

### The growing integration of the world's economies

Globalisation is the process that enables product, financial and investment markets to operate across the globe. The interconnection of business throughout the world has grown massively in the last 60 years. This change, which continues to gather pace, has come about as a result of:

- The deregulation of markets
- Political changes
- The removal of barriers to trade
- The lowering of transportation costs
- Improved communication systems.

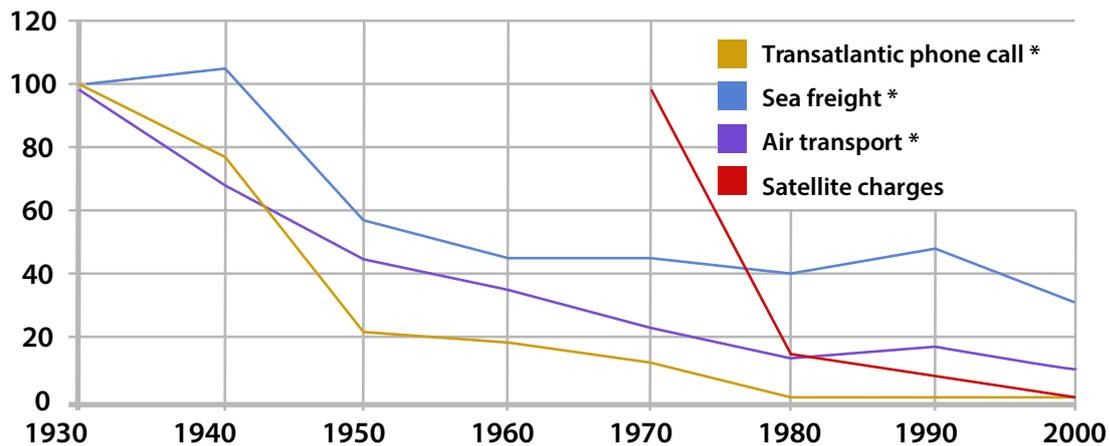
A huge proportion of the products in your home have been produced to a high quality and relatively low cost as a result of the process of globalisation. Trade has been the engine of globalisation, with world trade in manufactured goods increasing more than 100 times since the 1950s. Key political changes have enabled the process to gather pace. For example, the ending of the old Soviet Union has seen the restructuring of the European economy with countries such as Latvia, Lithuania and Estonia opening up their economies and trading with the rest of the world. Most significantly, the political changes that began in China following the death of Chairman Mao in the 1970s have resulted in the gradual opening up of the Chinese economy to such an extent that China is today a member of the World Trade Organisation. As Chinese consumers become more affluent, the opportunity to satisfy their desire for products from the rest of the world creates huge opportunities for businesses to target this market.

Over the last 60 years increased trade has been made easier by international agreements to help create free trade by the lowering of tariff and non-tariff barriers on the export of manufactured goods, especially to rich countries. Therefore, there are lower taxes on imports, fewer quotas and a massive reduction in technical barriers.

The growth of trade has also been helped by falling transportation costs. Falling communication costs too have meant that the choice of location of customer service centres has become much more flexible.

**If you own an iPhone, then the software is created in California, the screen produced in Taiwan, the chip designed in Britain, the case in Korea and it is all put together in China. The product is then shipped using a European airline to the British market, all insured through Lloyds of London. The call centre to deal with any problems you may have is based in India – that is globalisation.**

## FALLING TRANSPORT AND COMMUNICATION COSTS



\* Cost of three minute telephone call from New York to London

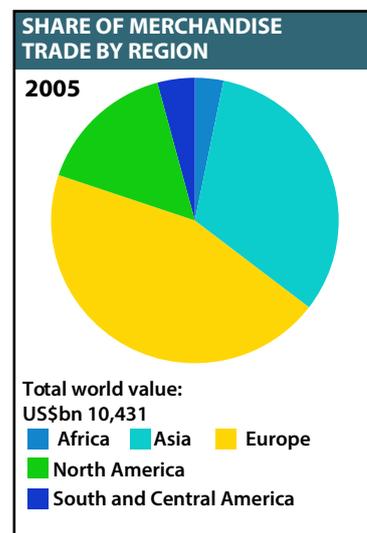
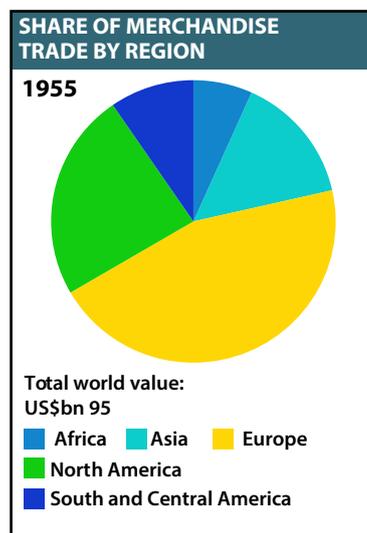
\* Average ocean freight and port charges per short ton of import and export cargo

\* Average air transport revenue per passenger mile

The above chart shows just how much these costs have fallen. Since 1970, the cost of satellite use (for phone calls, TV and data transmission, etc.) has fallen by 98%. Since 1990, sea freight (shipping goods from one country to another) is down by 50%, and air transport is down by 75%. These figures help explain how flowers grown in Kenya can be sold in garages in the UK, why call centres are often based in India and how Chinese manufacturers can send goods 10 000 miles by sea to USA, UK and European markets, yet still be the lowest cost producer.

## The changing pattern of world trade

Looking at the pie charts below, it is easy to see the growing importance of Asia in world trade. Between 1955 and 2005, Asia nearly trebled its share of trade and the value jumped from \$10 billion to \$3 000 billion. Since 2005, that figure has increased to \$5 000 billion!



What were once regarded as Third World countries are now major players in the global marketplace. India and Brazil are just two examples of countries that are experiencing huge change as they develop their ability to produce goods and services for sale all over the world. At the same time, both consumers and businesses in India and Brazil demand goods and services from other countries to satisfy their needs and wants. This process shows no sign of slowing down and the majority of businesses and consumers are behaving as if there is just one 'market' – *the global market*.

Below is a summary, by the World Trade Organisation, of world trade in the last 20 years.

## Trade in goods and services has fluctuated significantly over the last 20 years

- Up to the late 1990s, trade flows rose gradually. This was followed by a strong rise in the early 2000s and a sharp fall after the economic crisis in 2008. Recent years have seen a moderate recovery.
- Trade experienced fairly strong growth from 1995 to 2001, followed by a boom from 2002 to 2008 accompanied by rising commodity prices. Following the financial crisis in 2008, trade fell steeply in 2009 before rebounding strongly in 2010 and 2011. However, trade growth since then has been unusually weak.
- Various crises had an impact on trade from 1995 to 2001. These included Mexico's monetary crisis (1995–2001), the Asian financial crisis of 1997, and the bursting of the dot-com bubble in 2001. The latter two factors resulted in negative growth for merchandise trade in 1998 and 2001.
- China's accession to the WTO in December 2001 paved the way for its economic rise and significantly contributed to increasing world trade from 2002 to 2008. Another noteworthy event in the early 2000s was the introduction of euro coins and notes in 2002.
- Strong Chinese demand for natural resources contributed to rising prices for crude oil and other primary commodities between 2002 and 2008.
- The 2008 financial crisis, triggered by the sub-prime lending crisis in the United States, led to a global recession between 2008 and 2011. The volume of world exports plunged 2 per cent in 2009 while world gross domestic product (GDP) dropped 2 per cent.

[https://www.wto.org/english/res\\_e/statis\\_e/its2015\\_e/its15\\_highlights\\_e.pdf](https://www.wto.org/english/res_e/statis_e/its2015_e/its15_highlights_e.pdf)

	1995	2005	2015
World exports of commercial services	US\$ 1 179 billion	US\$ 2 516 billion	US\$ 4 872 billion
World merchandise exports	US\$ 5 168 billion	US\$ 10 509 billion	US\$ 19 002 billion

## Winners and losers as a result of globalisation

There have been a number of important **winners** from globalisation. These winners include:

- **Consumers** who have greater choice and much cheaper goods. Increased competition also improves quality.
- **Developing countries** which increase their wealth by producing goods for export. Most recently, China and India have been the big winners; other countries that have benefited include Brazil, South Korea and Taiwan.
- **Developed (Western) economies** have experienced low inflation because of the falling prices of imports (the so-called China effect).
- **Businesses who trade internationally** benefit in many ways:
  - They can reduce their costs and increase profits by producing in low-cost countries.
  - They have a greater spread of risk. The impact of the decline in one market can be lessened by continued trade in other markets.
  - Massive economies of scale occur. Selling to a number of countries increases the scale of production; average costs fall, making them more competitive.
  - New markets bring new sales opportunities. By selling in new markets sales can increase quickly: this has been especially important when the home market is saturated.
  - Opportunities of partnerships with overseas businesses. For example, within the airline industry British Airways (BA) has relationships with American, Australian and Far Eastern airlines. This improves the service that they are able to offer to customers.
  - The opportunities available for employees of developing countries are now far greater. Skilled and educated workers can now compete in a global marketplace for high-paying positions.

There have, however, been a number of **losers** from globalisation:

- **Unskilled workers in western economies** who have found their real wages falling or their jobs being 'relocated' to low-cost economies.
- **Previously viable businesses** who have been outcompeted by low-cost competition from overseas.
- **Workers in developing countries** who have been exploited, working excessively long hours for very low wages in unacceptable conditions.
- **The environment** where the excessive development of land has led to deforestation and flooding. The huge increase in the transportation of goods contributes to global warming.

## Developing strategies in the global market

- **External growth**

Merging with or acquiring a business in another country is the most common strategy for achieving external growth. In the majority of cases this involves the purchase of an entire target business. Taking over a business in this way will give immediate access to the market within that country. The business can be rebranded with the parent company's name (for example Santander taking over the Abbey Bank), or it can retain the original name (for example Walmart taking over ASDA supermarkets in the UK). The difficult decision to make in this situation is how much of the parent company's working practices should be adopted by the subsidiary. Walmart, the American supermarket giant, after taking over ASDA in the UK, introduced the idea of meeting and greeting customers in store. This was a reasonable success in the UK but the same strategy, when used in their German stores, failed badly.

This type of horizontal integration requires huge amounts of direct investment and attempting to grow in this manner requires extensive research prior to going ahead. If the domestic market is saturated, and growth has been set as an objective, then investing in foreign markets is one solution. It must be remembered, however, that the risks are high.

- **Global branding**

Businesses that have established a strong brand identity in their domestic market are sometimes able to introduce their product or service into other countries based on the recognition of their brand in other parts of the world. McDonald's have used this strategy to introduce their products to virtually every country across the globe. The brand identity is so strong that selling highly lucrative franchise agreements, as well as setting up their own directly managed restaurants, has resulted in unrivalled success in the fast food sector.

The top ten of the most valuable global brands in 2016:

1	Apple
2	Google
3	Coca-Cola
4	Microsoft
5	Toyota
6	IBM
7	Samsung
8	Amazon
9	Mercedes-Benz
10	GE

Even when established as a global brand, businesses cannot become complacent. Even businesses as well-established on a global basis as McDonald's continue to build their brand identity. It is an ongoing process and they must continue to invest in advertising and develop promotional campaigns in order to reinforce their brands. Increasingly businesses are using **social media** campaigns to promote their brands to a truly global audience. The impact of placing adverts in strategic places on sites such as Twitter and Google cannot be underestimated and global brand managers have adjusted their marketing strategies to take full advantage of the opportunities presented by social media.

- **Identifying target markets**

Use of targeting of specific markets, with product adaptations and focussed advertising, is a key part of the success of any business. The same then applies to global growth. A new product launch in a new market is not often targeted at the mass market – it is more likely to be aimed at specific market segments. Kia cars, when launched in the UK, focussed on a segment that did not care about brand status, but wanted low cost motoring. They targeted this segment by offering low prices, extended warranties and low cost servicing. There is nothing new in this approach, it was virtually the same strategy as used by Toyota when launching in the USA in the late sixties; the only difference being that whilst Kia focused on older buyers, Toyota's marketing was targeted at the younger age group.

A product that is used in one way in one market can have a different use in another market. Marmite in the UK is predominantly used as a spread to put on bread: in India it is used as a flavouring additive in cooking. Deciding on which segment to target can be very difficult. In-depth market research is required to identify specific market needs. This can be very expensive and is no guarantee of success. However, failure to carry out such research is likely to make a high-risk strategy even riskier.

- **Glocalisation**

Operating a common global marketing strategy in order to sell goods and services in foreign markets is an approach that many businesses have adopted – with varying degrees of success. Increasingly, businesses are finding that this approach can be somewhat inflexible and are adopting **a global localisation** approach – commonly known as **glocalisation**. The aim of the overall strategy is still to reach customers all over the globe; however, this should be achieved by taking into account local tastes, customs and traditions. By taking into account the preferences of consumers in different markets across the world, businesses have enhanced their success.

Maintaining and promoting the global brand name is still vitally important in this approach. McDonald's menu, of course, keeps its core elements everywhere in the world but there are '**local**' variations. For instance, the Japanese menu includes The Chicken Katsu Burger, a breaded chicken sandwich flavoured with soy sauce and ginger. In Germany, a big seller was the 'McCurrywurst', a hot sausage with tangy curry tomato sauce. Most global fast food chains have adopted such a strategy. Their branded logos are instantly recognisable on high streets all over the world; however, their menus will vary considerably, depending the local tastes and preferences of their customers. Such a market-oriented approach enhances sales turnover. Global businesses today have to be constantly aware of changing consumer tastes; failure to invest in market research in foreign markets will result in a lack of competitiveness.

## Multinationals

Multinationals are businesses operating in a number of countries, whether extracting resources, manufacturing, retailing or a combination of these activities. Successful British multinationals include BP, HSBC, Tesco, and Vodafone. There is a large number of foreign-owned multinationals manufacturing in the UK, including Toyota, Ford, LG, Sony and Panasonic. Many more are operating in finance and retailing. Multinationals have, in many ways, started to dominate the global economy. Many of the biggest have a level of turnover larger than the GDP of some medium sized countries. This means that they have a huge amount of power and influence.

### Advantages of having multinationals based in the UK:

- Provide employment and create better living standards
- Investment leads to infrastructure development
- Pay taxes to the government
- Introduce new technology and working methods
- Increased customer choice
- Increased growth in the UK economy – many businesses from supplying multinationals in their locality

### Potential disadvantages of multinational companies operating in the UK:

- Multinational companies can severely impact local industries because they increase competition in the economy. They can cause both small and large British businesses to go out of the business, leading to increased unemployment.
- Multinationals have been accused of destroying local culture. Having recognisable 'superbrands' will inevitably lead to a loss of localised products and a shift in habits.
- They may have negative environmental impacts, such as pollution, noise, congestion and destruction of the environment.

The worst effects of multinationals, such as destruction of the environment, and very low levels of pay for workers, are often seen in developing countries. Some jobs can be low-skilled and low-paid. Multinationals are accused of creating 'screwdriver economies', when goods are just put together in a low-cost environment. The real value-added tasks are then done elsewhere. These impacts are likely to continue until consumers in the developed world refuse to purchase goods produced in unacceptable conditions. The role of pressure groups in resolving worker exploitation has proved successful, but there is still much to be done.

From the UK's point of view, it needs investment from multinationals to help drive growth and create jobs. In fact, the UK has received more investment from multinationals over the last 30 years than Germany, France and Italy combined, thus creating thousands of jobs and reinvigorating domestic supply chains. Whether such investment will continue, following the UK's decision to leave the EU, remains to be seen.

### Discussion themes

What is the global market?

Explain the growth in globalisation in the last 20 years.

What are the benefits of operating in a global market?

What are the difficulties of operating in a global market?

Explain the strategies used by businesses that allow them to trade globally.

What is a multinational company?

The benefits of attracting foreign multinational companies to operate in the UK outweigh the drawbacks. Discuss.

Tesco Fresh and Easy USA

<http://www.cbsnews.com/news/why-did-tesco-fail-in-the-us/>

Global Branding PPT

<http://www.slideshare.net/gonencdalgic/global-branding-21044985>