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GLOBALIZATION

THE RISE OF INTERNATIONAL BUSINESS

Globalization is referred to as the method that is developing the world into an interdependent system. The process has been in the works since the early 1900's, beginning mainly with the merging of the U.S. steel and oil companies. Since then we have come a long way with many major achievements in just the last twenty years. A few of the major achievements discussed here, will be NAFTA, the European Union, the Pacific Rim and the African Union. There are discussions on international business management and international trade. Other factors that will be discussed are how competitive advantage; import-export balances and exchange rates are used by nation states to increase global business.

THE CONTEMPORARY GLOBAL ECONOMY

Agreements, alliances and treaties all have contributed to the rise of international business and trade. As government and businesses continue to collect the benefits of globalization they advance the process by offering incentives that reduce costs for domestic companies and promoting international trade agreements. The costs of international commerce, communication, and travel have all been drastically reduced in the past twenty years thanks to new technologies.

MAJOR WORLD MARKETPLACES

The three major marketplaces in the global economy are North America, Europe, and Pacific Asia. A major marketplace is a geographic area that has a large economy, big multinational corporations, influential financial market, and high-income consumers. Per capita income is used by the World Bank to divide nation states into one of three groups. Per capita income is the average salary earned per person.

1. High-income countries such as the United States, Canada, and Europe all have an average income above \$9,386.
2. Middle-income countries such as Greece, Poland, Mexico, and Hungary all have an average income between \$9,386 and \$765.
3. Low-income countries such as China, India, and Somalia all have an average income less than \$765.

The North American marketplace is controlled by the United States, which has the most stable economy in the world. Canada, which is the United States biggest trading partner, has been host to many U.S. firms for many years. Cheap labor and low transportation costs have brought many U.S. companies to Mexico. Together these countries have made up NAFTA, the North American Free Trade Agreement. NAFTA will eliminate tariffs and other trade barriers between these three countries over the next 15 years. In short it is an economic integration of the countries that will eventually lead to a social and political integration. It will likely soon be replaced by a larger agreement that will include all of North America, Central America, and South America.

The marketplace of Europe or the European Union (EU) is an ever-increasing area for international firms. The European Union is comprised of Denmark, Finland, Sweden, The Netherlands, Belgium, United Kingdom, Ireland, Germany, Austria, France, Italy, Portugal, Spain, Luxembourg, and Greece. This area has a large number of biotech, Internet and software startups. Recently votes have been made to include most of Eastern Europe in the EU. Countries such as Hungary, Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Slovenia, Malta, and Cyprus are projected to join the EU by the year 2004. Romania, Turkey and Bulgaria also plan on joining by 2007. The EU will remain a strong marketplace in the international community for years to come.

Another major world marketplace is Pacific Asia, which consists of Japan, China, Thailand, Malaysia, Singapore, Indonesia, South Korea, Taiwan, the Philippines, and Australia. Japan dominates this region along with South Korea and Taiwan. Some of these countries make up what is called the Association of Southeast Asian Nations (ASEAN). This association founded in 1967 will probably be expanded in the future to include all the countries of Pacific Asia and will include trade agreements similar to that of NAFTA.

One region that is not mentioned in the book is the African Union (AU). While it is not a major world marketplace Africa is taking the right steps to become a future member of the world marketplace. The AU is made up of 53 countries in Africa and one of its main objectives as stated by the Constitutive Act of the African Union established July 11, 2000 is, "Accelerate the political and socio-economic integration of the continent".

FORMS OF COMPETITIVE ADVANTAGE

There are three different advantages that determine what products a country will import and export. Two established forms of advantage are absolute and comparative. Absolute Advantage is the ability to produce something more efficiently than another country can. Comparative Advantage is the capability to produce some products more efficiently than others. A newer more intricate form of competitive advantage is National Competitive Advantage, which comes from four conditions, factor conditions, demand conditions, related and supporting industries, and firm strategies, structures and rivalries. All these conditions will influence a nation to trade internationally.

IMPORT –EXPORT BALANCES

International trade requires that a country's imports balance with its exports. There are two ways to figure out if imports and exports balance, balance of trade and balance of payments. Balance of trade is figured out by subtracting a nation's economic value of the products it exports from its economic value of the products it imports. A negative trade balance is called a trade deficit and a positive balance is called a surplus. The United States has large trade deficits, in the billions, with many countries. Balance of payments is the flow of money into or out of a country.

EXCHANGE RATES

Import-export balances are influenced by exchange rates. Exchange rate is the rate at which currency of one country is exchanged for the currency of another country. If the U.S. dollar is stronger than a Japanese Yen then fewer Japanese would buy American made products because they would be too expensive. If the U.S. dollar were too weak then you

would have the opposite effect. International companies must watch exchange rates closely. If the currency of the country they are based in becomes too strong it can mean that fewer people will be buying their products.

INTERNATIONAL BUSINESS MANAGEMENT

Here we will discuss the basic decisions that companies face when attempting to do business internationally. These are should the company go international, how involved should the company get with the county or countries it intends to do business in, and what structure should it structure its international organizations.

GOING INTERNATIONAL

There are four questions a company must be able to answer yes to before they go international. 1. Is there international demand for our product? 2. Can the product be changed to fit a foreign market? 3. Is the foreign business climate suited to imports? 4. Does the company have the skills and knowledge to do international business?

LEVELS OF INVOLVEMENT

Three levels of involvement are importer or exporter, international firms and multinational firm. Importers and exporters are the simplest level of involvement. Importers distribute and sell products to one or more foreign countries. Exporters buy products in foreign markets and resell them in their own country.

The next level of involvement, which some exporters and importers move into, is an international firm. These companies perform a lot of there business and manufacturing in foreign countries. International firms concerns, chiefly lie within the domestic country.

The highest level of involvement is a multinational firm. These companies are usually very large and don't have a domestic or international divisions. They are equally spread throughout the globe and affect the lives of hundreds of millions of customers. Ford, IBM, and Royal/Dutch Shell are a few multinational companies whose assets and revenues are above a \$10,000 billion dollars.

INTERNATIONAL ORGANIZATIONAL STRUCTURES

International organizational structures are normally dependent on the company's level of involvement. Here we will discuss five different types of international organizational structures including independent agents, licensing arrangements, branch offices, strategic alliances, and foreign direct investment.

Exporters often use Independent agents. An independent agents is a foreign individuals or organization that agrees to represent an exporters interests. They can represent many companies and don't usually focus on one type of product.

For more involvement a company might consider a licensing agreement. Licensing agreements give foreign companies exclusive rights to produce their product in that market. In this situation the exporter will receive a fee and royalties. Royalties are regular payments that are made to the license holder for the right to market the licensor's product. Royalties are usually based on a percentage of sales.

Companies that would like even more control over their products in foreign markets may open a branch office. Branch offices allow a company to send some of its own managers to oversea operations. They also offer customers a sense of security.

A strategic alliance is when a company gets a foreign partner to contribute about half of the resources needed to start a new business in the partner's country. They usually offer a mutual benefit to both of the contributors. Many countries require alliances to do business in their country.

When a firm buys assets in another country it is called a foreign direct investment. Many companies such as Dell, Disney, and Ford have all bought facilities in foreign countries for manufacturing their products.

BARRIERS TO INTERNATIONAL TRADE

The barriers to international trade can be grouped into three major areas, Social and cultural differences, Economic differences, and legal and political differences. A company's success is determined by how well it overcomes these differences.

SOCIAL AND CULTURAL DIFFERENCES

Language is an important issue to take into account for when making logos and signs in foreign countries. Menu adjustments may also be necessary if a particular food or ingredient is not acceptable to be served in another country. Additions to the menu may need to be done to make items desirable to foreign countries.

ECONOMIC DIFFERENCES

Unlike most subtle social and cultural differences economic differences are usually obvious. International firms must know how involved the government is with the industry that they deal. In communist countries like China and Vietnam where the government is heavily involved in every industry, firms must plan ahead to avoid costly disasters.

LEGAL AND POLITICAL DIFFERENCES

Tariffs, quotas, subsidies, local content laws and business practice laws are a few of the more familiar legal and political differences. Tariffs are taxes imposed on imported items. A quota is a restriction on the amount of products that can be imported into a country. An embargo is the strongest form of a quota that can ban exports and/or imports from an individual country. Subsidies are payments from the government to help domestic companies compete with foreign companies. Local content laws require that products sold in a country be partially made there. Regulations that govern business practices are called business practice laws. Practices that are legal in some countries are illegal in others. In some countries it is legal to bribe cartels and dump products. Dumping a product is when it is sold abroad for less than its cost of production.

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