2. Globalization of Markets

Asst. Prof. Dr. Ilke Kardes
Read chapter 2
Overview on Globalization of Markets

Framework of Market Globalization
  ▪ Drivers of Market Globalization
  ▪ Dimensions of Market Globalization

Consequences of Market Globalization
Market Globalization

Societal Consequences

- Contagion: Rapid spread of financial or monetary crises from one country to another
- Loss of national sovereignty
- Offshoring and the flight of jobs
- Effect on the poor
- Effect on the natural environment
- Effect on national culture

Firm-level Consequences

- Countless new business opportunities
- New risks and intense rivalry from foreign competitors
- More demanding buyers who source from suppliers worldwide
- Greater emphasis on proactive internationalization
- Internationalization of firm’s value chain

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Market Globalization

Societal Consequences

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(1) Contagion: Rapid spread of financial or monetary crises from one country to another

Pricing bubbles’ in housing and commodities markets ➔ recession ➔ poverty

% change in annual GDP growth

Source: World Bank - World Development Indicators, Sep 2015
Over the past decade, multinational tobacco firms have increasingly aimed their formidable lobbying prowess at weak governments in fast-growing nations.

Their goals seem clear enough to public health experts: derail no-smoking laws and advertising prohibitions in countries rich with potential new smokers, especially among women and youths.

Much of the industry growth is in China, by far the world’s largest tobacco market, as well as places like Russia, Indonesia, and India – nations where cigarettes are at least $3 cheaper per pack than in the United States or Western Europe.

Source: The Center for Public Integrity 2010, “Overview: The tobacco lobby goes global,” Nov 15

(3) Offshoring and the flight of jobs

Shifting production of goods and services abroad

Trans Pacific Partnership (TPP) - Member Countries

A man protesting the TPP holds a sign over U.S. Trade Representative Michael Froman, Washington, Jan 27, 2015

(Source: IB Times 2015, “US Senate Finance Committee Approves Trade Bill Key To Finalizing Trans-Pacific Partnership Deal,” Apr 23)

(4) Effect on the poor

Paying low wages and child labor

Sialkot, Pakistan: Production facility for sport goods of Nike, Adidas, Puma. Source: Spiegel 2010, Mar 16

The Cobalt in Your Smartphone Battery Could Have Been Mined By Children on $1 a Day

Some of the cobalt found in lithium-ion batteries used by global technology and car companies can be traced to mines in the Democratic Republic of Congo, where children, some as young as 7, labor for up to 12 hours a day. Source: Time 2016, Jan 19


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An electronic screen out through heavy smog that obscured the skyline in Shenyang, Liaoning province, China, Oct 28, 2013 (Source: Wall Street Journal)

The New York Times

Study Links Polluted Air in China to 1.6 Million Deaths a Year

By DAN LEVIN Aug 13, 2015

BEIJING — Outdoor air pollution contributes to the deaths of an estimated 1.6 million people in China every year, or about 4,400 people a day, according to a newly released scientific paper.

(6) Effect on national culture

National identity may be lost to ‘global’ culture.

Traditional Turkish dining habit

McDonald's in Turkey
Market Globalization

Firm-level Consequences

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- Intl. of firm’s value chain
• Survival for many Japanese companies may depend on their ability to greatly increase overseas revenues and profits, given demographic and economic trends that suggest slower or stagnant growth in the home market.

• Even Japanese companies with established global businesses face stronger competition and must rejuvenate their overseas business models.


Internationalization of the Firm’s Value Chain

Value Chain: The sequence of value-adding activities performed by the firm in the process of developing, producing, and marketing a product or a service.

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**Upstream Value-Chain Activities**

- **Market Research**
  - Dell conducts continuous market research, through direct interaction with thousands of customers everyday, worldwide.

- **R&D**
  - R&D allows Dell to develop new notebook models and improve existing ones. Notebooks are completely redesigned every twelve months. Dell engineers in the United States conduct R&D jointly with specialized notebook designers in Taiwan.

- **Sourcing**
  - The parts for the notebook are sourced worldwide, but mainly from suppliers in Asia. For example, Intel microprocessors are sourced from Intel factories in China, Costa Rica, and Malaysia; LCD displays are sourced from factories in South Korea, Japan, and Taiwan.

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**Downstream Value-Chain Activities**

- **Production**
  - The notebook is assembled and software installed at one of Dell’s factories in, for example, China, India, Malaysia, Poland, and the United States.

- **Marketing**
  - Dell sells computers to buyers worldwide, but especially in the United States, where it generates about half its total sales. Online sales are common. Outside the United States, Dell is looking to bolster sales in emerging markets, such as Brazil and Russia.

- **Distribution**
  - For U.S. sales, Dell uses air transport to ship note books from its factories in Asia and Europe to the United States. In other countries, Dell uses local express delivery firms. The period from order submission to final delivery is typically less than two weeks.

- **After-Sales Service**
  - Dell performs service and technical support in its major markets, especially Europe, Japan, and the United States. It employs technical support personnel in numerous countries in Asia, Europe, and Latin America, as well as the United States.
Example: An International Firm’s Value Chain

Chapter 1 - Motives (5) -

Invest in a potentially rewarding relationship with a foreign partner

Not outsourced!
The truly international firm configures its sourcing, manufacturing, marketing, and other value-adding activities on a global scale.

**Rationale:**

- Cost savings,
- Increase efficiency, productivity, and flexibility of value chain activities,
- Access customers, inputs, labor, or technology,
- Benefit from foreign partner capabilities.
Key takeaway: Consequences

- **Society**: Effects on national economy and culture as well as environment.

- **Company**: Advantages of value-adding activities on a global scale.
Key takeaways: Chapter 2

Drivers: Globally integrated markets.

Dimensions: Similarities in demand, international trade and investment activities

Consequences:
- Globalization as a cause of social problems and wealth.
- Globalization as a driving force of international partnership in terms of the value chain.
1. Introduction: What is international business?
2. Globalization of markets and the internationalization of the firm

3. Organizational participants

4. The cultural environment
5. Ethics, sustainability, and corporate social responsibility
6. Theories of international trade and investment
7. Political and legal systems in national environments
8. Government intervention
9. Regional economic integration
10. Emerging markets
11. The international monetary and financial environment
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