

16.11: Current Trends in Global Business

Learning Outcomes

- Describe key characteristics of business globalization.
- Explain global competition.
- Explain global supply chains.
- Give examples of the global nature of innovation.



Many businesses now urge their employees to “Think globally.”

What Is Globalization?

Globalization is the process by which the exchange of goods, services, capital, technology, and knowledge across international borders becomes increasingly interconnected. Globalization creates new opportunities for businesses to increase profits by expanding markets and by allowing wider access to resources. On the other hand, globalization also opens domestic markets to new competitors, decreasing demand for local products. Arguing the advantages or disadvantages of globalization is a little like arguing about the weather: it’s best just to admit it’s here to stay and then figure out how it’s going to affect you.

Important Global Trade Agreements and Organizations

After World War II (US involvement spanned from 1941–1945), many countries wanted to expand global cooperation—politically, economically, and socially. Nations agreed to work together to promote free trade and increase global cooperation. They also created regional custom and trade agreements and unions to facilitate economic interdependence. The most important of these organizations, treaties, and trade agreements are briefly summarized below.

The World Trade Organization

The **World Trade Organization (WTO)**, officially formed in 1995, grew out of the **General Agreement on Tariffs and Trade (GATT)**. The WTO oversees the implementation and administration of agreements between member nations. It provides a forum for negotiations and for settling disputes among nations. It also helps developing nations get experience and technical expertise needed to deal with large and very comprehensive trade agreements. Although there are ongoing controversies, its member states account for 97 percent of global trade and 98 percent of the global gross domestic product. The WTO is a truly global organization that deals with agriculture, labor standards, environmental issues, competition, and intellectual property rights.

The World Bank

The **World Bank** is an international financial institution that provides loans for capital programs to developing countries. It is a component of the World Bank Group, which is part of the United Nations system. The World Bank is comprised of 189 member countries represented by a board of governors. Although headquartered in Washington, DC, the World Bank has offices in almost every nation in the world. The organization has two goals to achieve by 2030:

1. End extreme poverty by decreasing the percentage of the world’s population that live on less than US \$1.90 per day to no more than 3 percent.
2. Promote shared prosperity by fostering the income growth of the bottom 40 percent in every country.

Some recent projects have been aimed at improving primary and secondary school education systems and basic infrastructure, such as building and maintaining safe water supplies and sanitary sewer systems in Africa and parts of Asia. Although the World Bank has come under fire in the past for budget overruns and poor project oversight, its role in promoting economic development has been undeniable.

The International Monetary Fund

The **International Monetary Fund (IMF)**, headquartered in Washington, DC, is comprised of 189 member countries. The IMF works to foster global growth and economic stability by providing policy, advice, and financing to its members. It also works with developing nations to help them reduce poverty and achieve macroeconomic stability. It now plays a central role in the management of balance-of-payments difficulties and international financial crises.

When the IMF was founded, its primary functions were to provide short-term capital to aid the balance of payments and to oversee fixed-exchange-rate arrangements between countries, thus helping national governments manage their exchange rates and prioritize economic growth. This assistance was meant to prevent the spread of international economic crises. The IMF mission changed slightly after 1971, and floating currency exchange rates made it harder to predict the economic stability of a region. Today the IMF plays an active role in shaping and managing economic policy around the world.

Watch the short video that follows for an overview of how the IMF and the World Bank are similar and how they differ.

A link to an interactive elements can be found at the bottom of this page.

You can [view the transcript for “The International Monetary Fund \(IMF\) and the World Bank Explained in One Minute” here \(opens in new window\).](#)

Global Trade Policies

In addition to international organizations, countries make agreements among themselves to reach trade advantages. There are four common types of **trade agreements** (also known as **trade blocs**) with different levels of trade dependencies: regional trade agreements (RTAs), custom unions, common markets, and economic unions.

- **Regional trade agreements** establish reciprocal (equally binding) treaties addressing tariffs and trade barriers with member countries. For example, the **United States–Mexico–Canada Agreement (USMCA)**, once ratified, will allow for tariff reductions or eliminations (free trade). The Association of Southeast Asian Nations (ASEAN) provides for the free exchange of trade, service, labor, and capital across ten independent member nations to provide a balance of power to the economic powerhouses of China and Japan.
- **Customs unions** are arrangements in which countries agree to allow free trade on products *within* the customs union. They may also agree to a **common external tariff (CET)** on imports from the rest of the world. It is the CET that distinguishes a customs union from a regional trade agreement. It is important to note that although *trade* is unrestricted within the union, customs unions do not allow free movement of capital and labor among member countries. An example is the customs union of Russia, Belarus, and Kazakhstan, which was formed in 2010. These countries eliminated trade barriers among themselves but have also agreed to some common policies for dealing with nonmember countries.
- **Common markets** are similar to customs unions in that they eliminate internal barriers between members and adopt common external barriers against nonmembers. The difference is that common markets also allow free movement of resources (e.g., labor) among member countries. An example of a common market is the Economic Community of West African States (ECOWAS), comprised of Benin, Burkina Faso, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo.
- **Economic unions** eliminate internal barriers, adopt common external barriers, and permit free movement of resources (e.g., labor). They also adopt a common set of economic policies. The best-known example of an economic union is the European Union (EU). EU members all use the same currency, follow one monetary policy, and trade with one another without paying tariffs.

Watch the video that follows for a brief look at the advantages and disadvantages of free trade among countries.

A link to an interactive elements can be found at the bottom of this page.

You can [view the transcript for “Pros and Cons of Free Trade” here \(opens in new window\).](#)

Key Characteristics of Globalization

Debates about the characteristics and consequences of globalization generally focus on three areas: political, economic, and cultural. Globalization produces both positive and negative outcomes in all these areas.

Political

For thousands of years, treaties have shaped international relations and led to complex alliances. International cooperative bodies such as the United Nations and the World Trade Organization exist today because of the increasing need for political cooperation at the global level. It is impossible for a country to remain isolated from events around the world. People's ideas and expectations are shaped by what they see happening around them. Because of the rapid flow of information to most areas of the world, people are very aware of events taking place around the globe virtually as they happen. However, some nations, such as North Korea, choose to try to isolate themselves from the rest of the world. Others try to control the flow of information within their borders. But technology makes it very difficult to control access to information. Depending on how it is used, technology can both reduce and increase political tensions and military conflicts.

Labor and environmental abuses, traced to corporations taking advantage of weak protectionist laws in some countries, are uniting people who would otherwise not find political common ground. The fear of domestic job losses and concerns about manufacturing safety records in developing countries are becoming popular planks in many political campaigns.

Economic

As a result of globalization, nations with limited resources can access goods and knowledge that help to raise their standards of living. Trade treaties, such as USMCA and the European Union (EU), lower or abolish tariffs that restrict the flow of products across borders. Nations with rare resources or specific skills are able to focus on their particular business or commercial strengths and sell their goods to a global market. *The Economist* magazine has reported that one billion people have been lifted out of poverty thanks to freer trade policies.^[1] On the downside, outsourcing allows businesses to exploit people as sources of cheap labor required to work under substandard conditions. There is also a trend toward the consolidation of businesses in many industries, hurting locally owned businesses and damaging local economies.

Cultural

Globalization has heightened the awareness of the many, many languages, religions, cuisines, arts, literature, and dress that constitute cultures around the world. Some people are worried, however, that cultures around the world are merging into a “world culture” in the process of globalization. As people emigrate to economic powerhouses in the search for higher standards of living, many local traditions and even languages are threatened with extinction. You will read more about this topic later in this module.

? PRACTICE QUESTION

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Global Competition

Global competition means the competing organizations that serve international customers through enhanced communications, improved shipping channels and supply chains, reduction of trade barriers, and centralized financial institutions. There are small players, such as a local entrepreneur who advertises handmade baby carriers on her website and ships products to other countries through Amazon or directly to the customer. At the other extreme are the giant multinationals such as Exxon Mobil, Apple, McDonald's, and Google.

Why do so many businesses make the financial investments and take the high risks involved with global business ventures? The chief reasons include the following:

- **Increased profits.** A wider market and customer base means the opportunity to sell more goods and services. Some countries have lower taxes, adding to the advantages of moving production there.
- **Greater access to suppliers for materials and at lower costs.** If a cold snap in southern Florida damages the crop of oranges for a season, juice manufacturers can import fruit from another country.
- **Reduced manufacturing costs through access to cheaper labor.** Even Levi's, which still makes its blue jeans in the United States, will pay Wipro \$143 million over five years to handle information technology, human resources, finance, and customer service.^[2] Motorcycle maker Harley-Davidson moved 125 jobs overseas. It is also well-known that Apple has the iPad and iPhone assembled in China by contractor Foxconn, while parts for the devices are made in more than 20 different countries.
- **Social and environmental concerns.** Many US businesspeople are committed to improving the lives of people around the world and working with international organizations to address environmental concerns such as air pollution, clean water, and climate change.

The World Economic Forum has developed the *Global Competitiveness Report* that ranks countries on global competitiveness. It averages the different data points that encourage competitiveness, including such things as a stable government, good educational systems, a developed infrastructure, a strong market for goods and services, efficient labor pools, stable financial institutions, and the ability to innovate and use technology. The top ten most globally competitive countries in 2016 were as follows:

1. Switzerland
2. Singapore
3. United States
4. Netherlands
5. Germany
6. Sweden
7. United Kingdom
8. Japan
9. Hong Kong
10. Finland^[3]

Another ranking that measures global competitiveness is the Ease of Doing Business Index created by the World Bank Group. This index lists the “friendliest” countries for starting commercial ventures. The ranking considers such factors as dealing with construction permits, getting electricity, legal procedures, getting credit, providing investor protections, paying taxes, enforcing contracts, trading across borders, regulatory issues, and transparency in government.^[4]

Only Singapore, the United States, and the United Kingdom appear in the top ten of both lists.

Two key reasons that these countries are so globally competitive is that businesses operating within their borders have developed the most efficient supply chains and continually innovate to improve operations, products, and services.

? Practice Question

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Global Supply Chains

A **supply chain** is the network of suppliers and contractors that provide needed materials and services to a business. It includes all of the businesses involved with taking a product from raw material to manufacturing to the transporting and storage of the finished merchandise. Some supply chains include delivery to the consumer and even account for recycling of the used product. **Logistics** means getting materials from one place to another when they are needed and storing them if necessary. It is a popular field of study in many business schools. Logisticians study the latest innovations in shipping, warehousing, rail/road transportation, and airfreight.



A global supply chain exists behind that Amazon package on your doorstep.

For example, let's look briefly at what it takes to produce a typical T-shirt bought off Amazon. The cotton is grown in Texas or Mississippi with the help of agricultural subsidies to the farmers. The raw cotton is shipped to Indonesia (for example), where it is combed and spun into yarn. The yarn is sent to Bangladesh or another country where it's made into whole cloth, washed, and dyed. The cloth is then sent to Colombia (or whichever country has the lowest labor rates) to be sewn into T-shirts. The T-shirts are then shipped back to the United States, where they are printed and distributed to retail stores or Amazon warehouses. Getting the goods to the consumer is the most expensive part of the whole process. Finally, some T-shirts are recycled to East Africa. International agreements to keep tariffs low and improved shipping methods all contribute to making this global supply chain cost-effective.^[5]

In the global economy, managing a supply chain requires dealing with trade and tariff controls, quality regulations, and international relationships. Global supply chain management is highly specialized and complicated. Some firms even do nothing but manage supply chains for other companies, whereas some other companies offer the service in addition to their core activity. For example, the following promotion appears on the FedEx website:

FedEx Supply Chain is a third-party logistics provider that can support supply chain requirements throughout the product lifecycle, from kitting and product packaging through end-of-life services such as liquidation and recycling.^[6]

The World Bank estimates that 13 percent of the world's gross domestic product (GDP) was earned from moving and storing goods around the planet in 2016.

Today's globally integrated economy makes it necessary for businesses to look as far as possible for both the cheapest and the best resources. The benefit of global supply chains is that businesses can take advantage of low-cost goods and services in foreign locations to bring down operating costs. However, when a business depends on outsourcing, it increases the number of risk factors outside of its control. Tsunamis in Japan shut down an auto assembly plant in Ohio when essential parts couldn't be shipped; severe flooding in Thailand delayed the manufacture of computers for the US market when hard drives failed to appear. Ethical considerations can also be a factor. Even when a firm tries to ensure that the factory owners it contracts with provide fair wages and safe working conditions, abuses still occur, and responsibility is hard to assess. A series of factory fires and disasters killed hundreds of workers in Bangladesh in 2013 and led to the Disney Company canceling the production of its licensed products in that country.^[7]

Many companies have developed alternate supply chains that take over when the primary sources are unavailable. Managers must always be aware of changes in the economy and in politics that make one source a better choice than another. As energy prices increase in one location and go down in another, for example, shifts can be made to capture these savings. These kinds of efficiencies can occur when companies use technology to innovate their supply chain management systems.\

? Practice Question

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The Global Nature of Innovation

Innovation in business is developing an idea or invention that increases efficiency, raises productivity, or creates value for which customers will pay. An innovation applies information, imagination, and initiative in ways that further the goals of the organization to satisfy customer expectations. Today, virtually every business believes that innovation is necessary for its sustainability and growth.

One of the most powerful drivers of innovation is technology. Not only is technology **scalable** (able to handle increasing amounts of work) but it can also be used to leverage and produce new innovations. Economists traditionally viewed competition as a function of investment, labor and other costs, and the general business climate. Today, competitiveness is based more on the ability to keep up with rapid technological and organizational changes. In a dynamic world, many people use the catchphrase “innovation-led economy.”

When your business competes on a global scale, it is more important than ever to adapt and innovate to find ways to sustain a competitive advantage. Doing the same thing forever is not a viable option because the next company is committed to finding the key to take your market share. Blockbuster Video, for instance, failed to recognize customer demand for the new live-streaming innovation for computers, whereas Netflix jumped on the innovative technology and created a user-friendly interface. To succeed, organizations must continually adapt and apply new strategies.

A final example: Nestlé is the largest food and beverage company in the world. In 2016, it launched a crowdsourcing initiative to ease communication among the 36,000 people involved in its supply chain. The initiative, called InGenious, asks employees to communicate with each other about supply chain challenges, problems, and solutions. The company has also developed more than seventy massive open online courses (MOOCs) in multiple languages to educate its supply chain teams worldwide. Nestlé leaders believe that there is no one system that can track all of the agricultural suppliers in the world and how their products are distributed. They are developing “sharing economy” technologies that rely on crowdsourcing to alert the company to potential problems and help them develop solutions.

? PRACTICE QUESTION

<https://assessments.lumenlearning.co...essments/12334>

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