

INTERNATIONAL BUSINESS AND GLOBALISATION

What is international business?

International business is a generic term which describes:

- International business consists of all commercial transactions – including manufacturing, sales, investments, and transportation – that take place between two or more countries.
- “The study of transactions taking place across national borders for the purpose of satisfying the needs of individuals and organisations”.

Types of international business firm?

Different types of international business firms:

- **International exporters** – *companies that export their products or services into foreign markets*
- **International licensors** – *companies that license their technologies, products etc. abroad*
- **Foreign direct investors** – *companies that invest directly in overseas assets.*

Domestic V International Business?

Domestic business planning

- Normally single language, nationality, culture
- Relatively homogenous market
- Data often available, usually accurate and accessible
- Uniform tax/financial climate (single rate of interest; unified tax structures etc.)
- Single currency
- **Business “rules of the game” familiar & largely understood**
- Singular legal & political environment centred on national-level authority

International business planning

- Multilingual/multinational/ multicultural
- Relatively fragmented and diverse markets
- Data collection relatively difficult/ expensive
- Variety of tax/ financial climates
- Multiple currencies differing in stability and real value
- Rules diverse and unfamiliar

- Multiple legal/political environments and different authority levels

Barriers to International Business?

1. Language
2. Culture
3. Currency
4. Protectionism
5. Regulation & bureaucracy
6. Lack of capital
7. Knowledge deficits
8. Inadequate protection



What is Globalisation?

The world is moving away from self-contained national economies towards an interdependent, integrated global economic system

Globalization refers to the shift toward a more integrated and interdependent world economy

A paradigm shift?

Clarke & Clegg (2000) suggest that the integration of all forms of economic activity on a global basis – investment, R&D, production, distribution and marketing – represents a **“paradigm shift”** for individuals, firms and managers.

| | |
|---|--|
| Local/ national/ international | Global |
|  | |
| Separation Protection Immobility Local standards Local products | Integration Deregulation Mobility World standards World products |
|  | |

Drivers of Globalisation?

Increase in and application of technology

Liberalization of cross-border trade and resource movements

Development of services that support international business

Growing consumer pressures

Increased global competition

Changing political situations

Expanded cross-national cooperation

You may wonder what has been driving globalization. The answer is many different factors. One factor is technology. In recent years, **we've seen tremendous advances in** technology. The pace of new product development is faster than ever, and many companies are finding that in order to keep up, they need to team up with companies in other countries to gain financial resources or specialized capabilities. Firms are also finding that to justify their investments in new product development, they need to expand their sales to other markets.

Another factor driving globalization is the liberalization of cross-border trade. Today, most governments have reduced restrictions on cross-border trade giving their citizens access to a greater variety of goods and services at lower prices. Increased competition from foreign companies also encourages domestic producers to become more efficient. Governments hope that by opening their countries to trade, other countries will also lower trade barriers.

The development of new services that facilitate international business transactions have also increased further driving globalization. In addition, **today's consumers are more** informed about foreign products and services and are better able to afford more luxury items. Moreover, more consumers are able to comparison shop to find better deals worldwide. Companies look for growing markets where consumer pressures are highest such as China.

Intense global competition is also driving globalization. Today, companies continually look abroad to increase market share and reduce costs in order to better compete with other firms. Expansion abroad can take many forms: so-called born-global companies start **out with a global focus because of their founders' international experience and** because advances in communications give them a good idea of where global markets

and suppliers are. Related to this, many new companies locate in areas where there are many competitors and suppliers—a situation known as clustering—which helps them to become quickly aware of foreign opportunities.

Finally, changing political situations and increased cross-national cooperation have allowed international business to flourish. Countries of different political systems are more open than before to conducting international trade with each other. Governments are spending more resources on the improvement of infrastructure facilitating the transport of goods and resources. Furthermore, governments have realized the benefits of international cooperation. In particular, governments engage in international cooperation in order to gain reciprocal advantages, to attack problems jointly that one country acting alone cannot solve, and to deal with areas of concern that lie outside the territory of any nation.

The emergence of Global Institutions

Institutions are needed to:

- Help manage, regulate, and police the global marketplace
- Promote the establishment of multinational treaties to govern the global business system

Institutions created over the past half century include:

- the **World Trade Organization (WTO)**
- the **International Monetary Fund (IMF)**
- the **World Bank**
- the **United Nations (UN)**

Changing Nature of the Global Economy?

Demography

- 1.5 billion extra inhabitants in 2025 (+23%)
- 97% in developing countries
- 95% in cities

Economic size

- **World's largest economies**
- http://money.cnn.com/news/economy/world_economies_gdp/
- **BRICS' Economies e.g.**

China: Second largest (single) economy behind USA With a 2019 GDP equal to 2/3 of EU and more than 1/2 of USA's GDP

India: The sixth largest economy in 2019, similar to France

In the 1960s: the U.S. dominated the world economy and the world trade picture, U.S. multinationals dominated the international business scene, and about half the world-- the centrally planned economies of the communist world-- was off limits to Western international business.

Changing Nature of the Global Economy?

Trade relations will be rebalanced

Asia and EU positions as world trade leaders will be inverted

China now the largest exporter in the world and will account for 14% of world exports by 2025

Determinants:

- Changing demand patterns
- Competitive advantage
- Endowment in skilled labour

What does Globalisation mean for Firms?

Technological change means

- lower transportation costs
 - help create global markets and allow firms to disperse production to economical, geographically separate locations
- low cost information processing and communication
 - firms can create and manage globally dispersed production
- low cost global communications networks
 - help create an electronic global marketplace
- global communication networks and global media
 - create a worldwide culture and a global consumer product market

Microprocessors and Telecommunications: Major advances in communications and information processing have lowered the cost of global communication and therefore the cost of coordinating and controlling a global organization.

The Internet and the World Wide Web: Web-based transactions in the United States have grown from virtually zero in 1998 to nearly \$165 billion in 2010.

Transportation Technology: the most important developments are probably development of commercial jet aircraft and super freighters and the introduction of containerization, which greatly simplifies trans-shipment from one mode of transport to another.