Globalization of markets & production

- Globalisation of the market: refers the process of the worldwide market integration
- Advantage:
  - Exploitation and creation of global market segment
  - Standardization of products, packaging, promotion
  - Converging tastes and trends world wide
Globalization of markets & production

• Globalization of production: an emergence of an integrated international production system (IIP)

• Form of globalization of production
  – Parts/components: outsourcing
  – Allocated assemble: worldwide
  – Sales: worldwide

Globalization of markets & production

• Reasons for IIP
  – Assess low cost inputs
  – Product differentiation
  – Imitate & adapt new technology
  – Assess cooperative advantage
  – Breakdown of the value chain and reallocation to the effective location
Globalization of markets & production

- How to get competition advantage: configuration versus coordination?
- Configuration: concentrated portfolio of production site
  - Technology intensity
  - Access to scarce resources
  - Pressure for cost reduction
- Coordination: expand the company’s subsidiaries in various national markets
  - Importance of border-crossing customer
  - Presence of global competitors
  - Investment is not intensity

Globalization of markets & production

Implication of IIP
- Economic activities formerly under national control now under MNE control
- National economies linked through markets (trade) and through international production (FDI)
- Cultural convergence
Benefit & cost of Globalization

• Benefits of globalization
  – Business expansion leads to economy of scale
  – Assess to resources
  – Lowering price
  – Economic growth
  – Technology transfer
  – Job creation
  – And: so on…….

Benefit & cost of Globalization

• Cost of Globalization
  – Job displacement
  – Real wage erosion
  – Job insecurity
  – Regulation avoidance
  – Loss of sovereignty
  – Environment damage
  – Inequality
  – Global problem: financial crisis, ethic conflicts…
Limits of globalization

• Countries are different
  – Economic conditions
  – Differences in culture
  – Barrier to trade and investment
  – Political uncertainty
  – Corporate strategy
  – Difference in customer needs, behavior, government regulation…

The role of MNC

• Definitions: MNC is corporation that engages in FDI and owns or control value-adding activities in more than one country

• Characteristics of MNCs
  – Carry out business activities at least 2 countries
  – At least two partners which are different nationalities
  – Integrated strategy
  – Integrated resources: patent, copyright, capital, human resources,….
  – Its interest is the most important thing
MNCs

- The role of MNCs: 61,000 MNCs (2003)
  - Employ 54 millions persons
  - Total sales: $19 trillions (in USD)
  - Outward FDI stock: $8.2 trillions
  - Account for 10% GDP, 1/3 world export, 2/3 world trade at their peak
  - Key sectors: electronics, electrical equipment, automobiles, petroleum, chemicals, and pharmaceuticals
  - Some MNCs are bigger than countries: Exxon Mobil, Siemens, Wal Mart, IBM, Toyota....

Are Companies bigger than Countries?

- Twenty-nine of the world’s 100 largest economic entities are transnational corporations (TNCs), according to a new UNCTAD list that ranks both countries and TNCs on the basis of value added.

- In 2002, Exxon was the biggest in terms of value added ($63 billion). It ranks 45th on the new list, making it comparable in economic size to the economies of Chile or Pakistan.

Source: WIR, 2002
Are Companies bigger than Countries?

• The value-added activities of the 100 largest TNCs have grown faster than those of countries in recent years, accounting for 4.3% of world GDP in 2000, compared with 3.5% in 1990.

• The world's top 100 MNEs are based almost exclusively in developed countries. Their affiliates employ over 7 million people and have foreign sales of US$3 trillion (2003).

Source: WIR, 2002

MNCs

• Forms of MNC’s cooperation
  – Strategic alliance:
    • informal agreement
    • formal contract in production, R& D, and marketing
    • Equity participation
  – Joint-venture
  – Greenfield investment
MNCs

• Entry mode to the international market