chapter 1

The Ubiquity and Importance of International Competition

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MOTIVATION

On my birthday, my wife, who usually buys most of my clothes, included among my presents several shirts. I admired the colors – bright, because she accuses me of dressing like an English schoolboy – and the styling, but, in all honesty, I was more impressed by the origin of the shirts. One was from Mexico. A second was from Malaysia. No surprises there. But the third was from Mongolia. Mongolia! With the alliterative three Ms, I knew I had the opening for this chapter. What more evidence do you need for the ubiquity of international competition than three shirts, purchased at the same US store, coming from three countries as different as Mexico, Malaysia, and Mongolia?

But that is not all. The UN currently lists 17 countries beginning with the letter M. As a quick test of your global awareness, can you list all 17?[1] Would it have surprised you if that third shirt had come from any one of those 15 other "M" countries? I think not. The fact that today a basic commodity could come from literally any of 17 countries beginning with the letter M is indicative of just how interconnected the world economy has become. To confirm this, do what I ask my students to do to their neighbors on the first day of class – look at their underwear! Where was it manufactured?[2] Point made.

But it is not just the products you buy that are affected by international competition. So is your job and the salary you receive in that position. How many of you can honestly say that your career has been untouched by foreign competition capturing the market for your products, or when a desirable job opportunity was either "offshored" or pursued by an internationally mobile applicant from another country?[3]

We are all familiar with the offshoring of over 2 million US manufacturing jobs that are estimated to have been relocated overseas since 1983,[4] but even in my sphere which is perhaps the last bastion of invulnerability to offshoring – academia – the threat is real. Already some IT support functions for higher education have been moved to India and contributed to the growth of an industry that now employs over two and a half million workers (Ghemawat, 2011). Some professors have left the USA for positions at foreign institutions: from Harvard Business School, professors have recently gone to be deans of business schools in China and the UK, and the President of Caltech left to run the King Abdullah University of Science and Technology in Saudi Arabia. Further, students have been voting with their feet by choosing to attend a university outside their home country. One in ten students at Scottish universities is now from England (not just hoping to study with a member of the royal family) even though they pay tuition fees their Scottish brethren do not. Australia is one of the largest educators of foreigners with over 500,000 overseas students, or about 25% of the student population in higher education.[5] And many countries, such as Malaysia, are building their own institutions to bring their students home from the UK and Australia.[6] When even academia is subject to the vagaries of international competition, we know it must be having an effect!

I began to draft sections of this book in the late 1990s, a period that saw diminished interest in issues of international competition. The threat from Asia, and Japan in particular, appeared to be over after the Japanese bubble burst in 1990 and the Asian tigers suffered the crisis of 1997. The Internet and the "new economy" took all the news, bursting onto the scene with the promise of huge and lucrative new markets. Yet international competition always remained a vital part of the economy. Even today, which is the more interesting business opportunity: another channel of distribution to reach existing customers called the Internet, which perhaps accounts for 5% of your sales;[7] or a huge foreign market that typically accounts for at least 80% of your global industry?[8] Put another way, the entire Internet economy today is only equivalent to the GDP of the fifth largest country in the world (Dean *et al*., 2012).

As I conclude this book in the second decade of the twenty-first century, international competition is back on the front burner. The bursting forth of China, and to a lesser extent the other BRIC countries and emerging markets, onto the world trade stage has brought about a new wave of concern about globalization – this time affecting professionals as well as manual workers. Offshoring has reappeared as a campaign issue in the US Presidential elections. China has grown at a compound rate of nearly 10% per annum for the last 20 years, putting to shame developed country growth rates even before their recent struggles. With that country's growth, along with the rise of India, it is as if nearly 2 billion new workers and consumers suddenly appeared on the

world scene, adding one-third to the population integrated into modern economic activity. No wonder there have been huge repercussions from these events.

The "Great Recession" only heightened our awareness of global interconnectedness. What began as a subprime mortgage crisis in the USA in 2007 quickly became a global financial crisis and then a global recession as "financial contagion" spread around the world. Capital flows, both long-term investment and short-term speculative, dominate the world exchanges. Up to $5 trillion is traded internationally each day,[9] with profound consequences as exchange rates fluctuate unpredictably. As we strive to recover from that recession, it is concern about the viability of the eurozone – itself a construct that reveals how interconnected economies have become – that holds the US economy in thrall. No one can attempt to predict the future performance of the US economy without having some indication of EU and, of course, Chinese economic performance.

And it is not just the intertwining of economies that has increased. At last count in 2007, nearly 50,000 transnational corporations with 600,000 affiliates around the world were responsible for $11 trillion of output – more than the total value of trade.[10] The Fortune 500 firms now have, on average, about 30% of their profits from overseas and an even larger share of their sales.[11] Moreover, trade has been accompanied by an increase in international investment. Roughly 45% of the world's capital stock is owned by companies or individuals that are domiciled in foreign countries (Roxburgh *et al.*, 2011), and in many developing countries, such as Mongolia and Mozambique, more than 10% of GDP is represented by foreign direct investment.

Companies have therefore globalized along with economies so that competition among multinationals with a presence in many countries is one of the most obvious features of the contemporary business landscape. In 1975 the top 10 auto manufacturers came from four countries and each had substantial production facilities only in their home markets. Today, the top 10 auto manufacturers come from five countries (two of them different than before), and many of these have nearly 50% of production outside their home markets. It is true that the absolute number of companies with international activities is limited – Ghemawat notes that only 4.6% of all US firms were exporters and only 0.1% had multinational activities – but their importance to the economy is substantial since they are typically the largest, most efficient firms in the economy. Those same 0.1% of firms, for example, account for a fifth of all private sector jobs in the USA, while including foreign multinationals operating in the USA raises that share to a quarter.[12]

At the beginning of the twenty-first century, therefore, only a very few businesses are completely isolated from foreign trade. Whether in the form of direct competitors, overseas customers, offshore suppliers, or global media, nearly all companies have

economic relationships that cross borders. For such organizations, understanding how to compete internationally – how to capitalize on the opportunities presented by foreign markets and exploit favorable overseas factor costs; how to ameliorate the risks presented by volatile exchange rates and heterogeneous competitors and economic conditions; and how to cope with the complexity of managing global flows of products and information among people of diverse cultural backgrounds – will be critical to their future competitive success.

EXTENT OF GLOBAL ECONOMIC INTERDEPENDENCE

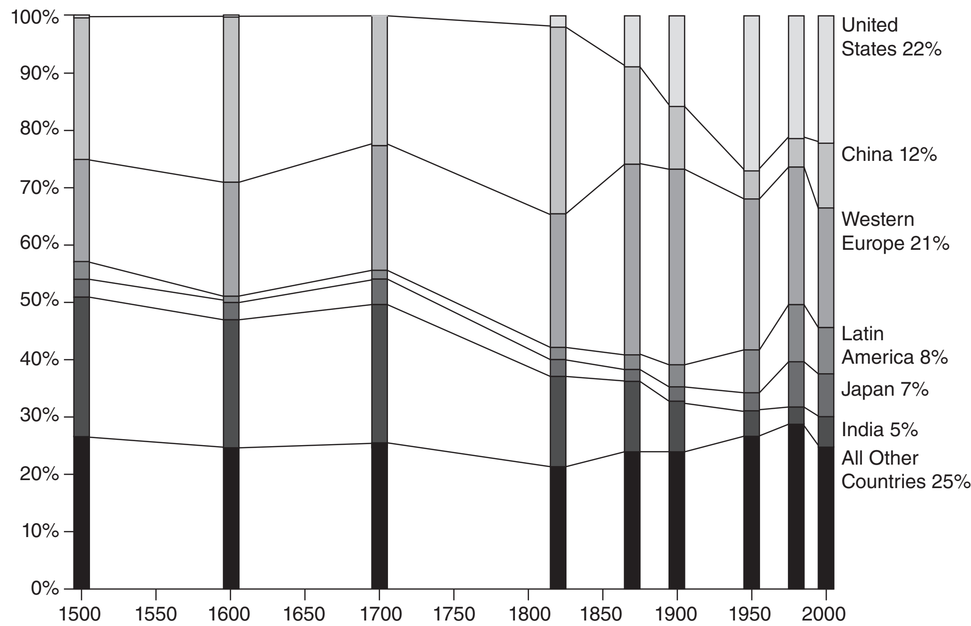
Once upon a time there was a world where over 40% of GDP involved trade across borders, where a single currency dominated the world monetary system, and where international flows of capital accounted for up to 5% of GDP even in the richest countries (Baldwin and Martin, 1999). If this description sounds like an optimistic scenario for the world in the middle of the twenty-first century, think again. This *was* a description of the world at the turn of the last century! In 1900, in many industries nearly 50% of manufactured goods were exported, while many raw material-producing countries exported 80% of their output. The pound sterling, backed by gold, was the world's only reserve currency, and, reflecting its dominance in the global economy, the UK owned more than half of foreign direct investment in many countries (including 46% in the USA as late as 1914).[13]

The basis of the economic system in 1900 was, of course, very different from today's global economy. The pattern of trade at that time swapped goods manufactured in the home country for raw materials extracted from colonies within the various empires then in existence, on terms favorable to the colonial powers. In spite of such obvious historic differences, the fact remains that since the establishment of sovereign states in Europe during the seventeenth century, and certainly since the Industrial Revolution in the early nineteenth century, international trade and competition has been a prominent feature of the world economy. The anomalous period in history was, in fact, the interwar years, particularly the Great Depression, when protectionist trade policies both reduced trade and substantially hindered economic recovery.

Similarly, for much of time, Western Europe, China, and India contributed roughly equal shares to global GDP (Exhibit 1.1). In the sweep of history, the anomalous period is not today, but actually between 1800 and 2000 when China and India by and large disappeared from the global economic landscape.

Viewed in this light, the increase in the level of trade since World War II and the emergence of the BRICs, which has led some observers to see the world as profoundly more interdependent than ever before, is, in fact, merely a return to a normal state of

Exhibit 1.1.
Shares of Global GDP since 1500



Source: Angus Maddison, University of Groningen.

affairs. World trade increased at about twice the rate of GNP growth between 1955 and the impact of the first oil crisis in 1975. Since then, and in spite of lower world economic growth, trade has continued to expand 50% faster than GNP. As a result, the share of world production that is exported has indeed increased from about 7% in 1955 to nearly 25% in 2005, according to the Strategy, Policy, and Review Department of the International Monetary Fund in 2011. In the manufacturing sector, which is inherently more traded than the service sector, exports now typically make up nearly 80% of output in most developed countries. Even the USA has half of its manufactures leaving its borders[14] (more than five times the export share of its post-WWII trough in 1955). But it was only in the 1980s that these numbers surpassed their level in 1914.

Similarly, China's position as the second largest economy with a 12% share of global GDP is merely a recovery toward equivalence with its share of global population at 19%. The USA remains today the world's largest economy, but it is safe to say that its preeminence will erode until surpassed by China around 2020.[15]

TWENTY-FIRST-CENTURY DIFFERENCES

The really interesting question is whether the current degree of interdependence is substantively different to what has gone before, or is merely reverting to the long-run trend (see, e.g., Bordo *et al.*, 1999; Baldwin and Martin, 1999). I argue that it is substantively different because of the **pervasiveness** of its effect – in terms of both the numerous aspects of daily life that are now affected and the percentage of the population that is directly affected – and its **speed**. Unlike when most of the population lived and worked their entire lives within a few miles of where they were born and only rarely saw outsiders or purchased goods not made in the locality, there are few people in the world today truly excluded from international connections – as the T-shirts with strange English language phrases that seem to adorn even recently discovered indigenous tribes illustrate. Moreover, the speed with which events in one part of the world, such as the US subprime mortgage crisis, affect everyone around the world now matches the rate that only a natural disaster, like the eruption of Krakatoa, would have achieved in the past.

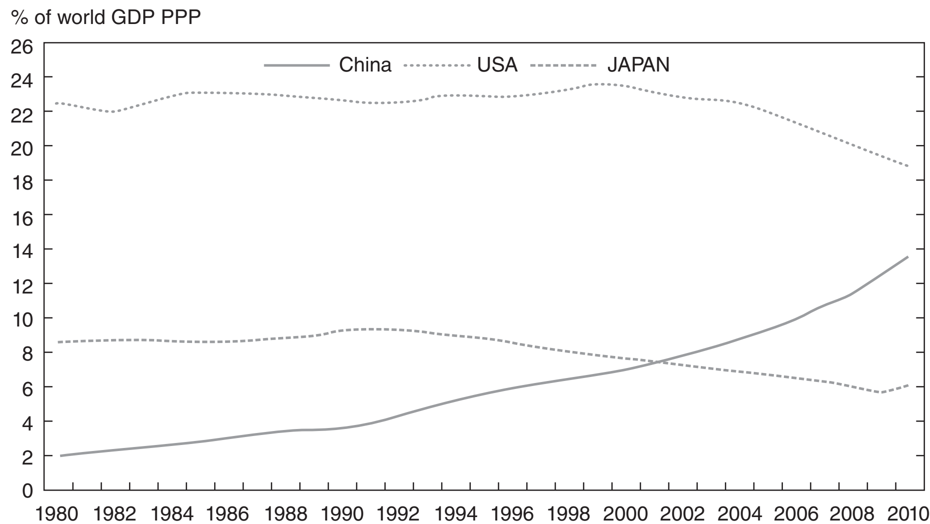
Some of the differences between the early twenty-first and early twentieth centuries are obvious. This time around global interdependence is primarily economic, and participation by countries is, by and large, voluntary. In contrast, historical interactions among countries were more often than not compulsory as militaristic regimes extended empires around the world.[16] In the past, the direction of trade in industrial or manufactured goods was from developed countries to the developing world in return for its raw materials. Now it is the developing countries that are exporting manufactured goods to the developed world.

Indeed, if today nation states are splintering rather than combining (six countries, for example, replaced the former Yugoslavia), the basic unit of economic policy is actually expanding. The establishment of the eurozone and the expansion of the EU to 27 countries, with a further six scheduled or keen to enter, demonstrate the trend toward economic integration. If the EU moves further toward fiscal integration to accompany that monetary integration, the trend will be extended. The creation of free trade zones like NAFTA, AFTA, and Mercosur also support the move toward global economic integration.

Other differences are more subtle, only appearing in retrospect but revealing a **second wave of globalization** in the twenty-first century. This succeeds the initial post-WWII wave which saw the growth of trade among, and movement of manufacturing jobs between, a select group of what became developed countries.

Perhaps the most important difference about the second wave of globalization is the appearance on the global stage of the **emerging markets**.[17] While measures can

Exhibit 1.2.
Evolution in Shares of Global GDP



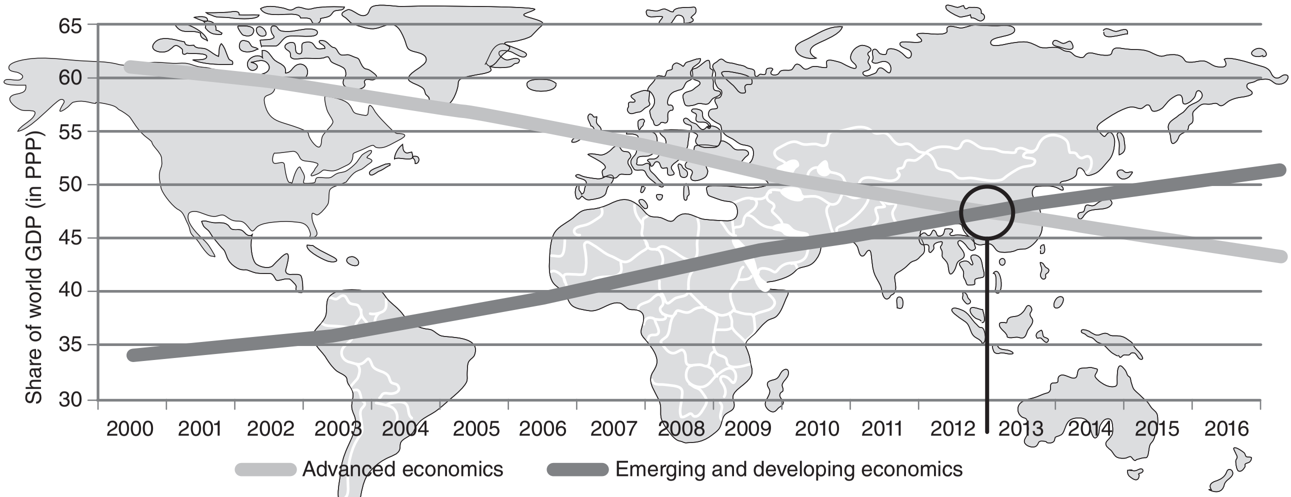
Source: World Development Indicators and OECD estimates for 2010.

differ, no one can argue with China's emergence as an economic superpower in the last 20 years (Exhibit 1.2). From only 2% of global GDP in 1982, it has become today the second largest economy in the world. By some definitions, emerging markets collectively are set to surpass the GNP of advanced economies in 2013 (Exhibit 1.3), and everyone predicts that the majority of world economic growth will occur in developing countries over the next 30 years (Exhibit 1.4).[18] The balance of economic power in the world is indeed shifting, as the CFO of GE, Keith Sherin, recognized when he stated, "We are shifting our centre of gravity to emerging markets" (Crooks, 2013).

Indeed, in 2012 over 350 million Chinese were considered middle income (achieving an income of between $6,000 and $15,000 dollars per annum) (quoted in Carlson, 2012), and the proportion of that population earning between $17,000 and $35,000 a year was expected to increase from 6% in 2010 to 51% by 2020 (quoted in Moody and Chang, 2013).

While the BRICs are the largest and most visible of the emerging markets, we should not overlook the role to be played by economies like Indonesia (with a population of 238 million currently contributing about 1.25% of global GDP), the Philippines,

Exhibit 1.3.
Evolution in Shares of Global GDP



Source: International Monetary Fund, World Economic Outlook Database, September 2011.

Exhibit 1.4.
Evolution in Shares of Global GDP

GDP of top 30 economies
USDin

	2010	2050
Emerging markets	10	57
Developed markets	27	49
Total	37	106

Largest countries	Share of 2050 GDP[1] (%)
China	20
India	7
Brazil	2
Mexico	2
Turkey	2
Other 14 emerging	14
US	18
Japan	5
Germany	3
UK	3
France	2
Canada	2
Other 5 developed	4

"Emerging markets" will be 19 of the top 50 economies by 2050

Source: HSBC "The World in 2050: Quantifying the Shift in the Global Economy."

Turkey, or Nigeria. As these countries embrace the global economy and shift workers from subsistence agriculture into the industrial sector, another several hundred million workers will join the global labor force.

As they do so, they will contribute to another aspect of the second wave of globalization. In this phase, manufacturing jobs move to a **second generation of low labor-cost locations** – from Japan and Southern Europe to Madagascar and Mozambique (as the introduction to the chapter suggested). Footloose industries, like textiles, are already onto their third or fourth location as the crisis in Lesotho's textile industry illustrates. Primarily owned by Taiwanese companies, Lesotho relied on 55 factories employing 55,000 workers for about 20% of its GDP, until the Great Recession and the impending end of a preferential trade agreement with the USA saw much of that output shift to Bangladesh.[19]

But it is not just manufacturing jobs that are being offshored. Today it is **knowledge workers** that are leaving developed countries. The fear of call center workers, software developers, financial analysts, and even radiologists as their jobs move to the Philippines and India, or Hungary and Poland, is readily apparent. Forrester Research famously forecast that 3.4 million service jobs would be offshored from the USA between 2003 and 2015 (McCarthy, 2004). Even MBA students are feeling the hot breath of emerging market competition for their jobs. Companies like Grail Research and Office Tiger, established or used by consulting firms Monitor and BCG

respectively, now employ 350 and 4,000 people in India and are performing tasks that were mine when a new management consultant in the 1980s.

Finally, the growth of the new economies is leading to the inclusion of their largest and most successful firms into the **global corporate elite**. In 2005 only 27 of the Fortune Global 500 came from the BRICs. Today 83 of the top 500 are from those countries and more than 100 are from developing countries. CEMEX and Grupo Bimbo (the world's largest baker) from Mexico, Mittal Steel and Tata Consulting Services from India, Haier in appliances, Lenovo in personal computers, and Huawei in telecommunications from China, to say nothing of LG and Samsung from Korea, have all penetrated the global elite – and not just as OEM providers, but as globally recognized brands in their own right.

We are now in a world of open economies, and to be successful in such an environment, companies must understand their role in, and develop their strategy for, international competition. But before we get there, we need to investigate whether the trend toward globalization has homogenized the world – or in the words of one of its more vocal advocates, Tom Friedman, "flattened" the globe – and if its continuation is inevitable. If those like Friedman are correct, perhaps we do not need the subject of international strategy since we are on the way to becoming a single integrated world!

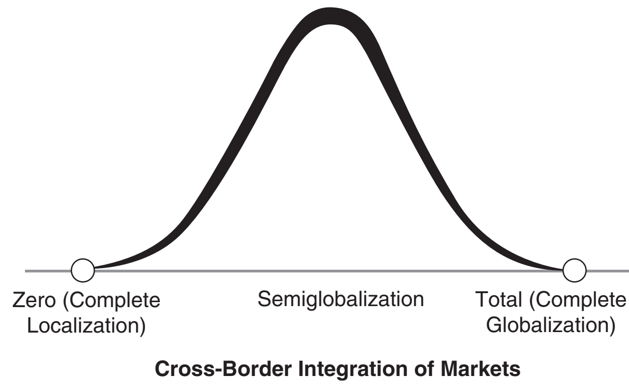
IS THE WORLD REALLY THAT INTEGRATED?

Important observers of international competition, while not disagreeing with the data on increasing economic interdependence, disagree profoundly with the argument of a flattened world. Pankaj Ghemawat has even coined a phrase – the "10% presumption" – to reflect his belief that on most measures, whether economic or social, the world is only about 10% of the way toward complete integration (Ghemawat, 2007). Similarly, Alan Rugman provides evidence that only 3% of even the largest companies are truly global. Instead, nearly 90% retain a primarily regional footprint (Rugman, 2001).

The evidence they present is, in fact, central to a text on international strategy, since, as Ghemawat points out, it is only the fact that the world is "semiglobalized" that the subject exists (Exhibit 1.5)!

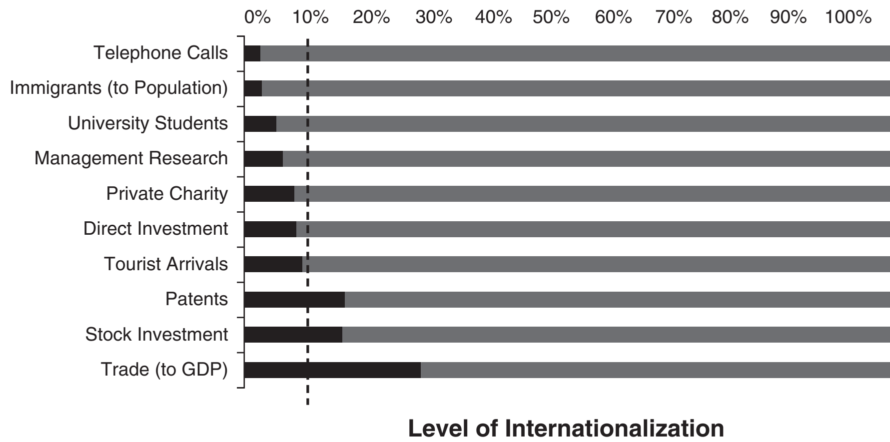
Ghemawat, for example, examines data on a range of variables from telephone calls and university students to patents (Exhibit 1.6). He argues that if the world was perfectly integrated, the distribution of these activities across countries would simply match populations or their share of GDP. With perfect integration, such that, for example, the distribution of the student body in an MBA class would match global populations with 19% Chinese, 18% Indian, and so on,[20] he finds that many measures fall well short even of his 10% presumption.

Exhibit 1.5.
Implications for Global Strategy

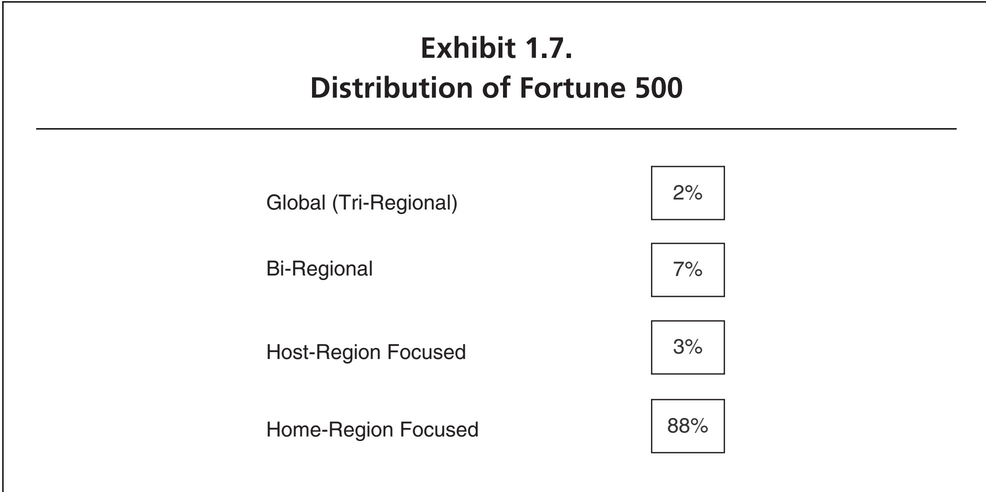


Source: Ghemawat, 2003.

Exhibit 1.6.
The 10% Presumption



Source: Ghemawat, 2007.



Rugman and Verbeke (2004) support their contention that regional strategies are still the most appropriate for firms that face international competition by measuring the global footprint of large corporations (Exhibit 1.7). Defining presence in one of the three regions of the world – Americas, Asia, and Europe – as having at least 20% of a firm's sales there, they demonstrate that only 2% of the Fortune 500 have a truly global footprint, operating across all three regions, and 88% remain home region focused with, on average, 88% of their sales in that home region. While this is older data (2001) and a firm could have 39.99% of its sales outside its home region and still be called a "home regional," the data does show how limited the global footprint of even large multinational corporations remains.[21]

Another cut at the extent of economic interdependence is to examine price differences across countries. If the world were perfectly integrated, the "law of one price" should hold so that any item could be purchased for the same price, except perhaps for the expense of transportation, anywhere around the world. Again, the evidence for this is weak – a fact that tourists observe in every transaction they make in a foreign country. Even within the EU, where laws have been standardized and one currency is in effect, prices differ substantially (Exhibit 1.8). *The Economist* famously monitors the "Big Mac Index" that tracks the relative price of a McDonald's hamburger – chosen since the product reflects a good mix of inputs – across countries. This typically illustrates a 4:1 ratio in prices between the highest- and lowest-priced countries. Similarly, the price of a Starbucks latte varies from $2.50 in New Delhi to $9.83 in Oslo (at current exchange rates) (illustrated in the *Wall Street Journal* in 2013).

A more visual representation of the lack of global interdependence is the social network created by Facebook, in which the level of brightness reflects the density of

Exhibit 1.8.
Price Variations within the EU in 2002

Euro–area difference between highest and lowest price	
	(Percentage)
Cinema ticket	170
Bottled water	115
Coffee in café	102
Milk	77
Levi 501 jeans	75
Nurofen	70
Pampers	57
CDs	40
Big Mac	22
DVD player	15
Computer game	13
Iron	7

Source: Dresdner Kleinwort Wasserstein (Economist 10/18/03).

"Friends" linkages.[22] The fact that the map looks like a picture of the world at night, with each country brightly illuminated but with the oceans essentially dark, shows how important nation states remain as units of social interaction.

Finally, we can simply take the data that is used as evidence for global integration to show the converse – the glass as half empty, not half full. While trade (imports plus exports) now accounts for 56% of global GDP, that number actually only proves that nearly three-quarters of economic activity still takes place within, not across, borders! While this share is decreasing, it is still the fact that the majority of transactions and interactions occur within, not between, countries.

We can, therefore, conclude that today we are in Ghemawat's "semiglobalized" world. After the disruptions in the first half of the twentieth century from two world wars and the Great Depression, the world has resumed its movement toward economic interdependence. As we surpass previous levels on some dimensions and reach equivalence on others, we nevertheless have to acknowledge that the majority of economic activity still occurs within the borders of the nation state and that it is the issues raised by the profound differences that remain between countries which confront firms in international competition.

FUTURE OF GLOBALIZATION

Is the world nevertheless set on an inexorable path of increasing integration that will bring with it an inevitable harmonization of economic and cultural life around the world? That is certainly the impression conveyed by the previous discussion and one that seems to prevail over concerns about violent conflict arising from entrenched religious or ethnic divides. Yet Niall Ferguson reminds us that prior to World War I many optimists were predicting the end of war as economic linkages between major powers, notably the UK and Germany, became so central to their economies that they simply could not afford to fight each other (Ferguson, 2005). Tom Friedman made a similar claim in 1996 when asserting that no two countries that had McDonald's had ever gone to war – unfortunately that claim fell apart in the Balkan conflict. Thus we should not be naive about the inexorability of continuing integration among economies, or the favorable outcomes arising from such interdependence.

Potential dangers to global harmony abound. Niall Ferguson, again, reminds us of the analogy to 1914 by pointing out that no one then believed a world war would start with a crisis sparked within one small European state and ultimately invoked by the neutrality of an even smaller state. Today, the risk of such a war could lie not in Europe, but in the Middle East or in Asia. And superpower conflict is not at an end. One Presidential candidate believed that Russia was the number one geopolitical enemy of the USA. Others see China's expansionism in South East Asia as the major geopolitical concern for the twenty-first century. Regardless, we cannot just hope that global interdependence continues. We must instead examine the forces that underlie such behavior in order to predict its future evolution.

Drivers of Globalization

The underlying causes of globalization are "the usual suspects" identified by many observers, although classified in different ways into a combination of technological and ideological drivers (Dreher *et al*., 2008). Among these are the new **digital technologies** – the Internet, broadband communications, personal computers, etc., that enable the transfer of information at speeds and prices that were unimaginable only a few decades ago. In 1960 there were only 36 telephone circuits across the Atlantic[23] and investment banks had a room of telephonists whose only task was to come to work early and dial until they got one of those lines (which was then held by the company for the entire day). A transatlantic phone call at the time cost $30 per minute. When I arrived in the USA as a student in September 1976, I telephoned my parents once to let them know I was safe, and then not again until Christmas Day because the cost (about $5 a minute in 1976 dollars) was so high. Today, only 40 years later, there is

close to infinite trunk capacity, both cable and satellite, across the North Atlantic, and a call costs 2 cents per minute, and is even free on Skype!

Other technological advances in air travel, shipping, and logistics (think 747s and A380s as well as container vessels and very large crude oil carriers) have driven down **transport costs** for people and physical goods. Transport, freight, and insurance costs more than halved to 3% of import prices between 1970 and 2002.[24] The gradually increasing size of container ships, for example, reduced shipping costs by about $50 per FFE (a 40-foot container) or 2.5% each year since 1975, and allowed for a dramatic expansion in traded goods. Indeed, the shipping cost for a pair of sneakers from Asia to Europe is now less than 25 cents. But technological advances have also created enormous possibilities for the exchange of social and cultural motifs. The ubiquity of *Who Wants to be a Millionaire?* or *American Idol* (with the substitution of your country's name in the title) on media as diverse as satellite television and streaming video represents only the extreme of a more culturally integrated world. The increasing standardization of languages around the world – English is the only language allowed for air traffic controllers anywhere in the world, 55% of all billion websites are in English, 4% in Chinese[25] – is another metric of cultural homogenization.

If it is technology, and the productivity improvements it has wrought, that have driven globalization, it has been facilitated, and in many ways legitimized, by the predominance of a **liberal democratic capitalist philosophy** that expounds the virtues of free trade, deregulation, and privatization. The success of the "free world" after WWII led to the acceptance by a majority of countries of the benefits of such an economic and political regime. The ending of communism and the breakup of the Soviet Union seemed to validate that belief. The adoption of the policy of "it is glorious to get rich" in China, and the creation of the EU, eurozone, and Pacific Alliance are other indicators of the political support for integration and liberalization of trade. Indeed, average tariff rates have fallen from 40% in 1947 to about 4% today.

To the extent that some countries have resisted the siren call of liberal philosophy, the hegemony that economic success brings has put enormous pressure on them to fall in line with those values and ideologies. Holdouts, like North Korea and Cuba, remain rare and increasingly desperate. This free trade philosophy has, in turn, produced a set of state and international institutions and policies that directly promote globalization since the benefit of increasing interdependence is one of its cornerstone tenets.

The agents that have translated the underlying drivers of globalization into reality have been multinationals and their operation in the product, capital, and labor markets. Without their actions in exploiting the potential of technology and market freedoms, globalization would not have progressed as far or as fast. Given these drivers,

unless a major political or ideological change occurs, it is hard to see the extent of globalization reversing in the next decades. Perhaps the rate of increase will slow, but the level of integration will be unlikely to fall.

THE “GLOBALIZATION” DEBATE

The obvious effects of increasing international interdependence are economic. However, there are social and political consequences which create a more multifaceted context within which multinationals operate, and which have induced passionate responses from sections of society (see, e.g., Mickelthwait and Wooldridge, 2003).

While there are numerous strands to this reaction, from anarchistic rejections of any centralized power and libertarian paranoia about the New World Order, to environmental concerns about global warming and left-wing visions of a new global corporatism, it is worth examining the broader **social impact** of globalization. Since multinationals are the actors driving globalization, they are ready targets for those who oppose its outcomes. As a result, if you are an executive operating in an interrelated world, it is vital to understand societal responses to globalization, as Shell found when it tried to dispose of a production rig in the North Sea; when Nestlé was restricted in the marketing of infant formula to developing countries; when the WTO abandoned its meeting in Seattle because of violent street protests; and as banks discovered during the “Occupy” movement.

While other social trends, such as climate change and income inequality, are also forcing their way onto boardroom agendas, it is the fallout from the “globalization” debate that concerns us here. Indeed the prevalence of the word globalization (whose usage has quintupled in the last 10 years)[26] has almost made it a cliché. Yet the phenomenon remains poorly defined, which has led many commentators to confound it with contemporaneous trends, such as US hegemony, which are not inevitable consequences of globalization.

Definition

Perhaps the best definition of the term *globalization* is as “a process of increasing transactional interdependence across borders of nation states” (Held and McGrew, 2007). This definition has the merit of viewing globalization as a process rather than an end state, and of maintaining a more than purely economic perspective on what is occurring, since transaction is an intentionally broad term covering social interactions as well as market exchanges. Globalization is, then, a multidimensional process that captures not just the economic integration of product, labor, and capital markets, but also cultural, ideological, and institutional integration.

Benefits

The primary benefit of globalization is economic. It is accepted by rational thinkers that increasing trade and information flows increases aggregate global economic welfare. Even mainstream critics of globalization do not debate that conclusion.

Free Trade and Specialization

To clarify the benefits of free trade one need go no further than the Ricardian 1817 doctrine of **comparative advantage**. Even if one country has an absolute advantage in the production of every good, trade will still occur between countries according to the relative advantage each has in particular goods (see box). Similarly, if we believe that non-coercive exchange is mutually beneficial – no party will participate unless it gains – any trade must increase overall welfare. No sensible economist disagrees with the conclusion that, in aggregate, trade improves welfare. Even at the current, historically low levels of protectionism an ending of tariffs would raise global GDP by 1–2%.[27] And when Japan ended a period of almost complete autarky after 1853, it has been estimated that it benefited by 8–9% of GDP (Bernhofen and Brown, 2005).

Theory of Comparative Advantage

A simple exercise demonstrates that even if one country has an absolute advantage in the production of two goods, trade is still beneficial to both parties. Ricardo illustrated this using wine and cloth produced in England and Portugal. Note in the example below that Portugal can produce more per capita than England of both cloth and wine. If we assume two people live in each country, then in the absence of trade, Portugal can produce 8 units of wine and 4 of cloth, England 4 units of wine and 3 of cloth, for a total of 12 units of wine and 7 of cloth. If trade occurs and Portugal specializes in the production of wine, in which it has the comparative advantage (it can produce twice as much wine per capita as England, but only one-third more cloth per capita), and England in cloth, the two together can now produce 16 units of wine and 6 of cloth. Whether at Portuguese prices with wine being half the cost of cloth, or English prices when wine costs 75% of cloth, both countries are now better off.

Per capita output

	Portugal	England
Wine	8	4
Cloth	4	3

The benefit of free trade in goods also applies to the free movement of capital and labor. The former actualizes comparative advantage by ensuring that capital

flows to the relevant sectors within each country and increases specialization. The latter provides another mechanism for improving global productivity by reallocating labor to more efficient producers. It also ensures equality of opportunity with all the spillover benefits that freedom of movement brings to education, careers, and personal fulfillment.

Intra-Industry Efficiency

An additional benefit of global competition is the reallocation of production to more efficient producers within each country. When we recognize that all firms in an industry are not equally productive, it is easy to see that trade will drive out the least efficient producers, some of whose output will be replaced by more efficient producers. This **infra-marginal reallocation of production** within the country has been shown to increase welfare by an additional 1–2% of GDP (Bernard *et al.*, 2007).

Increased Variety

The other important economic benefit of globalization is to increase **consumer choice**. This argument is less frequently made, but increases in variety are a real consumer benefit. Do not forget that while some may decry the globalization of McDonald's, no one is forced to buy McDonald's. In fact, Americans are happy to enjoy Italian and Mexican restaurants. Should we ban those because they are an outcome of globalization? Economists estimate that increased variety adds between 1 and 3% to GDP (Broda and Weinstein, 2006).

Drawbacks

Economic Inequality

Concerns about the economic effects of globalization on welfare focus not on whether there is an aggregate gain, but on the distribution of those gains. The argument is that **increasing inequality of income** can result from globalization, both **between countries** and **within countries**. Even if in aggregate countries are better off from free trade, not every country or individual is guaranteed to benefit from globalization.

Exacerbating this concern is the fact that the **losers are usually concentrated** so their loss is of first-order magnitude, while the **benefits of free trade are diffused** among all participants in the economy so their gain is only of second-order magnitude. It is, therefore, very easy for politicians and polemicists to publicize the detrimental impact of free trade, and hard for its proponents to justify. As an example, NAFTA immediately and visibly hurt the earnings and job prospects of several groups of workers, including car workers and those involved in electronics assembly. For them, the movement of manufacturing facilities to maquiladoras in Mexico did direct damage. The compensating benefits accrued to all consumers who each experienced very small

savings on the price of their next new automobile. The “great sucking sound” of jobs moving south of the border was easy to identify; less evident was the marginal reduction in the CPI that resulted.

The within-country inequality argument falls straight out of international trade theory and states that winners are those who have skills or factors that are in relative abundance in a country, and that losers are those whose skills or factors are in relative scarcity in the country.[28] In the USA, since the country is relatively well endowed with capital, intersectoral shifts that result from free trade generally have the first-order effect of harming labor. This is particularly true for unskilled labor, which in the USA has lost share of GDP to capital and skilled labor over the last 30 years. In 1980, unskilled labor’s share of national income was approximately 26%; by 2004 that had fallen to 18%, according to the IMF in 2007. Partly as a result, the Gini coefficient measure of the dispersion of income within a country has risen in the USA from .40 in 1980 to .48 in 2011.[29]

Indeed, opponents of free trade in the USA have pointed to the increasing wage disparity between skilled and unskilled workers as evidence of the adverse effects of free trade. Unfortunately it is not clear that the major cause of increasing US income inequality has been trade. As Paul Krugman has pointed out, since trade only affects just over 20% of the economy, it is hard to find an explanation there. Services now make up over two-thirds of the economy and it is difficult to see how international trade in fast food – of which there is none – contributes to the widening of the wage gap (see box).

What Explains Widening Income Inequality in the USA?

Plausible explanations beyond international trade for widening pretax income inequality in the USA since the 1970s include technology, a decline in unionization, immigration, and the one-time outward shift in the global labor supply resulting from the sudden integration of hundreds of millions of subsistence wage agricultural workers into the industrial sector from India and China. However, it has to be acknowledged that the latter two causes are indirect results of globalization, and that the findings remain controversial and await further research.

Technology can increase income inequality by substituting capital for labor – automating tasks previously performed by unskilled labor. More recently, analysis suggests that skill-biased technology, notably computerization, might be to blame for widening inequality. If computers complement high-skilled (i.e., college-educated) employees by enabling them to work more effectively, but substitute for the routine work of less educated workers, their widespread adoption – the main technological change since the 1970s – can produce a divergence in earnings between college and high school graduates in the USA (Autor *et al*., 2008).

Similarly, immigration of 20 million over the last 20 years (of whom perhaps 8 million were illegal immigrants) is a culprit that has been identified as depressing unskilled wages in the USA.

More importantly, a dramatic expansion of the global workforce in the last 20 years has reduced the capital/labor ratio worldwide and driven down wages. Dick Freeman estimated that the addition of China, India, and the former Soviet bloc to the global economy doubled the global workforce and halved the capital labor ratio to a level from which it will take 30 years to recover (Freeman, 2005). This phenomenon would cause a drop in real wages, even though trade at every point in time still improves welfare.

Note that losers in developing countries, in contrast, are capital and skilled labor. Unskilled labor actually benefits from free trade – think of the millions of Chinese workers who have migrated from rural poverty to, at least, a better paid life in urban factories.[30]

Between countries the disparity in incomes is even more obvious. Today the wealthiest 225 individuals have assets that are greater than the annual income of the poorest 2.5 billion citizens. The three richest have assets larger than the combined GDP of the world's 47 poorest countries (Mittelman, 2000).[31] What is more, those inequalities are increasing and are concentrated on the north–south divide.

Race to the Bottom

Unfettered global capitalism, it is argued, will drive economic conditions to the lowest level. If there is any advantage to be gained from exploiting workers or degrading the environment, the harsh pressures of global competition will force **every country to copy the practices of the most exploitative corporation or nation**, or suffer the consequences. However hard individual governments try to raise such standards, the pressures of globalization condemn them either to join an inexorable race to the bottom, or to see their nation bypassed by global corporations.

This concern rose to prominence in the debate over the environmental impact of globalization, since it has been observed that in the race to the bottom, the environment is the first to suffer. Former Treasury Secretary Larry Summers even went on record when at the World Bank arguing that exporting pollution to developing countries would increase social welfare!

Theory of the Race to the Bottom

When different jurisdictions compete to attract firms by lowering taxes and regulatory burdens – such as environmental standards and labor protections – in ways that may have

adverse social consequences, it is referred to as a "race to the bottom." This can be seen as a "prisoner's dilemma" of international political economy. Policy makers in each jurisdiction might prefer a world in which every country adopted regulations that limited harm to the environment and guaranteed certain protections to workers; but each jurisdiction has an incentive to "defect" by lowering its own regulations, thereby attracting foreign investors and boosting domestic economic growth. Thus, international competition can drive all countries to adopt weaker regulations than are ideal.

The race to the bottom has also been seen as a major barrier to coordinated international action to reduce carbon emissions and mitigate climate change. Fast-growing low-income countries, such as China and India, are loath to adopt costly environmental regulations as they attempt to catch up to their Western counterparts; and the USA and others, in turn, are loath to adopt costly environmental regulations lest more manufacturers leave their borders for China and India.

This phenomenon places multinationals in a difficult position as they too are drawn into the race to the bottom. Should they minimize their costs by relocating to or sourcing from countries with the weakest legislation, or should they adhere to a higher standard that is perhaps demanded by domestic consumers and shareholders?

As an example, in the 1980s and 1990s, Nike largely sourced from suppliers in South Korea and Taiwan. But as these countries developed, they raised working conditions and grew more expensive. Nike urged its suppliers to move their operations to lower cost regions, such as Indonesia. This was partly because the Indonesian government, under the Suharto administration, which was eager to attract foreign direct investment, was particularly harsh on unions in the country. By the mid-1990s, labor activist Jeff Ballinger drew attention to the crowded, hot, and often dangerous conditions in the "sweatshops" of Nike's Indonesian contractors, whose laborers earned less than $1 a day. These revelations, including persistent accusations that Nike's contractors employed child labor, made Nike the focus of student protest in the USA and elsewhere in the developed world (Spar, 2002).

In 2011, a study by McKinsey identified Bangladesh as the "next hot spot," to become the world's major ready-made-garment exporter within five years. But in 2012 and 2013, a string of factory fires and collapses killed more than a thousand garment-factory workers in the country. The fires and deaths instigated a wave of labor protests and demands within Bangladesh for legislation to improve working conditions and enforce existing laws. Indeed, in several cases, factory owners were prosecuted for "unpardonable negligence," highlighting lax oversight at the factories. It also caused a number of UK and US retailers, such as Tesco, to rearrange their sourcing contracts so as not to depend on Bangladeshi suppliers.

Similarly, in January 2012, *The New York Times* ran a series of reports on Chinese factories owned by the Foxconn Technology Group, where iPhones and iPads were manufactured. The reports described a series of worker suicides, deadly explosions, and details on worker conditions, such as dorm residence and long and unpredictable hours that shocked US readers and Apple customers. The tragedies and controversial conditions at these Foxconn factories could be seen as a product of the race to the bottom because China perhaps did not enforce safety regulations to win manufacturing jobs. Unfortunately, this laxity, allowed and even exploited by US firms, may also have endangered Chinese workers.

Winner Takes All

International trade theory demonstrates that, if there are increasing returns to scale, a firm with a substantial global market share will prevail over a smaller competitor in another country – even if that country has a factor cost advantage – simply because of its scale advantage. This locking in of early mover advantages, even if ultimately inefficient, historically justified "infant industry protection" in developing countries. In order to prevent a local Indian steel company being overwhelmed by imports, it was appropriate for India to impose tariffs that allowed the indigenous producer time to build globally competitive scale.

A variant of this "winner takes all" phenomenon resulting from global communications can also increase inequity. Consider the popular music business. Previously, local stars in each country would top the charts and make a good living. After MTV, the top of the charts in any country is likely to be the same in every country as Madonna, the Spice Girls, and Britney Spears in turn become global superstars. While Madonna can earn outrageous sums of money from her worldwide celebrity, a singer who might previously have been a local star finds herself squeezed out of the charts and off the earnings list. Since **the world converges on one winner**, the global concentration of income increases.

Loss of Political Sovereignty

These arguments presuppose that the integrated global economy erodes national economic sovereignty as local policies fall victim to the vagaries of "global economic forces." Indeed, one insidious drawback of globalization, which unites the Right and Left, is the idea that the nation state is losing its influence as **sovereignty is usurped** by "unaccountable" international institutions and the "invisible hand."

The right-wing version is found in the fears of survivalists and libertarians of a New World Order in which the UN flies unmarked black helicopters to impose its will on a free people. More mainstream conservatives have a sense that the USA is less able to control its own future (read, exert its power around the world) because of the power of international institutions, and resent this loss of sovereignty (exemplified by the US refusal to join the Court for Crimes against Humanity in case US soldiers get indicted). The solution they advocate is for the USA to pursue isolationist policies that limit free trade, immigration, and overseas involvements, and to withdraw from international affairs.

The left-wing version of these arguments concerns corporate capitalism and the ability of global capital markets to disrupt a country's development strategy. The first strand to this argument is a claim that **free trade condemns developing countries to remain underdeveloped**, since all they have to sell is cheap labor. Attempts to upgrade

their economies will be thwarted by global product and factor market competition, in much the same way that colonialism subjugated local development. A variant of this argument is that economic development will be delayed when highly skilled labor is sucked out of developing countries to high-wage economies. This concern is often deeply felt by graduate students from developing countries who are guilt-ridden by their decision to stay in the USA, rather than return to help their domestic economy.

The second strand to this liberal argument is the "speculators can bring down an economy" argument that arose when George Soros made a billion dollars by betting against the pound in 1992, effectively forcing the UK to exit the currency peg. Volatile capital flows, it is argued, ensure that **governments have lost the ability to manage their own economies**. They are now subject to the vagaries of global capital markets and cannot isolate themselves from these pressures to pursue their own economic policies. A less extreme version blames the IMF for imposing a standard set of economic policies – ending government subsidies of basic foods and energy, curtailing government deficits, paying back international debts, etc. – and blackmailing countries to accept these policies (by threatening to withhold loans), however detrimental the policies might be to equity and the long-term economic development of the country.

Today the complaint by the PIIGS (Portugal, Italy, Ireland, Greece, and Spain) is that they have to bend to the requirements of their Northern European counterparts and adopt unpopular austerity measures if they are to remain in the euro. Monetary and fiscal unions and free trade agreements appear to limit any government's ability to assert its sovereignty by pursuing independent economic policies.

Cultural and Ideological Imperialism

A final drawback of globalization for many observers is the impoverishing effect of an homogenized culture. Where once there was a proliferation of lively and varied indigenous cultures and traditions, we are, it is argued, converging on a **monocultural world** whose values are consumerism, whose images are barely clothed androgynous teenagers, and whose representatives are Hollywood and Madison Avenue (Klein, 2002).The success of television shows like … *Idol* (with your country's name in the title) around the world seems to exemplify that homogenization. The sense is that local cultures are being overwhelmed by Western (or US) culture and that the reduced variety impoverishes the world. The "winner takes all" outcome, noted above, obviously contributes to this homogenization, as Taylor Swift replaces local stars in every country.

The more extreme version of this anti-globalization argument is that we are entering an age of US materialistic cultural hegemony. It is wrong, people argue, to measure

welfare solely on quantifiable economic measures since people are impoverished when they are taught to value only material possessions. This is an argument not about the drawbacks of cultural homogeneity per se, but about the particular materialistic culture that is being adopted. And yet those citizens who bemoan the influence of the Kardashians as cultural icons are the very ones who are overjoyed when Greenpeace has a worldwide impact it could never have had before the advent of worldwide television and social media.

Responses to Globalization

Faced with the adverse consequences of globalization, sociologists observe three responses to the perceived powerlessness of the average citizen (Hirschman, 1970). One strategy represents an exit decision in despair at the loss of national sovereignty. Another is an attempt to make voices heard against the power of corporate capitalism. The third embraces the trend and seeks to turn it to citizens' own advantage.

Globalization could be leading to the **alienation** of the voting public from the political process. Even if individuals can influence national policies, when those policies are supplanted by international institutions and forces, they feel disenfranchised and withdraw their commitment to and involvement in politics. This could account for the decreasing percentage of the population now voting in general elections: participation rates are down to all-time lows around the world, and are barely above 70% in mature democracies.[32]

In contrast, there are growing numbers of **local political initiatives** and activities. Rather than embrace globalization, these responses attempt to escape its effects by shifting political activity to a sphere that individuals can still influence. It is as if, powerless in the face of anonymous global forces, people refocus on the neighborhood where they do have influence. The upsurge in community affairs – to stop development in my backyard, to halt traffic down my street, and so on – can be attributed to the desire to be involved politically at a level where participation still has impact.

The more troubling downside of this response is a retreat to parochialism and its subversion by nationalists and other extremists who seek to exclude alien elements and forces. Ethnic cleansing is the extreme of this philosophy. Appeals for insularity in US foreign policy and a return to the isolationist doctrine of non-intervention outside the hemisphere are a less vehement example of this response. Both turn their back on globalization and hope to keep its influence at bay by ignoring or physically excluding the broader world.

Lastly, there has been an increase in **global activism** to match the very globalization process it seeks to halt. As mentioned above, with the advent of global social media,

Greenpeace is able to coordinate a worldwide boycott of Shell Oil products and to launch a worldwide campaign to save the whale to which the youth of many countries generously contribute. If the relevant dimension of decision making has shifted from the nation state to the international arena, political movements have responded by matching the increase in scope. Ironically, even NGOs which resent the globalization process are, therefore, expanding globally to achieve their own ends.

Public Policy Implications

None of the above is meant to demean the suffering of those unfavorably affected by free trade in goods, capital, and ideas. What it does downplay, however, is that there are appropriate policy responses to globalization that do not resist or restrain the process, but do remedy its negative effects.

Within countries the solution for those adversely affected by globalization is adequately funded **transition programs**. Because there is a net economic gain from trade, such a policy can be implemented while still leaving a surplus. This is why free trade should be accompanied by retraining grants and unemployment benefits that promote and smooth the transfer of the disadvantaged into more productive sectors. Even at the level of intercountry inequality, redistributive policies can ensure that the eventual outcome is Pareto efficient (everyone is at least no worse off than before free trade). Initiatives like Bono's Justice 2000, which advocated debt cancellation for the poorest countries, are designed to achieve this goal.

Remedies for the adverse consequences of globalization do, however, argue for some form of global intervention and regulation. It was the emergence of regulatory standards that ended child labor and a host of other social problems brought on by unrestrained capitalism in the UK in the nineteenth century. The analog in the global arena is the need for **a supranational regulatory body** whose policies would be democratically determined.

In the domestic context, it is obvious who the actor should be. In the global context, it is less clear which are the appropriate agencies, and what their policies should be. Should there be a global agency with effective enforcement powers for labor and environmental standards? This is the dilemma that the WTO and other international bodies face today, and for which they are much vilified. The WTO, for example, has a goal to prevent countries from using social policies as non-tariff barriers, such as the USA unfairly protecting its fishermen by imposing a ban on non-dolphin-friendly tuna. The WTO, therefore, sets maximum standards for health and safety that countries can impose on goods and services sold domestically. Critics, like World Trade Watch, argue that with no minimum standards to meet, international competition

can easily become a race to the bottom, while the imposition of a maximum prevents enlightened countries enacting policies that would be welfare improving. The maximum forces governments to level down their policies as they seek "harmonization," rather than having minima that force countries to level up policies. Such difficulties in the implementation of policies should not detract from the fact that there is a solution that involves international agencies establishing and enforcing global standards.

Implications for Managers

"Globalization" for good or bad is now a central feature of international competition. There clearly are powerful economic arguments in its favor, but there are also justifiable concerns about the impacts of the process, both economic and otherwise. In principle, many of the adverse consequences of globalization can be mitigated by appropriate policies, just as they were within countries in the nineteenth century. However, courage is required to adopt certain policies within countries, and to introduce or strengthen a set of international institutions. The challenge going forward is to design those institutions to be effective at remedying the ill effects of globalization while remaining truly democratic.

But does any of this discussion of globalization matter to CEOs and executives, or is it just for politicians and radicals? Importantly, as key actors in the process, multinational executives, while not needing to be at the forefront of the policy debate, at a minimum, need to take a position on certain issues, particularly as **corporate social responsibility** becomes incorporated into their strategies and behavior. Being clear, for example, about the extent to which their firm will capitalize on "the race to the bottom" or will instead embody a set of principles that might prohibit the firm from operating in certain countries, becomes vital.

And if we conclude that, in spite of the concerns and objections of large parts of the community, globalization is likely to continue barring some repeat of WWI-like escalation of national or religious conflict, executives still have to address its economic consequences.

The most important of these is that the **locus of economic growth is irrevocably shifting to the emerging markets and the southern hemisphere**. As mentioned earlier, there is disagreement as to when income in those countries surpasses that of the developed world, depending on which countries are categorized as emerging markets and the measure of GDP (current exchange rates or purchasing power parity). Nevertheless, everyone agrees that the majority of future economic growth will come from releasing the potential in markets with populations in the hundreds of millions in Asia, Latin America, and Africa. As a corollary, **south–south trade** will increase rapidly and offer opportunities to enterprises of all sizes that can create relationships across those

geographies. Indeed, south–south trade in manufactures has tripled over the last 30 years and is already almost as big as north–north trade (Human Development Report, 2013; Charan, 2013).

Accompanying this shift in the location of economic activity is a **growth in the middle class**. Even if income inequality is increasing, economic growth in lower income countries is pushing an increasing share of the global population into the middle class. If that segment is defined as consumption of $10 per capita per day in purchasing power equivalent, it is projected that the middle-class population will be larger than that with low incomes by 2022, and that, by 2030, two-thirds of the globe will be middle income (Kharas and Getz, 2013). This segment typically seeks an **intermediate market positioning,** not the high-end multinational brands, nor the traditional local low-price products, but reliable and consistent value-priced products[33] – which highlights the novel opportunities available in emerging markets (Jullens, 2013).

Globalization will also lead to more interdependent economies which, ironically, will increase the degree of specialization in any one country. This implies that industry **value chains will be disaggregated** as each stage is relocated to the most efficient country. This is why a product as simple as the Slazenger tennis ball will have traveled 51,000 miles (81,600 km) and will be manufactured with materials from, or processes performed in, 13 countries before being played at Wimbledon.[34]

Interconnection of markets will extend from trade in goods to further integration of capital and labor markets. As a result, competition from new countries with novel approaches and business models will emerge. The **bottom of the pyramid** has already been identified as a market opportunity (Prahalad and Hart, 2002) which even established multinationals have turned into novel sources of innovation. GE Healthcare famously developed an ultra-portable ECG machine for China, which it then sold around the world at prices 80–85% below its existing models, while Levi's first introduced its Denizen brand jeans in Asia to retail at between one-third and one-half the price of the Levi brand. But the radically different factor market conditions in these countries support very **different "business models"** that pose very different competitive threats. There is, for example, an argument being made that Indian firms have a different approach to innovation – termed *jugaad*, "the gutsy art of overcoming harsh constraints by improvising an effective solution using limited resources" (Radjou *et al.*, 2011) – which allows them to succeed with minimal resources. Whereas these new forms of strategic variety could be called "disruptive" because they are likely to come in at the low end of the market, the more appropriate order of the day might be to **expect the unexpected** from previously disregarded or ignored geographies. In this sense, continuing globalization will **increase competition**.

Competitive Challenge from Globalization

One consequence of increasing global economic interdependence is that companies now experience "more" competition (defined in a specific way) than when they faced only domestic competition.

The sense in which companies experience "more" competition has nothing to do with the absolute number of competitors, for which we can make no valid predictions. Rather, the "more" refers to the variety of competitors. In a homogeneous world, certain competitive types will be supported in equilibrium, but with heterogeneity among economies, that set of strategic varieties expands. While a firm's strategy, customized for domestic idiosyncrasies, might initially appear ineffective outside its own economy, as economies globalize and become more integrated, exogenous changes, such as a shift in demand or exchange rate, can suddenly make the firm's product attractive in other countries. Companies from obscure, and possibly ignored, foreign countries then emerge with apparently novel strategies. Thus even if global concentration falls with the emergence of multinationals from new countries, the degree of competition does not decrease, but rather increases as the types of competitor expand.

One conclusion is that international competition, as we have suspected and experienced, is tougher than purely domestic competition.

CONCLUSION

Editors at the *Harvard Business Review* regularly poll their readers on the issues that concern them and would like to see addressed in the publication. Surprising to the editors is the fact that international competition and globalization often appear toward the bottom of the list. Given everything covered in this chapter, why is this? And is it appropriate, or should executives be more attuned to the challenges and opportunities presented by international competition?

I think there are two reasons for the relative lack of interest in international competition expressed by managers from, primarily, developed countries. The first is that, even though they face dilemmas in their international activities, executives are confident they can deal with them because their beliefs and assumptions about the world are unchallenged. The triumph of democracy, capitalism, and its accompanying institutions have allowed managers to become complacent as they observe little alien in the world – only a convergence on familiar domestic norms. Unfortunately, this is a very parochial argument, particularly since the majority of economic growth is now in emerging markets that do remain fundamentally different even when drawn into the global economy. How many of you would be truly comfortable operating in rural India?

The second explanation is hubris – that international competition is not an issue for winners. This is even more troubling since it is the unknown and disregarded that

most often upsets the apple cart. If the buzzword in strategy today is "disruption" and the best response to its threat is, as Andy Grove of Intel famously noted, to remain paranoid, I hope that this chapter has done enough to convince even the most seasoned international executive that the repercussions of globalization deserve serious thought.

NOTES

1. The full list is Madagascar, Malawi, Malaysia, Maldives, Mali, Malta, Marshall Islands, Mauritania, Mauritius, Mexico, Micronesia, Monaco, Mongolia, Montenegro, Morocco, Mozambique, Myanmar. The Republic of Macedonia is currently seeking recognition as a separate nation state.
2. The two countries for whom exports of cotton underwear were their largest single apparel export in 2013 were El Salvador and Thailand! (US Department of Commerce, Office of Textiles and Apparel, reported in *Business Week,* July 1, 2013, p. 16.)
3. Or when you considered taking a job for a foreign firm, or in another country.
4. Korn, M. (2012) Outsourcing is good for America, July 23, accessed at http://finance.yahoo.com/blogs/daily-ticker/outsourcing-good-america-cato-michael-tanner-141051681.html. This number refers to the direct movement of jobs abroad. It does not include jobs lost because products were imported instead of being manufactured at home.
5. Australia Trade Commission: International Student Data, accessed at http://www.austrade.gov.au/Export/Export-Markets/Industries/Education/International-Student-Data/default.aspx.
6. In the 1990s, 20% of Malaysians in higher education studied outside the country. (http://www.guardian.co.uk/higher-education-network/blog/2012/jul/02/higher-education-in-malaysia).
7. The Internet currently constitutes 5% of US retail sales (http://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf) and accounts for between 3.4% of GDP in developed countries (McKinsey Global Institute (2011) Internet matters, May) and 4.1% of GDP in the G20 countries (Dean, D., DiGrande, S., Field, D., Lundmark, A., O'Day, J., Pineda, J., and Zwillenberg, P. (2012) The Internet economy in the G-20. Boston Consulting Group Perspectives, March).
8. McKinsey refers to the $30 trillion opportunity in emerging markets over the next 20 years (Atsmon, Y., Child, P., Dobbs, R., and Narasimhan, L. (2012) Winning the $30 trillion decathlon. *McKinsey Quarterly,* August).
9. The April 2013 average from Bank of International Settlements, reported in *The Economist* (2013) September 14, p. 97.
10. Orbis data as reported in http://www.forbes.com/sites/bruceupbin/2011/10/22/the-147-companies-that-control-everything/.
11. In 2010, 46% of the S&P 500 sales came from outside the USA, reported in Ghemawat, P. (2011) The globalization of firms. IESE Globalization Note Series, accessed at http://www.ghemawat.com/management/files/AcademicResources/GlobalizationofFirms.pdf.
12. Because they are more productive and pay higher wages, those 0.1% of companies contribute one-quarter of all employee compensation and value added, see Slaughter, M. and Tyson, L. (2012) A warning sign from global companies. *Harvard Business Review,* March.
13. Lewis, C.S. (1938) America's stake in international investments, Washington, DC, p. 546. Another source maintains that the UK accounted for 60% of long-term foreign investment in the USA at that date (Wilkins, M. (1994) Comparative hosts. *Business History,* 36, 20).
14. This number is similar to the percentage that the EU exports beyond its boundaries.
15. The OECD predicts that China will become the world's largest economy in 2016, reported in Moulds, J. (2011) China's economy to overtake US in next four years. *Guardian,* November 9. *The Economist* believes 2020 (Economist Special Report (2011) The global economy, September 24, p. 5). China is already the world's largest trader of goods, having surpassed the USA in 2012.
16. Although some would still argue that participation in today's global economy is far from voluntary and remains as exploitative as in previous centuries.

17. These were previously termed less developed countries (LDCs).
18. In fact emerging markets have contributed over 50% of global GDP growth since the turn of the century (Goldman Sachs (2013) The submerging economies. *The Economist,* August 12, accessed at http://www.economist.com/blogs/freeexchange/2013/08/emerging-markets).
19. See IRIN (2011) Lesotho textile industry gets a lifeline. November 24, accessed at http://www.irinnews.org/Report/94302/LESOTHO-Textile-industry-gets-a-lifeline.
20. MBA students should quickly calculate the integration level for their class by comparing the share of foreign students in the class to the share of world population outside the country.
21. More recent research supports this perspective: see Wolf, J., Dunemann, T., and Egelhoff, W. (2012) Why MNCs tend to concentrate their activities in their home region. *Multinational Business Review,* 20(1), 67–91; Dunning, J.H., Fujita, M., and Yakov, N. (2007) Some macro-data on the regionalisation/globalisation debate: a comment on the Rugman/Verbeke analysis. *Journal of International Business Studies,* 38, 177–199.
22. This may be viewed at http://dabrownstein.files.wordpress.com/2014/02/paul-butlers-map-of-friendships.jpg?w=858&h=405
23. The first day of the TAT-1 cable installed in 1958 saw 558 telephone calls from London to the USA, reported at http://en.wikipedia.org/wiki/TAT-1.
24. Bank of England estimates, reported in Dean, M. and Sebastia-Barriel, M. (2004) Why has world trade grown faster than world output? *Bank of England Quarterly Bulletin,* Autumn, 310–320.
25. W3 Techs (2014) Usage of content languages for websites, accessed at http://w3techs.com/technologies/overview/content_language/all.
26. Collins English Dictionary, Word usage trends, accessed at http://www.collinsdictionary.com/dictionary/english/globalization.
27. Estimates that include more benefits to trade, such as scale economies and increased variety, suggest that free trade would increase global GDP by about 3% today (Anderson, K. (2012) Costing global trade barriers, 1900 to 2050. Working Paper No. 2012/08, May, Australian National University).
28. This is derived from the traditional Heckscher–Ohlin and Stolper–Samuelson theories.
29. US Census Bureau, accessed at http://www.census.gov/newsroom/releases/archives/income_wealth/cb12-172.html.
30. The driver of productivity growth in China is not so much catching up in productivity within the industrial sector, but simply labor movement from low-productivity agriculture in the west of the country to higher productivity industry along the coast.
31. Astoundingly, the richest 85 people in the world now possess as much wealth as the poorer half of the entire global population (Working for the few. Oxfam Briefing Paper, January 20, 2014, accessed at http://www.oxfam.org/sites/www.oxfam.org/files/bp-working-for-few-political-capture-economic-inequality-200114-summ-en.pdf).
32. See Pintor, R., Gratschew, M., and Sullivan, K. (2002) Voter turnout rates from a comparative perspective. Global Report, pp. 75–116, accessed at http://www.idea.int/publications/vt/upload/Voter%20turnout.pdf.
33. It is important to note that a "stuck in the middle" positioning can be successful if the product has the greatest gap between willingness to pay and cost (see Chapter 2).
34. This may be viewed at http://www.wbs.ac.uk/news/the-50000-mile-journey-of-wimbledons-tennis-balls/.

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