say globalization fosters the “Coca-Cola-ization” of nations through advertising campaigns that promote material desire. They also argue that global consumer-goods companies destroy cultural diversity (especially in developing nations) by putting local companies out of business.

• **Artistic Influence.** Evidence suggests that the cultures of developing nations are thriving and that the influence of their music, art, and literature has grown (not shrunk) throughout the past century. African cultures, for example, have influenced the works of artists including Picasso, the Beatles, and Sting.

• **Western Values.** Businesses reach far and wide through the Internet, global media, increased business travel, and local marketing by international companies. Critics say local values and traditions are being replaced by U.S. companies promoting “Western” values.

• **A Force for Good.** Globalization tends to foster two important values: tolerance and diversity. Globalization advocates say nations should be more tolerant of opposing viewpoints and welcome diversity among their peoples. This view interprets globalization as a potent force for good in the world.

• **Deeper Values.** Globalization can cause consumer purchases and economic ideologies to converge, but these are rather superficial aspects of culture. Deeper values that embody the true essence of cultures may be more resistant to a global consumer culture.


But supporters argue that globalization allows us all to profit from our differing circumstances and skills. Trade allows countries to specialize in producing the goods and services they can produce most efficiently. Nations can then trade with each other to obtain goods and services they desire but do not produce. In this way, France still produces many of the world’s finest wines, South Africa yields much of the world’s diamonds, and Japan continues to design some of the world’s finest-engineered autos. Other nations then trade their goods and services with these countries to enjoy the wines, diamonds, and autos that they do not, or cannot, produce. To learn more about the interplay between culture and globalization, see this chapter’s Culture Matters feature, titled “The Global Consumer.”

Quick Study

1. What does the evidence suggest for each branch of the debate over globalization and income inequality?
2. What are each side’s arguments in the debate over globalization’s impact on national sovereignty?
3. Summarize the claims of each side in the debate over globalization’s influence on cultures.

Key Players in International Business

Companies of all types and sizes and in all sorts of industries become involved in international business, yet they vary in the extent of their involvement. A small shop owner might only import supplies from abroad, while a large company may have dozens of factories located around the world. Large companies from the wealthiest nations still dominate international business, but firms from emerging markets (such as Brazil, China, and India) are increasingly important in
international business activity. Small and medium-sized companies also account for a greater portion of international business largely because of advances in technology.

**Multinational Corporations**

A **multinational corporation (MNC)** is a business that has direct investments (in the form of marketing or manufacturing subsidiaries) abroad in multiple countries. 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 many of the smallest countries and island nations have citizens. Wal-Mart has 2,055,000 employees—the most of any company. We see the enormous economic clout of multinational corporations when we compare the revenues of the Global 500 ranking of companies to the value of goods and services that countries generate. Figure 1.2 shows the world’s 10 largest companies (measured in revenue) inserted into a ranking of nations according to their national output (measured in GDP). If Wal-Mart (www.walmart.com) were a country, it would weigh in as a rich nation and rank just below Switzerland. Even the nearly $17 billion in revenue generated by the 500th largest firm in the world, Fluor (www.fluor.com), exceeds the output of many countries.29

**Entrepreneurs and Small Businesses**

In this age of globalization, small companies are increasingly active in international trade and investment. Companies are exporting earlier and growing faster, often with help from technology. Whereas traditional distribution channels often gave only large companies access to distant markets, electronic distribution is a cheap and effective alternative for small businesses that sell...
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digitized products. Small companies that sell traditional products also benefit from technology that lowers the cost and difficulties of global communication.

Globalization has given rise to a new international entity, the born global firm—a company that adopts a global perspective and engages in international business from or near its inception. Key characteristics of born global firms are an innovative culture and knowledge-based organizational capabilities. Although these firms first appeared in nations having small domestic markets, today they arise from all major trading nations. Remarkably, many of these companies rise to the status of international competitor in less than three years.

Perhaps the extreme example of a born global firm is one that reaches out to customers around the world solely through the Internet. Alessandro Naldi’s Weekend a Firenze (Weekend in Florence) Web site (www.firenze.waf.it) offers global villagers more authentic Florentine products than they’ll find in the scores of overpriced tourist shops in downtown Florence. A Florentine himself, Naldi established his site to sell high-quality, authentic Italian merchandise made only in the small factories of Tuscany. Weekend a Firenze averages 20,000 visitors each month, with 40 percent coming from Japan, 30 percent from the United States, and the remainder from Greece, Australia, Canada, Mexico, Saudi Arabia, and Italy.30

Unfortunately, many small businesses capable of exporting have not yet begun to do so. By some estimates, only 10 percent of U.S. companies with fewer than 100 employees export—the number is twice as high for companies of all sizes. Although there are certain real obstacles to exporting for small businesses, such as a lack of investment capital, some common myths create artificial obstacles. To explore some of these myths and the facts that dispute them, see this chapter’s Entrepreneur’s Toolkit, titled “Myths of Small Business Exporting.”

Why International Business Is Special

As we’ve already seen in this chapter, international business differs greatly from business in a purely domestic context. The most obvious contrast is that nations can have entirely different societies and commercial environments. Let’s now take a moment to examine what makes international business special by introducing a model unique to this book—a model we call the global business environment.
The Global Business Environment

International business is special because it occurs within a dynamic, integrated system that weaves together four distinct elements:

1. The forces of globalization
2. The international business environment
3. Many national business environments
4. International firm management

The model in Figure 1.3 identifies each of these main elements and their subparts that together comprise the global business environment. Thinking about international business as occurring within this global system helps us understand its complexities and the interrelations between its distinct elements. Let’s now preview each of the four main components in the global business environment.

Globalization is a potent force transforming our societies and commercial activities in countless ways. Globalization, and the pressures it creates, forces its way into each element shown in Figure 1.3. In this way, the drivers of globalization (technological innovation and falling trade and investment barriers) influence every aspect of the global business environment. The dynamic nature of globalization also creates increasing competition for all firms everywhere, as managers begin to see the entire world as an opportunity. At home and abroad, firms must remain vigilant to the fundamental societal and commercial changes that globalization is causing.

The international business environment influences how firms conduct their operations in both subtle and not-so-subtle ways. No business is entirely immune to events in the international business environment, as evidenced by the long-term trend toward more porous national borders. The drivers of globalization are causing the flows of trade, investment, and capital to grow and...
become more entwined—often causing firms to search simultaneously for production bases and new markets. Companies today must keep their finger on the pulse of the international business environment to see how it may affect their business activities.

Each national business environment is composed of unique cultural, political, legal, and economic characteristics that define business activity within that nation’s borders. This set of national characteristics can differ greatly from country to country. But, as nations open up and embrace globalization, their business environments are being transformed. Globalization can cause powerful synergies and enormous tensions to arise within and across various elements of a society. Company managers must be attentive to such nuances, adapting their products and practices as needed.

International firm management is vastly different from managing a purely domestic business. Companies must abide by the rules in every market in which they choose to operate. Therefore, the context of international business management is defined by the characteristics of national business environments. Because of widely dispersed production and marketing activities today, firms commonly interact with people in distant locations within the international business environment. Finally, managers and their firms are compelled to be knowledgeable about the nations in which they operate because of the integrating power of globalization. Businesses should try to anticipate events and forces that can affect their operations by closely monitoring globalization, national business environments, and the international business environment.

The Road Ahead for International Business

The coverage of international business in this book follows the model of the global business environment displayed in Figure 1.3. In this chapter, we learned how globalization is transforming our world and how elements of the global business environment are becoming increasingly intertwined. As globalization penetrates deeper into the national context, every aspect of international business management is being affected.

In Part 2 (Chapters 2 through 4), we explore how national business environments differ from one nation to another. We examine how people’s attitudes, values, beliefs, and institutions differ from one culture to another and how this affects business. This section also covers how nations differ in their political, legal, and economic systems. This material is placed early in the text because such differences between countries help frame subsequent topics and discussions, such as how companies modify business practices and strategies abroad.

We describe major components of the international business environment in Part 3 (Chapters 5 through 8) and Part 4 (Chapters 9 and 10). Our coverage begins with an examination of trade and investment theories and why governments encourage or discourage these two forms of international business. We explore the process of regional economic integration sweeping the globe and outline its implications for international business. Finally, we discuss how events in global financial markets affect international business and how the global monetary system functions.

In Part 5 (Chapters 11 through 16), our coverage turns to ways in which international business management differs from management of a purely domestic firm. We explain how a company creates an international strategy, organizes itself for international business, and analyzes and selects the markets it will pursue. We explore different potential entry modes and then discuss how a firm develops and markets products for specific nations, regions, or the entire world. We then cover how international companies manage their sometimes far-flung international operations. The book closes by discussing how international firms manage their human resources in the global business environment.

Quick Study

1. Why do large multinational corporations dominate international business?
2. Explain why small companies and born global firms are increasingly involved in international business.
3. Describe the global business environment and how its main elements interact.
The main theme of this chapter is that the world’s national economies are becoming increasingly intertwined through the process of globalization. Cultural, political, legal, and economic events in one nation increasingly affect the lives of people in other countries. Companies must pay attention to how changes in nations where they do business can affect operations. In this section, we briefly examine several important business implications of globalization.

Harnessing Globalization's Benefits
People opposed to globalization say it negatively affects wages and environmental protection, reduces political freedom, increases corruption, and inequitably rewards various groups. Yet there is evidence that the most global nations have the strongest records on equality, the most robust protection of natural resources, the most inclusive political systems, and the lowest levels of corruption. People in the most global nations also live the healthiest and longest lives, and women there have achieved the most social, educational, and economic progress.

One thing the debate over globalization has achieved is a dialogue on the merits and demerits of globalization. What has emerged is a more sober, less naïve notion of globalization. Those on each side of the debate understand that it can have positive effects on people’s lives, but globalization cannot, by itself, alleviate the misery of the world’s poor. Both sides in the debate are now working together to harness the benefits of globalization while minimizing its costs.

Intensified Competition
The two driving forces of globalization (lower trade and investment barriers and increased technological innovation) are taking companies into previously isolated markets and increasing competitive pressures worldwide. And innovation is unlikely to slow any time soon.

As the cost of computing power continues to fall and new technologies are developed, companies will find it easier and less costly to manage widely dispersed marketing activities and production facilities. Technological developments may even strengthen the case for outsourcing more professional jobs to low-cost locations. As competition intensifies, international companies will increase their cooperation with suppliers and customers.

Wages and Jobs
Some labor groups in wealthy nations contend that globalization is forcing companies to join the “race to the bottom” in terms of wages and benefits. But to attract investment, a location must offer low-cost, adequately skilled workers in an environment with acceptable levels of social, political, and economic stability.

Rapid globalization of markets and production is making delivery a complex engineering task. And 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 players respond to such challenges. Logistic experts are helping 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 caused by globalization.

The Policy Agenda
Countless actions could be taken by developed and developing nations to lessen the negative effects of globalization. The World Bank calls on rich countries to (1) open their markets to exports from developing countries; (2) slash their agricultural subsidies that hurt poor-country exports; and (3) increase development aid, particularly in education and health. It calls on poor countries to improve their investment climates and improve social protection for poor people in a changing economic environment.

The Institute for International Economics (www.iie.com) proposed a policy agenda for rich nations on two fronts. On the domestic front, it proposes (1) establishing on-the-job training to help workers cope with globalization; (2) offering “wage insurance” to workers forced by globalization to take a lower-paying job; (3) subsidizing health insurance costs in case of lost work; and (4) improving education and lifetime learning. On the international front, it proposes (1) better enforcing labor standards; (2) clarifying the relation between international trade and environmental agreements; and (3) reviewing the environmental implications of trade agreements.

This chapter has only introduced you to the study of international business—we hope you enjoy the rest of your journey!
Chapter Summary

1. Describe the process of globalization and how it affects markets and production.
   - **Globalization** is the trend toward greater economic, cultural, political, and technological interdependence among national institutions and economies.
   - It is marked by “denationalization,” in which national borders are becoming somewhat less relevant.
   - The globalization of **markets** helps a company to (1) reduce costs by standardizing marketing activities, (2) explore international markets if the home market is small or saturated, and (3) level income streams, especially for makers of seasonal products.
   - The globalization of **production** helps a company to (1) access low-cost labor and become more price-competitive and (2) access technical know-how or natural resources nonexistent or too expensive at home.

2. Identify the two forces causing globalization to increase.
   - **Falling barriers to trade and investment** is one major force behind globalization.
     - Trade barriers have been drastically reduced through institutions such as the General Agreement on Tariffs and Trade and the World Trade Organization.
     - Groups of several or more nations are reducing trade barriers by creating regional trade agreements.
   - **Technological innovation** is a second main force driving globalization.
     - Companies can manage global business activities with the use of e-mail, videoconferencing, intranets, and extranets.
     - Technology increases the speed and ease with which companies can manage far-flung operations.
     - Innovations in transportation technologies are making the shipment of goods between nations more efficient and dependable.

3. Summarize the evidence for each main argument in the globalization debate.
   - Regarding **jobs and wages**, both sides agree that globalization causes dislocation in labor markets: those supporting globalization believe overall gains of national economies are worth lost jobs for individuals, but globalization critics do not.
   - Labor unions argue globalization causes a “race to the bottom” in **labor and environmental regulation**, though they lack supporting evidence.
   - Regarding inequality within nations, developing nations can boost incomes of their poorest citizens by integrating themselves into the global economy.
   - In the debate over **inequality between nations**, nations that embrace world trade and investment grow faster than rich nations, whereas sheltered economies become worse off.
   - Groups agree that **global inequality** has fallen in recent decades but differ on the extent of the drop.
   - In terms of **national sovereignty**, globalization has helped spread democracy worldwide and aided progress on many global issues.
   - Evidence suggests that **cultures** of developing nations are thriving in an age of globalization and that deeper elements of culture are not easily abandoned.

4. Identify the types of companies that participate in international business.
   - Entrepreneurs and small firms are increasingly active in international business because the Internet and other technologies help them overcome high advertising and distribution costs.
   - Large **multinational corporations (MNCs)** still conduct most international business transactions.
   - MNCs have great economic and political muscle, and their deals are often worth billions of dollars.
   - Globalization has given rise to the **born global firm**—a company that adopts a global perspective and engages in international business from or near its inception.
   - Born global firms tend to have an innovative culture and knowledge-based organizational capabilities.
   - Many born global firms rise to the status of international competitor in less than three years.
5. Describe the global business environment and identify its four main elements.
   • International business occurs within an integrated, global business environment consisting of four elements.
   • Globalization is transforming business and society and increasing competition for all firms.
   • The international business environment influences how firms conduct operations, while globalization further entwines the flows of trade, investment, and capital.
   • Separate national business environments comprise unique cultural, political, legal, and economic characteristics that define business activity within a nation.
   • International business management differs from management of a purely domestic firm in nearly all respects.

Talk It Over

1. Today, international businesspeople must think globally about production and sales opportunities. Many global managers will eventually find themselves living and working in cultures altogether different from their own. Many entrepreneurs will find themselves booking flights to places they had never heard of. What do you think companies can do now to prepare their managers for these new markets? What can entrepreneurs and small businesses with limited resources do?

2. In the past, national governments greatly affected the pace of globalization through agreements to lower barriers to international trade and investment. Is the pace of change now outpacing the capability of governments to manage the global economy? Will national governments become more or less important to international business in the future? Explain your answer.

Teaming Up

1. Research Project. Imagine that you and a group of your fellow classmates own a company that manufactures cheap sunglasses. To lower production costs, you want to move your factory from your developed country to a more cost-effective nation. Choose a prospective country to which you will move production. What elements of the national business environment might affect your move? Are there obstacles to overcome in the international business environment? How will managing your company be different when you undertake international activities? What challenges will you face in managing your new employees?

2. Market Entry Strategy Project. This exercise corresponds to the MESP online simulation. With a group of classmates, select a country that interests you. Describe its national flag: what do its colors and any symbols represent? Identify neighbors with which it shares borders. Give some important facts about the country, including its population, population density, land area, topography, climate, natural resources, and the locations of main industries. What does the nation produce? Do any aspects of the natural environment help explain why it produces what it does? Integrate your findings into your completed MESP report.

Key Terms

- born global firm 47
- e-business (e-commerce) 26
- exports 26
- GDP or GNP per capita 32
- General Agreement on Tariffs and Trade (GATT) 31
- globalization 28
- gross domestic product (GDP) 32
- gross national product (GNP) 32
- imports 26
- international business 26
- International Monetary Fund (IMF) 38
- multinational corporation (MNC) 46
- World Bank 38
- World Trade Organization (WTO) 31
Take It to the Web

1. **Video Report.** Visit this book’s channel on YouTube (YouTube.com/MyIBvideos). Click on “Playlists” near the top of the page, and click on the set of videos labeled “Ch 01: Globalization.” Watch one video from the list, and then summarize it in a half-page report. Reflecting on the contents of this chapter, which aspects of globalization can you identify in the video? How might a company engaged in international business act on the information contained in the video?

2. **Web Site Report.** In this chapter, we’ve seen how globalization is fundamentally changing business and society. Managers can be more effective if they know what drives globalization and are familiar with its positive and negative aspects.

   Select a controversial globalization topic that interests you, and visit the Web sites of two organizations that have opposing views on this topic. (Hint: You might begin by visiting an organization noted in this chapter.) For the topic you’ve chosen, report on the (1) specific argument(s) of each side, (2) evidence each side uses to support its position(s), and (3) policy agenda, if any, each side promotes.

   Which argument(s) do you agree with most? Have your views on this topic changed as a result of your research? If yes, explain how. Which types of firms/industries do you think this topic affects most? Explain. Write a short summary of your findings and include key Web sites you found helpful.

Ethical Challenges

1. You recently started a new job in a foreign country as manager of distribution for a busy seaport. On your first day of work, you are asked to sign for a shipment at the dock. Normally, there would be an official shipping fee of $1,000 for the delivery. The captain of the ship says that he is willing to forget about the official shipping paperwork and split the cost with you in exchange for a “tip.” This situation makes you feel uncomfortable, as you know that bribery is illegal and could easily cost you your job. What do you tell the ship captain? Do you take your half of the money and keep quiet, tell the captain that you cannot participate in such a deal and leave it at that, or do you report the captain to higher authorities?

2. You are the president of a Japanese textile manufacturer. Your company has recently decided to outsource production to a developing country to save on labor costs. Complaints have been arising from workers in the foreign plant that supervisors are verbally and sometimes even physically abusive. You have yet to visit the plant but have been hearing rumors that working conditions are poor and that plant safety is not up to the company standard. When you confront the managers in charge of this plant, they claim that labor conditions are acceptable and that the workers are only complaining in the hopes of receiving higher payment for their work. A local labor-advocacy group has made claims that your managers at the plant have threatened workers with incarceration and bodily harm if they reveal the conditions of the plant. How do you handle this situation? Do you take steps to improve working conditions, or do you simply shut down the plant? How might your actions affect your relations with officials in this country and your future ability to do business there?

3. You are the newly elected president of a developing country. In the past, your economic foreign policy did not favor importing goods from the global market. However, you feel that encouraging trade with foreign nations will benefit your country. What steps do you take to convince the public that this is the best policy? If you encounter public resistance to your plan, will you go ahead with it anyway? Why or why not?
Denmark is a country probably best known for its storytelling culture characterized by Hans Christian Andersen and his classic folk stories. Those fairy tales have for many years delighted youngsters from across the globe, seamlessly crossing language and cultural barriers. They are an art form that has inspired the country’s largest video game developer, IO Interactive. The 200-strong Copenhagen-based group of programmers, software engineers, animators, and mathematicians has created a number of critically acclaimed games such as Hitman, Kane & Lynch, and Freedom Fighters whose dark tales appeal to gamers from Boston to Beijing.

IO Interactive decided very early on after it was formed in 1998 that it wanted to target the international market. It did not have to look far to realize that the companies at the top of their game, so to speak, were the ones whose products held a worldwide appeal. Indeed, the perceived wisdom in the highly competitive industry is that the only way to survive, and indeed thrive, is to go for total globalization. This in itself has appeal to the youth market that buys games because young people are proud to be using a modern medium for the modern age. They love the fact that gaming is capable of hitting all the current buzz words as it crosses borders and encourages a rich mix of collaboration and user-generated content.

Most game companies have interpreted this as a sign that in order to successfully market games worldwide they must limit any overtly culturally distinct elements in their titles. Any references to local traditions, national literature, and musical identity are intentionally kept to a minimum. This is something IO Interactive very much bears in mind when devising its games, but, thanks to its rich storytelling roots, the company has been fortunate that it has not had to completely turn its back on its traditions. Indeed, the company has managed to make great use of its native culture of dark humor and fantasy, which perfectly suits the genre of games it designs and has significant appeal to young gamers worldwide.

This is not to say that IO Interactive has been able to completely ignore the sensibilities of the international audience, and sometimes the search for global appeal means including credible material from abroad. Thus, for the release of Kane & Lynch 2: Dog Days, which featured levels based in China, 23 different authentic-sounding Asian songs were written with vocals in Mandarin, backed with musicians performing with Chinese instruments including percussion, Shakuhachi, and Pipa. Game reviewers were bowled over by the international aspect, and one even compared the experience to watching a movie by famed Chinese film director John Woo.

IO Interactive is helped in its quest for international credibility by its highly diverse workforce of specialists hailing from 23 different countries. This is not unusual in this industry. Game developers are used to relocating and frequently transfer to different countries to find the work they want. This inevitably affects both the storylines and content of games as the newcomers are not imbued with local traits and have no strong pull to protect national identities.

Likewise, IO Interactive frequently dispatches its game developers to locations around the world to soak up that local culture and reflect it more accurately in their games. According to IO Interactive, the secret to creating good games is to get all the right ingredients together in one big stew and then stir the pot, which for any Hans Christian Andersen fan sounds like a very familiar tale indeed.

**Thinking Globally**

1. Some say globalization is homogenizing the attitudes and spending habits of young consumers worldwide. As one journalist puts it, “It may still be conventional wisdom to ‘think globally and act locally,’ but in the youth market, it is increasingly a case of one size fits all.” Do you agree or disagree? Why or why not?

2. Some critics say that although video games are designed to have a broad appeal, they do reflect a “Westernized” version of life. Is there a danger that teens exposed to large doses of video games will identify less with the cultures of their own societies and that teens in developing countries will want a Western lifestyle and goods they cannot afford?

3. It is now the norm for game developers to relocate to work anywhere in the world. Can you think of other social trends and technological innovations that have helped companies to think more globally?

4. Advances in technology often spur evolution in the entertainment industry. How might new products and services, such as the iPhone and YouTube, affect entertainment in years to come?

Appendix World Atlas

As globalization marches across the globe, international business managers can make more informed decisions if they know the locations of countries and the distances between them. This atlas presents the world in a series of maps and is designed to assist you in understanding the global landscape of business. We encourage you to return to this atlas frequently to refresh your memory, especially when you encounter the name of an unfamiliar city or country.

Familiarize yourself with each of the maps in this appendix, and then try to answer the following 20 questions. For each question, select all answers that apply.

**Map Exercises**

1. Which of the following countries border the Atlantic Ocean?
   a. Bolivia  
   b. Australia  
   c. South Africa  
   d. Japan  
   e. United States

2. Which of the following countries are found in Africa?
   a. Guyana  
   b. Morocco  
   c. Egypt  
   d. Pakistan  
   e. Niger

3. Which one of the following countries does not border the Pacific Ocean?
   a. Australia  
   b. Venezuela  
   c. Japan  
   d. Mexico  
   e. Peru

4. Prague is the capital city of:
   a. Uruguay  
   b. Czech Republic  
   c. Portugal  
   d. Tunisia  
   e. Hungary

5. If transportation costs for getting your product from your market to Japan are high, which of the following countries might be good places to locate a manufacturing facility?
   a. Thailand  
   b. Philippines  
   c. South Africa  
   d. Indonesia  
   e. Portugal

6. Seoul is the capital city of (capitals are designated with red dots):
   a. Vietnam  
   b. Cambodia  
   c. Malaysia  
   d. China  
   e. South Korea

7. Turkey, Romania, Ukraine, and Russia border the body of water called the ____________________ Sea.

8. Thailand shares borders with:
   a. Cambodia  
   b. Pakistan  
   c. Singapore  
   d. Malaysia  
   e. Indonesia

9. Which of the following countries border no major ocean or sea?
   a. Austria  
   b. Paraguay  
   c. Switzerland  
   d. Niger  
   e. all of the above

10. Oslo is the capital city of:
    a. Germany  
    b. Canada  
    c. Brazil  
    d. Australia  
    e. Norway

11. Chile is located in:
    a. Africa  
    b. Asia  
    c. the Northern Hemisphere  
    d. South America  
    e. Central Europe

12. Saudi Arabia shares borders with:
    a. Jordan  
    b. Kuwait  
    c. Iraq  
    d. United Arab Emirates  
    e. all of the above

13. The body of water located between Sweden and Estonia is the ____________________ Sea.

14. Which of the following countries are located on the Mediterranean Sea?
    a. Italy  
    b. Croatia  
    c. Turkey  
    d. France  
    e. Portugal

15. The distance between Sydney (Australia) and Tokyo (Japan) is shorter than that between:
    a. Tokyo and Cape Town (South Africa)  
    b. Sydney and Hong Kong (China, SAR)  
    c. Tokyo and London (England)  
    d. Sydney and Jakarta (Indonesia)  
    e. all of the above

16. Madrid is the capital city of:
    a. Madagascar  
    b. Italy  
    c. Mexico  
    d. Spain  
    e. United States
17. Which of the following countries is not located in central Asia?
   a. Afghanistan  
   b. Uzbekistan  
   c. Turkmenistan  
   d. Kazakhstan  
   e. Suriname

18. If you were shipping your products from your production facility in Pakistan to market in Australia, they would likely cross the __________ Ocean.

19. Papua New Guinea, Guinea-Bissau, and Guinea are alternative names for the same country.
   a. true  
   b. false

20. Which of the following countries are island nations?
   a. New Zealand  
   b. Madagascar  
   c. Japan  
   d. Australia  
   e. all of the above

**Answers**

(1) c. South Africa, e. United States; (2) b. Morocco, c. Egypt, e. Niger; (3) b. Venezuela; (4) b. Czech Republic; (5) a. Thailand, b. Philippines, d. Indonesia; (6) e. South Korea; (7) Black; (8) a. Cambodia, d. Malaysia; (9) e. all of the above; (10) e. Norway; (11) d. South America; (12) e. all of the above; (13) Baltic; (14) a. Italy, c. Turkey, d. France; (15) a. Tokyo and Cape Town (South Africa), c. Tokyo and London (England); (16) d. Spain; (17) e. Suriname; (18) Indian; (19) b. false; (20) e. all of the above.

**Self-Assessment**

If you scored 15 correct answers or more, well done! You seem well prepared for your international business journey. If you scored fewer than 8 correct answers, you may wish to review this atlas before moving on to Chapter 2.
MAP A.1

The World

This global view identifies each continent and acts as a reference for the six maps that follow.
MAP A.4
Europe
MAP A.7
Oceania