GLOBALIZATION IN AN INTERNATIONAL MARKET

INTERNATIONAL BUSINESS / MARKETING

To accompany the Georgia International Business Curriculum.

CTAE RESOURCE NETWORK
RE-ENGINEERING FOR GEORGIA

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GEORGIA PERFORMANCE STANDARDS:

MKT-MP-5: Define international business/marketing, explain why nations engage in international trade and describe how international trade affects the economic interdependence of nations

Student Information Guide

DIRECTIONS:
Use the information in this student information sheet to complete the accompanying student study sheet. Complete all items on the study sheet and turn in to the teacher.

Globalization describes an ongoing process by which regional economies, societies, and cultures have become integrated through a globe-spanning network of communication and trade. Globalization is usually recognized as being driven by a combination of economic, technological, sociocultural, political, and biological factors. The term can also refer to the transnational circulation of ideas, languages, or popular culture through acculturation.

DEFINITIONS

Globalization refers to the reduction and removal of barriers between national borders in order to facilitate the flow of goods, capital, services and labor.

MODERN GLOBALIZATION

Globalization has been facilitated by advances in technology which have reduced the costs of trade and trade negotiation rounds.

Since World War II, barriers to international trade have been considerably lowered through international agreements. Particular initiatives carried out as a result of the World Trade Organization (WTO) have included:

- Promotion of free trade
- Elimination of tariffs; creation of free trade zones with small or no tariffs
- Reduced transportation costs
- Reduction, elimination, or harmonization of subsidies for local businesses
- Creation of subsidies for global corporations
- Supranational recognition of intellectual property restrictions (e.g. patents granted by China would be recognized in the United States)

EFFECTS OF GLOBALIZATION

Globalization has various aspects which affect the world in several different ways such as:

- *Industrial* - emergence of worldwide production markets and broader access to a range of foreign products for consumers and companies. Particularly movement of material and goods between and within national boundaries.
- *Financial* - emergence of worldwide financial markets and better access to external financing for borrowers.
- *Economic* - realization of a global common market, based on the freedom of exchange of goods and capital.
- *Health Policy* - On the global scale, health becomes a commodity. Global priorities, in this situation, are sometimes at odds with national priorities where increased health infrastructure and basic primary care are of more value to the public than privatized care for the wealthy.
- *Political* - some use "globalization" to mean the creation of a world government which regulates the relationships among governments and guarantees the rights arising from social and economic globalization.
- *Informational* - increase in information flows between geographically remote locations.
- *Language* - the most popular language is Mandarin (845 million speakers) followed by Spanish (329 million speakers) and English (328 million speakers).
- *Competition* - Survival in the new global business market calls for improved productivity and increased competition. Due to the market becoming worldwide, companies in various industries have to upgrade their products and use technology skillfully in order to face increased competition.
- *Ecological* - the advent of global environmental challenges that might be solved with international cooperation, such as climate change, cross-boundary water and air pollution, over-fishing of the ocean, and the spread of invasive species. Since many factories are built in developing countries with less environmental regulation, globalism and free trade may increase pollution.
- *Cultural* - growth of cross-cultural contacts.
    - Spreading of multiculturalism and better individual access to cultural diversity.
    - Greater international travel and tourism.
    - Greater immigration
    - Spread of local consumer products (e.g., food) to other countries
    - Worldwide fads and pop culture
    - Worldwide sporting events such as the Olympic Games.
- *Social* - development of the system of non-governmental organizations including humanitarian aid and developmental efforts.
- *Technical*
    - Development of a global telecommunications infrastructure and greater trans-border data flow, using such technologies as the Internet, communication satellites, and wireless telephones.
    - Increase in the number of standards applied globally; e.g., copyright laws, patents and world trade agreements.

As of 2005–2007, the Port of Shanghai holds the title as the World's busiest port.

Almost all notable worldwide IT companies are now present in India.

The construction of continental hotels is a major consequence of globalization process in affiliation with tourism and travel industry, Dariush Grand Hotel, Kish, Iran

- *Legal/Ethical*
  - The creation of the international criminal court and international justice movements.
  - Crime importation and raising awareness of global crime-fighting efforts and cooperation.
- *Religious*
  - The spread and increased interrelations of various religious groups, ideas, and practices and their ideas of the meanings and values of particular spaces.

Cultural Effects

Globalization has had an impact on different cultures around the world.

Globalization has joined different cultures and made them into something different. The Internet is associated with the process of cultural globalization because it allows interaction and communication between people with very different lifestyles and from very different cultures.

Negative Effects

Globalization has generated significant international opposition over concerns that it has increased inequality and environmental degradation.

Effect on Disease

Globalization, the flow of information, goods, capital and people across political and geographic boundaries, has also helped to spread some of the deadliest infectious diseases.

Food Security

The gradual change in diet among newly prosperous populations is the most important factor underpinning the rise in global food prices.

Sweatshops

It can be said that globalization is the door that opens up an otherwise resource-poor country to the international market. The majority of the earliest occurrences of economic globalization are recorded as being the expansion of businesses and corporate growth, in many poorer nations globalization is actually the result of the foreign businesses investing in the country to take advantage of the lower wage rate.

One example used by anti-globalization protestors is the use of sweatshops by manufacturers. There are factories set up in the poor countries where employees agree to work for low wages. Then if labor laws alter in those countries and stricter rules govern the manufacturing process the factories are closed down and relocated to other nations with more conservative policies.

Pro-Globalization

Supporters of free trade claim that it increases economic prosperity as well as opportunity, especially among developing nations, enhances civil liberties and leads to a more efficient allocation of resources. Economic theories suggest that free trade leads to a more efficient allocation of resources, with all countries involved in the trade benefiting. In general, this leads to lower prices, more employment, higher output and a higher standard of living for those in developing countries.

ANTI-GLOBALIZATION

Anti-globalization may occur in order to maintain barriers to the international transfer of people, goods and beliefs encouraged by organizations such as the International Monetary Fund or the World Trade Organization.

Critiques of the current wave of economic globalization typically look at both the damage to the planet as well as the perceived human costs, such as poverty, inequality, injustice and the erosion of traditional culture which, the critics contend, all occur as a result of the economic transformations related to globalization.

Critics argue that:

- **Poorer countries suffering disadvantages**: The main export of poorer countries is usually agricultural goods. Larger countries often subsidize their farmers which lowers the market price for the poor farmer's crops compared to what it would be under free trade.
- **Exploitation of foreign impoverished workers**: Due to the lack of protections, companies from powerful industrialized nations are able to offer workers enough salary to entice them to endure extremely long hours and unsafe working conditions.
- **The shift to outsourcing**: The low cost of offshore workers have enticed corporations to buy goods and services from foreign countries. The laid off manufacturing sector workers are forced into the service sector. This has contributed to the deterioration of the middle class which is a major factor in the increasing economic inequality in the United States .
- **Weak labor unions**: The surplus in cheap labor coupled with an ever growing number of companies in transition has caused a weakening of labor unions in the United States. Unions lose their effectiveness when their membership begins to decline. As a result unions hold less power over corporations that are able to easily replace workers, often for lower wages, and have the option to not offer unionized jobs anymore.
- **Increase exploitation of child labor**

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

North American Free Trade Agreement	
	
Secretariats	Mexico City, Ottawa and Washington,
Membership	Canada, United States and Mexico
Establishment	
- Formation	January 1, 1994
Website	http://www.nafta-sec-alena.org

The **North American Free Trade Agreement** or **NAFTA** is an agreement signed by the governments of the United States, Canada, and Mexico creating a trilateral trade bloc in North America. The agreement came into force on January 1, 1994. In terms of combined purchasing power parity GDP of its members, as of 2007 the trade block is the largest in the world and second largest by nominal GDP comparison.

The North American Free Trade Agreement (NAFTA) has two supplements, the North American Agreement on Environmental Cooperation (NAAEC) and the North American Agreement on Labor Cooperation (NAALC).

Negotiation and Ratification

Following diplomatic negotiations dating back to 1991 between the three nations, the leaders met in San Antonio, Texas, on December 17, 1992, to sign NAFTA. U.S. President George H.W. Bush, Canadian Prime Minister Brian Mulroney and Mexican President Carlos Salinas, each responsible for spearheading and promoting the agreement, ceremonially signed it. The agreement then needed to be ratified by each nation's legislative or parliamentary branch.

Seen here are Carlos Salinas, President of Mexico (back left), George H.W. Bush, President of the United States, and Brian Mulroney, Prime Minister of Canada.

In the U.S., Bush, who had worked to "fast track" the signing prior to the end of his term, ran out of time and had to pass the required ratification and signing into law to incoming president Bill Clinton. Prior to sending it to the House of Representatives, Clinton introduced clauses to protect American workers and allay the concerns of many House members. It also required U.S. partners to adhere to environmental practices and regulations similar to its own. The ability to enforce these clauses, especially with Mexico, and with much consideration and emotional discussion the House of Representatives approved NAFTA on November 17, 1993. Clinton signed it into law on December 8, 1993; it went into effect on January 1, 1994.

Provisions

The goal of NAFTA was to eliminate barriers of trade and investment between the USA, Canada and Mexico. The implementation of NAFTA on January 1, 1994, brought the immediate elimination of tariffs on more than one half of US imports from Mexico and more than one third of US exports to Mexico. Within 10 years of the implementation of the agreement all US-Mexico tariffs would be eliminated except for some US agricultural exports to Mexico that were to be phased out in 15 years. Most US-Canada trade was already duty free. NAFTA also seeks to eliminate non-tariff trade barriers.

Mechanisms

Some argue that NAFTA has been positive for Mexico, which has seen its poverty rates fall and real income rise (in the form of lower prices, especially food). Others argue that NAFTA has been beneficial to business owners and elites in all three countries, but has had negative impacts on farmers in Mexico who saw food prices fall based on cheap imports from U.S. agribusiness, and negative impacts on U.S. workers in manufacturing and assembly industries who lost jobs. Critics also argue that NAFTA has contributed to the rising levels of inequality in both the U.S. and Mexico.

Trade

Overall, NAFTA has not caused trade diversion, aside from a few industries such as textiles and apparel, in which rules of origin negotiated in the agreement were specifically designed to make U.S. firms prefer Mexican manufacturers.

Industry

Mexican factories which take in imported raw materials and produce goods for export have become the landmark of trade in Mexico. These are plants that moved to this region from the United States, hence the debate over the loss of American jobs.

Environment

The Clinton administration negotiated a side agreement on the environment with Canada and Mexico, the North American Agreement on Environmental Cooperation (NAAEC), which led to the creation of the Commission for Environmental Cooperation (CEC) in 1994.

Agriculture

From the earliest negotiation, agriculture was (and still remains) a controversial topic within NAFTA, as it has been with almost all free trade agreements that have been signed within the WTO framework. Agriculture is the only section that was not negotiated trilaterally; instead, three separate agreements were signed between each pair of parties. The Canada–U.S. agreement contains significant restrictions and tariff quotas on agricultural products (mainly sugar, dairy, and poultry products), whereas the Mexico–U.S. pact allows for a wider liberalization within a framework of phase-out periods.

Mexico has gone from a small-key player in the pre-1994 U.S. export market to the 2nd largest importer of U.S. agricultural products in 2004. The allowance of free trade removed the hurdles that impeded business between the two countries. As a result, Mexico has provided a growing meat market for the U.S., leading to an increase in sales and profits for the U.S. meat industry.

Production of corn in Mexico has increased since NAFTA's implementation. However, internal corn demand has increased beyond Mexico's sufficiency, and imports have become necessary, far beyond the quotas Mexico had originally negotiated..

NAFTA has increased U.S. agricultural exports to Mexico and Canada even though most of this increase occurred a decade after its ratification.

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