Lecture Note
Globalization & International Business

IB 333 International Business 2015

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Chair World Trade Council of Wichita
Globalization Era #1: started in 15th – 18th C – age of exploration by European nations – invasions in pursuit of raw-materials/resources for industry development.

Globalization Era #2: started in 18th – 20th C – Industrial Revolution and rapid growth of Manufacturing Industries, Migrations of Labor, Steamships, Telegraph, Railways, MNC Exporting Odyssey, Dutch East India Company, Japan’s SogoShosha followed by Korea’s Chaebols.

Globalization ERA #3: started in the late 20th C – Old economic & business order changeth.
  o New business landscape and major shifts in the global economy after Oil Shocks.
    o Phase 1: 1974–1980s Oil Shock #1&II-OPEC sets Oil price NOT oil MNCs
      ▪ A blow to BIG 3 US Auto Industry and Competitiveness
      ▪ Rise of Japan and Germany as #2 & #3 Globally Competitive Nations

Globalization ERA #4: Carry-over from the late 20th C into 21st C– New World Economic & Business Order.
  o Phase 1: 2000+ BRIC [GoldmanSacks] Expanded to BRIC+KS (Korea +S Africa) Dharma deSilva join
  o Phase 2: 2010+ G20 Emerging Markets including BRICKS join JUG to share economic/ business power in a globally competitive trading system – accounts for over 80% of World Trade, FDI , World Output (GDP) and EMCs w China & Japan leading account for 75% world’s FOREX reserves - Historic!

Keywords: TRIAD [Ohmae] = Japan, USA, Germany+ JUG [DeSilva] =Japan, USA, Germany, Quintet = JUG. +China & India (DdeSilva) & BRIC [Goldman Sschs] = Brazil, Russia, India & China; BRICKS [DeSilva] = BRIC +Korea +S.Africa, CHINDIA[Ramesh] = China & India
Globalization: “Integration of Economies & Markets Across Cultures”

About globalization, Mahatma Gandhi once said:

“I do not want my house to be walled in on all sides and my windows to be closed. Instead, I want the cultures of all lands to be blown about my house as freely as possible. But I refuse to be blown off my feet by any.”

The winds have strengthened. Economies of the world have become increasingly integrated. Barriers to the flow of goods, services, capital, and labor have never been fewer. The ties that bind our economies together have never been mightier causing globalization to raise standards of living world-wide.

Globalization

The label on the sweater says "Made in Sri Lanka." but it's quite possible that the yarn came from a Korean producer, was woven and dyed in Taiwan, then cut, sewn, and assembled in Sri Lanka (with zippers and buttons from Japanese factories in China), and finished, inspected, and packed in Sri Lanka by an Indian inspecting company for a Thailand buyer to
ship to Wal-Mart. A decade ago, a dozen companies might have made independent decisions for making all this possible; today, a new breed of supply chain managers oversee all these decisions. They plan, monitor, and control everything – from negotiating delivery schedules to securing raw materials for each stage of production. They block capacities in factories, manage inter-factory shipments, arrange transportation, control inventories at all stages, assure quality, and ensure actual delivery of the final product to customers. They coordinate all the steps of the supply chain, as some manufacturing is done in distant factories. This new breed is managing the supply chain as a system of dispersed manufacturing with efficient logistics.

Globalization is leaving a lasting impression. While not perfect, globalization has been extremely successful. It has created millions of jobs, raised millions out of poverty and improved the quality of life in countries that once were considered incapable of contributing to the world economy. Indeed, the benefits of globalization and global outsourcing are far reaching. With shared interests in building robust markets, generating greater profits for all and building stronger relationships, East and West are more interdependent upon one another than ever before. Globalization has made the world a borderless ‘one-village’. 
What is Globalization: Perspectives?

- From a cultural perspective, it is the growth of cross-cultural understanding made possible by the increasing two-way flow of entertainment and news, and the development of human values that transcend those of any one culture. At the same time, it is also the erosion of local traditions and standards and their replacement by foreign ones.

- From an business/economic perspective, globalization is perceived as the creation of high-tech jobs in wealthy nations and the lifting from poverty of some three billion people or half the world’s population. At the same time, it is also perceived as the loss of jobs in wealthy nations and the exploitation of workers in poor nations.

- From a technological perspective, globalization is the spread of knowledge and the dramatic leaps in world communications and travel that has resulted in eradication of deadly diseases, saving of endangered species, the reduction of famine and the increase in world productivity to the benefit of all humankind. At the same time, it has also unleashed destructive forces leading to loss of species, spread of disease, environmental degradation, war, and terrorism.
Arguments for Globalization

- Promotes intense competition among multinational corporations (MNCs) and also makes local companies to be more competitive internationally.

- Makes governments more aware of the global impact of poor environmental policy.

- Promotes ethical behavior by MNCs in the area of wages, working conditions and pollution abatement, since they are vulnerable to global media coverage of their operations, and fear loss of market share resulting from negative publicity.

- Lifts all boats in the water – three billion people have been already raised out of poverty due to globalization.

- Improves the condition of women and reduces the wage gap between developed and developing nations.

- Creates more jobs for a nation overall, since it is more than offsets the loss of jobs in less competitive sectors by the creation of jobs in more competitive sectors.

- Advances cross-cultural understanding by exposing people all over the world to foreign books and magazines, movies, television programs, and news.
Arguments Against Globalization

- Triumph of giant companies who have the political and financial power to drive small rivals out of business.

- Destroys the environment by promoting environmentally unsustainable technologies.

- Often leads to a “race to the bottom” in labor and environmental standards as poor countries compete with each other in an attempt to attract MNCs by relaxing laws and lowering standards in order to get jobs for their citizens.

- Destroys jobs in wealthy and advanced economies as MNCs close plants in such countries and open them in developing countries where wages are lower.

- Widens the gap between rich and poor both within and between nations.

- May lead to political, economic, and cultural Americanization of the world.

- Shifts power from national governments towards undemocratic supranational institutions (e.g., the World Trade Organization (WTO), the World Bank, the International Monetary Fund (IMF), the European Union (EU), etc.)
Globalization is the shift towards a more integrated and independent world economy.

- The globalization components are:
  - The globalization of markets
  - The globalization of production
  - The globalization of financial markets
  - The globalization of technology
  - The globalization of HR skills
Globalization Drivers

- **Market Drivers**
  - Common Customer Needs
  - Global Customers
  - Global Channels
  - Transferable Marketing

- **Competitive Drivers**
  - Global Competition
  - Global distribution

- **Cost Drivers**
  - Economies of Scale
  - Economies of Scope
  - Sourcing Advantages

- **Technology Drivers**
  - Production Technology
  - Telecommunications
  - Internet

- **Government Drivers**
  - Free Trade
  - Global Standards
  - Regulations

**Globalization Drivers**

- **Global Market Drivers**
  - Common customer needs
  - Expanding global customers
  - Global market channels
  - Marketing transfers and global branding
Globalization Drivers

• **Production & Supply Chain Cost Drivers**
  - Taking advantage of economies of scale & scope
  - Sourcing efficiencies
  - Production factor cost differences
  - Product development costs
  - Application of rapidly changing economies

• **Government and Multilateral Drivers**
  - Role of GATT/WTO in trade liberalization
  - Unrestrictive trade and investment policies
  - Compatibility of technical standards

• **Competitive Advantage Drivers**
  - Global competitors in trade and investment
  - Interdependence among nations
  - Shrinking product life cycles and technology advances
  - Imports compete with domestic products

• **Human Resource Skills Drivers**
  - Readily available engineers and scientists abroad

• **Globalization of Technology Use**
  - Mergers & Acquisitions of complementary technologies
  - Access to the global phenomenon of shared technologies
  - Integration of company operations with new technologies of rivalry
Globalization Drivers

- Capital flows and International Finance Drivers
- Information, Communication and Transportation Drivers
- Competitive advantage drivers
- Global competitors in trade and investment
- Interdependence among nations
- Shrinking product life cycles and technology advances
- Imports compete with domestic products
- Human resource skills drivers
- Readily available engineers and scientists abroad
- Globalization of technology use
- Mergers & Acquisitions of complementary technologies
- Access to the global phenomenon of shared technologies
Global Market Drivers

- Integration of company operations with new technologies of rivalry
- Common customer needs
- Expanding global customers
- Global market channels and logistics
- Marketing transfers and global branding
- Production & Supply Chain Cost Drivers
- Taking advantage of economies of scale & scope
- Sourcing efficiencies
- Production factor cost differences
- Product development costs
- Application of rapidly changing economies
- Government and Multilateral Drivers
- Role of GATT/WTO in trade liberalization
- Unrestrictive trade and investment policies
- Compatibility of technical standards
- Infrastructure and Absorptive Capacity
# Impact of Globalization

## Positive Impact
1. Technology and Communications
2. Open Markets
3. Economic Integration
4. Peace, political stability & co-existence
5. Ability to Compete
6. Global Strategy Focus
7. Trade Liberalization
8. Industrialization/ Economic Growth
9. Supranational Agency [e.g. IMF, UN, WB] influence
10. ‘Lifts all boats in sea’: Entrepreneurs, skills, new jobs, reduce poverty via GSC, Trade & FDI in NDC’s - Creation of new wealth

## Negative Impact
1. Culture and Outside Influences
2. Market/Trade Barriers
3. National Barriers
4. War, political risk/tensions
5. Inability to Compete
6. National/Local Focus
7. Protectionism
8. Environmental issues Rapid Industrialization
9. Power shifts from national Governments
10. Job loss in developed nations as MNCs/FDI shifts to NDCs lower wages –
Globalization’s Gift to World’s Economic Growth, Markets and Standards of Living

- The Changing World Output and World Trade Picture
- The Changing Foreign Direct Investment Picture
- The Changing Nature of the Multinational Enterprise – both US & Rest of the World
- The Changing World Order & Trading System from Triad’s JUG to BRICKS QUINTET+G20 Emerging Markets
- The Advancing Technologies, Best Practices, Job Creation
- The Growth of an affluent middle class and alleviation of poverty

Continuing TRENDS towards unstoppable GLOBALIZATION

Two macro factors underlie the trend toward greater globalization & prosperity:

1. Declining Trade and Investment Barriers
2. The Role of Technological Change
3. The age of collaboration & co-creation - mandate for RTA/FTAs

THE EMERGENCE OF GLOBAL INSTITUTIONS e.g. G20; IMF, WB, UNTACD, WTO

Global institutions:
- Help manage, regulate, and police the global market place
- Promote the establishment of multinational treaties to govern global business system
- Political stability, co-existence and peace
QUINTET adds and redistributes TRIAD shares of past 3 decades, from:

- 65% of World Trade concentrated in the TRIAD power [USA, Germany/EU4 & Japan] increases to 75%
- 70% of investment flows among the TRIAD nations, increased to 80% FDI Stock.
- 60% of World GDP accounted by TRIAD increased to 70%.
- 65% of all Mergers & Acquisitions in TRIAD increased to 75%.

QUINTET in 2008
- China & India joins the TRIAD to form a QUINTET Power in the 21st Century.
- QUINTET holds 50% of World Population (TRIAD - 15%) and 60% of World Foreign Exchange Reserves (TRIAD - 25%)

DdeSilva/aa-psq CIBA Dec 08
BRICKS* RESHAPE GLOBAL ECONOMY, TRADE AND COMPETITION

BRICKS Geographic & Economic Profile

USA
- 4.5% of world population (305mil)
- 22% of world GDP (nominal) $13.9tr
- 21% of world GDP (PPP) $14.3tr
- 7.5% of world trade (ex) $1302bil
- $47,025 Per Capita GDP (PPP)

BRAZIL
- 21% of world population (205mil)
- 5% of world GDP (nominal) $1.7tr
- 3% of world GDP (PPP) $2.0tr
- 4% of world trade (ex) $170bil
- $9,670 Per Capita GDP (nominal)
- $16,290 Per Capita GDP (PPP)

GERMANY
- 1.2% of world population (82mil)
- 6% of world GDP (nominal) $3.8tr
- 4% of world GDP (PPP) $2.9tr
- 9.3% of world trade (ex) $1625bil
- $46,939 Per Capita GDP (nominal)
- $36,192 Per Capita GDP (PPP)

RUSIA
- 2% of world population (141mil)
- 3% of world GDP (nominal) $1.8bil
- 3% of world GDP (PPP) $2.3tr
- 2.5% of world trade (ex) $448bil
- $12,578 Per Capita GDP (nominal)
- $16,150 Per Capita GDP (PPP)

JAPAN
- 0.7% of world population (128mil)
- 8% of world GDP (nominal) $4.8tr
- 6% of world GDP (PPP) $4.4tr
- 4.3% of world trade (ex) $82bil
- $37,940 Per Capita GDP (nominal)
- $34,501 Per Capita GDP (PPP)

KOREA
- 0.7% of world population (49mil)
- 2% of world GDP (nominal) $954bil
- 2% of world GDP (PPP) $1.3tr
- 2.5% of world trade (ex) $448bil
- $19,837 Per Capita GDP (nominal)
- $26,341 Per Capita GDP (PPP)

CHINA
- 29% of world population (1.3bil)
- 7% of world GDP (nominal) $4.2tr
- 11% of world GDP (PPP) $7.9tr
- 8% of world trade (ex) $1.5tr
- $3,410 Per Capita GDP (nominal)
- $9,943 Per Capita GDP (PPP)

INDIA
- 18% of world population (1.2bil)
- 4% of world GDP (nominal) $3.2tr
- 5% of world GDP (PPP) $3.5tr
- 1% of world trade (ex) $170bil
- $1,843 Per Capita GDP (nominal)
- $2,786 Per Capita GDP (PPP)

SOUTH AFRICA
- 0.7% of world population (49mil)
- 0.5% of world GDP (nominal) $230mil
- 6.7% of world GDP (PPP) $0.5tr
- 6.5% of world trade (ex) $20bil
- $6,178 Per Capita GDP (nominal)
- $18,478 Per Capita GDP (PPP)

GDP Per Capita (Nominal)
- Low - Less than $750
- Lower Middle - $750-$3000
- Upper Middle - $3000-$10000
- High - more than $10000

Data: psg 2009  Source: World Bank, IFS - IMF Data  *BRICKS = Brazil + Russia + India + China + Korea + SouthAfrica
Globalization - In terms of World Output (GNP) World Trade & FDI Flows:
(a) TRIAD (JUG) 1980-2000 accounted for 60% to 65% Global share w/10% Population
(b) JUG joined by China & India 2000s formed QUINTET to account 70% w/ 50% Population
(c) BRICKS + MINT w/other G20 Big Emerging Markets account for 75% of World Trade FDI & FTAs; 90% Global Output/GDP; 80% FOREX Reserves (of which CHINA + JAPAN owns 55% w/50% World MiddleClass this decade)
Anatomy of Tariffs, 1930-2006

1929-1930 Smoot-Hawley Act raised US Tariffs by average 53%, world retaliated by raising tariffs, US and world trade plummeted and caused the great depression in 1930s

1934 US Reciprocal Trade Agreement Act set the stage for trade liberalization

1934-1947 Pre-Gatt rounds average cut of tariffs was 32.2% by 23 nations, followed by 8 GATT Rounds, viz:

1. 1947 Geneva cut avg tariffs by 21% [23]
2. 1949 Anneey cut tariffs by 1.9% [13]
3. 1950/51 Torquay cut tariffs by 3% [38]
4. 1955 Geneva cut tariffs by 3.5% [26]
5. 1961 Dillon Geneva cut 2.4% [26]
6. 1962 Kennedy Round cut 36% [62]
7. 1974-79 Tokyo Round cut 29% [99]
8. 1987-94 Uruguay Round cut 38% [125]

[Compared to 1934-1947, average tariffs of 68% was down to 13% and continued, by 2000s Gatt Uruguay Round that began in 1994 brought average Tariffs down to 4% - gave birth to the World Trade Organization – resultant increases in world trade to over $1.6 trillion [2006] and similarly $ 1.7 tn FDI flows [2008], both increasing at a faster rate than world output.

Sources: IMF Financial Statistics, UNCTAD Database, WTO
GLOBAL FDI RECOVERY DERAISLS -Highlights

- Global foreign direct investment (FDI) inflows declined by 18% in 2012, to an estimated US $1.3 trillion (figure 1) – a level close to the trough reached in 2009 – due mainly to macroeconomic fragility and policy uncertainty for investors.
- The FDI recovery that had started in 2010 and 2011 will take longer than expected. FDI flows could rise moderately over 2013-2014, although significant risks to this scenario persist.
- The strong decline of FDI flows present a stark contrast or other macroeconomic variables, including GDP, trade and employment growth which remain in positive territory.

Figure 1 – Global FDI inflows, averages 2005-2007, 2007-2014
(Trillions of US dollars)

Source: UNCTAD; * Revised, ** Estimates, ***Forecast

- In developed countries FDI flows fell drastically to values last seen almost ten years ago. The majority of EU countries saw significant drops in FDI flows with the total fall amounting to some US$150 billion. United States FDI flows also fell by US $80 billion.
- FDI flows to developing economies, for the first time ever, exceeded those to developed countries, by some US $130 billion. FDI flows to developing economies remained resilient, declining only 3%. Flows to developing Asia lost some momentum, although they remained at historically high levels. Latin America and Africa saw a small increase.
- Cross-border merger and acquisition (M&As) data shows that developed country investors are divesting massively while investors from developing countries are bucking the trend. Their share in cross-border M&A purchases rose to a record 37%.
Figure I.1. FDI inflows, global and by group of economies, 1995–2013 and projections, 2014–2016
(Billions of dollars)


## GLOBAL FOREIGN EXCHANGE MARKET TURNOVER

*(Daily averages in April in US$ billion)*

<table>
<thead>
<tr>
<th>Instrument</th>
<th>2013</th>
<th>2010</th>
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<tbody>
<tr>
<td>Foreign exchange instruments</td>
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<td>Spot transactions</td>
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<td>Outright forwards</td>
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<td>475</td>
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<td>FX swaps</td>
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<tr>
<td>Currency swaps</td>
<td>54</td>
<td>43</td>
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<tr>
<td>Options and other products</td>
<td>337</td>
<td>207</td>
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**Turnover at April 2013 FX**  
5,345  
3,969
The Top 10 Largest Economies in the World

List of the top 10 largest economies by nominal GDP from 2010 to 2050 (in current USD)

<table>
<thead>
<tr>
<th>2010 Rank</th>
<th>Country</th>
<th>GDP</th>
<th>2030 Rank</th>
<th>Country</th>
<th>GDP</th>
<th>2050 Rank</th>
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<td>45,901</td>
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<td>France</td>
<td>2,605</td>
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<td>Brazil</td>
<td>8,780</td>
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<td>United Kingdom</td>
<td>13,846</td>
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List of the top 10 largest economies by nominal GDP from 2010 to 2050 (in current USD)

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<tr>
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<td>2</td>
<td>Hong Kong</td>
<td>116,639</td>
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<tr>
<td>3</td>
<td>United States</td>
<td>45,511</td>
<td>3</td>
<td>Taiwan</td>
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<td>Hong Kong</td>
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<td>Republic of Korea</td>
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<td>5</td>
<td>Switzerland</td>
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<td>6</td>
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<td>Saudi Arabia</td>
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<td>Austria</td>
<td>90,158</td>
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List of the top 10 richest countries by GDP per capita in 2010 and 2050 (in current USD)

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<td>40,525</td>
<td>7</td>
<td>Canada</td>
<td>96,375</td>
</tr>
<tr>
<td>8</td>
<td>Austria</td>
<td>39,073</td>
<td>8</td>
<td>United Kingdom</td>
<td>91,130</td>
</tr>
<tr>
<td>9</td>
<td>Canada</td>
<td>38,640</td>
<td>9</td>
<td>Switzerland</td>
<td>90,956</td>
</tr>
<tr>
<td>10</td>
<td>Sweden</td>
<td>36,438</td>
<td>10</td>
<td>Austria</td>
<td>90,158</td>
</tr>
</tbody>
</table>

**Waxing and waning**

Top three countries by economic dominance, % share* of global economic power

<table>
<thead>
<tr>
<th>1870</th>
<th>1973</th>
<th>2010</th>
<th>2030 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Britain</td>
<td>16.4</td>
<td>18.6</td>
<td>13.3</td>
</tr>
<tr>
<td>Germany</td>
<td>9.3</td>
<td>8.0</td>
<td>6.9</td>
</tr>
<tr>
<td>France</td>
<td>8.3</td>
<td>8.0</td>
<td>6.9</td>
</tr>
</tbody>
</table>

Source: Arvind Subramanian

*Weighted by share of world GDP, trade and net capital exports
The New-World-Order Challenges Facing Global Business and Marketing

- Adopting the new rules of global engagement
- Understanding the new global economic architecture
- Matching the needs of new global consumers
- Forging long-term profitable relationships with strategic partners
- Achieving global competitiveness through value innovation
- Harnessing new technologies to engage consumers and achieve global efficiency
- Managing knowledge assets as a source of competitive advantage
- Assuming corporate social responsibilities to achieve win–win for all stakeholders
- Organizing for global marketing

Global marketers must have the competence in dealing with a number of strategic and day-to-day decisions on various level of complexity. These decisions are grouped into three areas, as illustrated in Lee & Carter: Global Marketing Management

- Developing analytic competence
- Developing strategic and managerial competences
- Developing Operational Competence in Exporting and New Modes of Entry
### What is “New World Order”?
- Traditional Boundaries No Longer Exist
- Roles, Rules, Relationships Change
- Funding Model of Past is Invalid
- Interactive, Dynamic, Learner Controlled
- Commercial and Noncommercial Blur
  “The Edge of Chaos and Order”

### Survival in the New World Order
- Business Approach
- Assigning Real Costs Against Revenue
- Including Share of Overhead
- Prioritizing New Services
- Value of Outside Consultant

---

**Global Competition**

- Businesses must accept the fact that, to prosper, they must view customers, suppliers, facility locations, and competitors in global terms.
- Most products today are composites of materials and services from all over the world.
- Forces that created increased global competition:
  - Improved transportation and communication technologies
  - Loosened regulations on financial institutions
  - Increased demand for imported services and goods
  - Reduced import quotas and other trade barriers
  - Comparative cost advantages
Six global trends shaping the business world: Emerging markets increase their global power

- Leading emerging markets will continue to drive global growth
- Estimates show that **70% of world growth over the next few years** will come from emerging markets, with China and India accounting for 40% of that growth.
- As emerging market countries gain in stature, new companies are taking center stage – **disruptive force in the global competitive landscape**
- **Rising population and prosperity drive new consumer growth and urbanization** – the combined purchasing power of the global middle classes is estimated to more than double by 2030 to US$56 trillion. Over 80% of this demand will come from Asia. **Global influence grows**
- Emerging markets will become the new battleground as competitors
- **BRICKS, G20**' growing economic strength is leading to greater power to influence world economic policy
Unprecedented
Emerging-market share of world GDP*

%-point change on previous year

Source: IMF
*At purchasing-power parity

Global balance
Economies’ share of world GDP, %
At market exchange rates

Developed

Emerging

Forecast

Emerging economies’ world share
2010, %

Population
Mobile-phone subs.
Forex reserves
Steel consumption
Copper consumption
CO₂ emissions
Motor-vehicle sales
Oil consumption
GDP at PPP*
Inward FDI†
Exports
Fixed investment
Imports
Retail sales
GDP at market rates
Stockmarket cap.
Consumer spending
Outward FDI†
Financial assets
Fortune Global 500
Public-sector debt

Sources: AT Kearney; Bloomberg; BP; dotMobi; Fortune; IMF; UBS; UN; World Bank; World Steel Association; WTO

*Purchasing-power parity
†Foreign direct investment
Chart 3 in PWC study shows that:

- The E7 Emerging countries could overtake the G7 Developed countries as early as 2017 in PPP terms. This rapid convergence between these two groups of economies has been accelerated by the fact that the developed countries have been much slower to recover from the recession of 2008-9, whilst the emerging economies have been relatively insulated despite some slowdown in 2011-12.

- The gap between the E7 and G7 countries is projected to continue to widen after 2017 - the E7 countries could potentially be around 75% larger than the G7 countries by the end of 2050 in PPP terms. What this means to Global Marketing?
Table 4: Opportunities and challenges in emerging markets

<table>
<thead>
<tr>
<th>Opportunities for:</th>
<th>Challenges for:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Retailers with strong franchise models</td>
<td>• Mass market manufacturers (both low-tech and increasingly hi-tech as China and others move up market)</td>
</tr>
<tr>
<td>• Global brand owners</td>
<td>• Financial services companies exposed in their domestic markets</td>
</tr>
<tr>
<td>• Business and financial services</td>
<td>• Companies that over commit to emerging markets without the right local partners and business strategies</td>
</tr>
<tr>
<td>• Creative industries</td>
<td></td>
</tr>
<tr>
<td>• Healthcare and education providers (e.g. top UK universities)</td>
<td></td>
</tr>
<tr>
<td>• Niche high value added manufacturers</td>
<td></td>
</tr>
</tbody>
</table>

Source: PwC assessment (based on analysis for the UK but potentially applying to advanced Western economy companies more generally)
PWC model projects Mexico and Indonesia top 10 largest economies - ranking 7th and 8th by 2050 in terms of GDP at PPPs. Russia could overtake Germany well before 2030 to become the largest European economy, Brazil before 2050. Nigeria and Vietnam are projected to move into the top 20 by 2050 at 13th and 19th place respectively. Malaysia remains just outside the top 20 given its relative small population compared to the other emerging economies considered here, but nonetheless has strong growth potential.
Evolution of the Global Economy

Phase 1
Entrepreneurial Capitalism
(1770-1875)
- Small, local or national, mainly competitive
- National
- Natural resources and relatively unskilled labor
- Factory, small firms
- Free market, small public sector
- Classical trade, very little foreign production
- United Kingdom
  Source: Dr. John Dunning, Reading University

Phase 2
Hierarchical Capitalism
(1876-1980)
- National or international oligopolistic
- International
- Physical capital
- Large, integrated corporate hierarchy
- Increasing regulation
- FDI, growth of intra-industry trade
- United States

Phase 3
Alliance Capitalism
(1981-?)
- Regional and global dynamic and competitive
- Extensive/global
- Intangible assets, e.g., knowledge
- Growing inter-firm alliances, corporate networks
- Systemic and market regulation
- Substantial FDI, or intra-firm trade, cross-border alliances
- No single power

Banking behemoths
World's top ten banks, latest

<table>
<thead>
<tr>
<th>Bank</th>
<th>Assets $bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tokyo Mitsubishi</td>
<td>912.0</td>
</tr>
<tr>
<td>2. Santand</td>
<td>522.2</td>
</tr>
<tr>
<td>3. Dai-Ichi Kangyo</td>
<td>387.6</td>
</tr>
<tr>
<td>4. Fuji</td>
<td>377.1</td>
</tr>
<tr>
<td>5. Sumitomo</td>
<td>505.0</td>
</tr>
<tr>
<td>6. Sakura</td>
<td>559.5</td>
</tr>
<tr>
<td>7. Deutsche Bank</td>
<td>692.4</td>
</tr>
<tr>
<td>8. Industrial Bank of Japan</td>
<td>433.3</td>
</tr>
<tr>
<td>9. Nomitchun</td>
<td>429.5</td>
</tr>
<tr>
<td>10. Long-Term Credit Bank of Japan</td>
<td>371.0</td>
</tr>
</tbody>
</table>

A Steady Upward Climb
Total venture capital under management in the U.S., in billions of dollars

Government Financial Assistance to Exporters, 1993

(in billions)

Source: International Trade Administration, U.S. Department of Commerce
Euro Zone Suffers From China Syndrome

Widening Trade Imbalance Takes a Toll on European Economies

**Nowhere to Hide**

Europe's trade gap with China... EU trade balance with China and Hong Kong, in billions

Has grown faster than that of the U.S... U.S. trade balance with China and Hong Kong, in billions

As the euro has soared
Number of Chinese yuan per euro, monthly data

*Barclays Capital forecast
Sources: Eurostat, U.S. Commerce Dept, Barclays Capital
Views of Globalization

Do you believe that globalization, especially the increasing connections of our economy with others around the world, is mostly good or mostly bad for [survey country]?

<table>
<thead>
<tr>
<th>Country</th>
<th>Mostly good</th>
<th>Mostly bad</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>60</td>
<td>35</td>
</tr>
<tr>
<td>Argentina</td>
<td>55</td>
<td>22</td>
</tr>
<tr>
<td>Mexico</td>
<td>41</td>
<td>22</td>
</tr>
<tr>
<td>Armenia</td>
<td>65</td>
<td>18</td>
</tr>
<tr>
<td>Ukraine</td>
<td>55</td>
<td>11</td>
</tr>
<tr>
<td>Poland</td>
<td>52</td>
<td>21</td>
</tr>
<tr>
<td>France</td>
<td>51</td>
<td>42</td>
</tr>
<tr>
<td>Russia</td>
<td>41</td>
<td>24</td>
</tr>
<tr>
<td>Israel</td>
<td>82</td>
<td>10</td>
</tr>
<tr>
<td>Iran</td>
<td>63</td>
<td>31</td>
</tr>
<tr>
<td>Palest. terr.</td>
<td>58</td>
<td>28</td>
</tr>
<tr>
<td>China</td>
<td>87</td>
<td>6</td>
</tr>
<tr>
<td>South Korea</td>
<td>86</td>
<td>12</td>
</tr>
<tr>
<td>Thailand</td>
<td>75</td>
<td>8</td>
</tr>
<tr>
<td>Australia</td>
<td>65</td>
<td>27</td>
</tr>
<tr>
<td>Indonesia</td>
<td>61</td>
<td>31</td>
</tr>
<tr>
<td>India</td>
<td>54</td>
<td>30</td>
</tr>
<tr>
<td>Philippines</td>
<td>49</td>
<td>32</td>
</tr>
</tbody>
</table>

WPO/CCGA