

## CHAPTER 1: Globalization

### What is Globalization?

- **Globalization**: The process of interaction and integration between companies and governments of different nations; driven by international trade and investment.
  - o **The growing interdependence of world economies**
  - o **Continuing Process**
  - o **World Economies become more reliant on each other**
  - o The shift toward a more integrated and interdependent world economy.
  - o There is always winners and losers from trade
  - o Exporters always win in trade

### Drivers of Globalization:

#### 1. **Reduction in Trade and Investment Barriers:**

- **Reduction of Tariffs**
  - o Many barriers to international trade took the form of high tariffs on imports of manufactured goods.
- **Increase in FDI**
  - o Foreign Direct Investment (FDI): Occurs when a firm invests resources in business activities outside its home country.
- This enables more countries to exploit their comparative advantage.
- More opportunities for developing countries

#### 2. **Reductions in Transportation Costs**

- Sea & Air transport
- Increase in transportation technology
- Now that transport costs are so low, they are less likely to cancel out the gains from comparative advantage.
- Introduction of **containerization**, which simplifies transshipment from one mode of transport to another.

#### 3. **Reductions in Telecommunications Costs**

- Perhaps the single most important innovation for globalization.
- Growth of the **Internet** has increased e-commerce – easier to compete in global markets.
- Consumers all over the world can shop online, 24-hours a day
- Cheap marketing to customers abroad – global reach
- The web makes it much easier for buyers and sellers to find each other

#### 4. **Change in Consumer Tastes**

- Standardization of production and tastes
- Preferences have become more **ALIKE**

#### 5. **The Globalization of Production:** Sourcing goods and services from different places around the world to take advantage of national differences in the **cost and quality** of various factors of production.

- **Factors of Production**: Components of production such as labor, energy, land, and capital.
- Companies **lower their overall cost & improve the quality** of their product
- Which allows them to **compete more effectively**.

## The Emergence of Global Institutions:

- Over the past half century, a number of important global institutions have been created to help manage, regulate, and police the global marketplace.
- **General Agreement on Tariffs and Trade (GATT)**: International treaty that committed signatories to lowering barriers to the free flow of goods across national borders; let to WTO.
- **World Trade Organization (WTO)**: The organization that succeeded the GATT and now acts to police the world trading system.
  - o As of 2006, 149 nations that collectively accounted for 97 percent of world trade were WTO members, thereby giving the organization enormous scope and influence.
- **United Nations (UN)**: An international organization made up of 191 countries charged with keeping international peace, developing cooperation between nations, and promoting human rights.
  - o When states become members of the United Nations, they agree to accept the obligations of the UN Charter, an international treaty that established basic principles of international relations.