What Leading Economic and Managerial Issues are Covered? Why are they Important in the Context of Globalisation?

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Chapter 1

WHAT LEADING ECONOMIC AND MANAGERIAL ISSUES ARE COVERED? WHY ARE THEY IMPORTANT IN THE CONTEXT OF GLOBALISATION?

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1. INTRODUCTION

Economic globalisation involves extension of trade and, particularly today, extension geographically of markets for commodities to encompass the whole globe. Geographical extension of trade and of markets has been going on for centuries, but in the last few decades it has accelerated as illustrated, for example, by the growing proportion of global production accounted for by international trade, the ever increasing amount of money entering international financial markets, and rapid increases in levels of foreign direct investment (see for example, Tisdell and Sen, 2004; and Chs.2 and 14 in this book). Apart, however, from these economic dimensions, the phenomenon of globalisation has many other related dimensions, for example, it involves the amount of international travel, international communication, and it has important influences on language and culture (Tisdell, in press, Chs.1 and 28). All of these can have important consequences for economics and business, management several of which are explained in this book (see especially Part III).

The contributions in this book have been divided into three parts. Those in Part II concentrate on the phenomenon of globalisation of financial markets and how globalisation

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has influenced and affects the nature of international exchange rate policies. An additional aspect considered in this part is the sustainability of export-led growth in developing countries, that is the advantages and disadvantages experienced by developing countries in increasing their specialisation in production to take advantage of more liberal market conditions globally.

Globalisation also has a number of consequences for business management. It tends to increase the number of international business partnerships and networks, and additional market competition generated by it may alter the firm's optimal marketing behaviours. Furthermore, it may enable previous marketing experience from one region (eg. developed countries) to be transferred to another, eg. to less developed countries as they develop or increase their connectivity internationally. These are amongst the issues explored in Part III.

Part IV concentrates on important effects of globalisation on economic efficiency, economic growth and its sustainability and inequality, both from microeconomic and macroeconomic perspectives. More detailed accounts of the coverage of each of these parts follow.

2. An Overview of Part II: Globalisation, Finance, Exchange Rates and Economic Growth

There are four contributions in this part. In the first (Chapter 2), Dr Stanford outlines reasons for the substantial global expansion in financial markets, and the general factors (pathways) that have accelerated this expansion. This is followed by his in depth outline and a schematic illustration of the global financial system, as well as his discussion of the role of financial markets in the development of emerging market economies. The efficiency of global financial markets is then assessed before concluding.

Jean-François Hoarau examines (in Chapter 5) Australian economic policy, especially Australian exchange rate policy, particularly Australian exchange rate policy in the period 1976-2000 in order to consider the merits and drawbacks of fixed exchange rate policies compared to floating exchange rates, and other policies related to exchange rates. With growing globalisation, there has been a substantial increase in the number of countries adopting floating exchange-rate systems as a way to cope with the changing structure of the world economy. Hoarau's contribution provides a useful case study of how and why Australian international exchange and economic policies have adjusted with growing globalisation.

There have been concerns globally about the nature of exchange-rate regimes in East Asia. Following the 1997 financial crises in many East Asian currencies, there was international recommendations that these crises might be less likely to occur and be less pronounced if exchange rates of these countries were allowed to float. But there was also some support for the other extreme, namely exchange rates based on 'hard pegs' or fixed exchange rates. In Chapter 4, Serge Svizzero assesses these policy suggestions and considers alternative possibilities. He argues in favour of soft exchange rate pegs for these economies and in particular, the adoption of exchange-rate regimes for East Asian countries based on the band-basket-crawl. Because East Asian nations are now major participants in the global economy, their exchange-rate policies are of international significance.

Like many other developing nations, South Asian countries have, beginning in the 1980s, altered their policies for promoting economic development from inward-looking ones to outward-oriented ones involving greater integration into the global economy. This shift in policy direction was partly a result of their balance of payments crises and subsequent pressures from international economic bodies, such as the International Monetary Fund, in favour of more market-oriented and open economies, as well as the growing process of economic globalisation elsewhere. Bangladesh as explained by Dr Mohammad Hossain in Chapter 5, adopted a policy of export-led growth commencing in the 1980s. This has been accompanied by growing concentration of Bangladesh's exports on textiles and ready-made garments. While this maybe an industrial area in which Bangladesh has a comparative economic advantage, Bangladesh's current degree of export specialisation involves considerable economic risks. It makes Bangladesh's present export-regime highly susceptible to external shocks and/or competition from other countries. Many developing countries find as a result of the opening up their economies to the outside world, that their dependence on one or a few products for export-income increases, that is their exports become less diversified and the potential volatility of their export income rises. While increasing involvement in the global economy may have its benefits, it also has its economic costs which can be high for some developing economies.

3. An Overview of Part III: Partnerships and Consumer Segmentation in a Globalising World

To achieve long-term economic performance firms must anticipate and meet consumers' demands. In rich countries, where most products are bought to replace similar ones (eg. a new car or a new TV set), consumers' expertise and need for social differentiation tend to complicate the combination of attributes a product must display to be sold. Therefore, marketing strategy focuses on segments whose size and durability are constantly reduced. Simultaneously, competition is increased because these segments are not large enough for several firms to make a profit. Thus, market segmentation is getting more expensive and risky, leading to exacerbated competition. Globalisation may limit micro-segmentation by extending markets to countries whose customers are less experienced (eg. first buyers) or who may wish to imitate life-styles of other countries, which are already considered for segmenting a firm's global core market. Hence, the segments of a global market should grow with less than proportional added cost and competition. Globalisation, however, raises new questions concerning the identity of the brand, the management of increased international business partnerships, as well as the response to consumer expectations that vary considerably across countries and cultures. These management questions are analysed in Chapters 6 to 11. The business-to-business and consumer issues are addressed from methodological and empirical points of view.

The country of origin (COO) is often a considerable asset for firms developing a global strategy. However, in a global market, a product is often made and assembled in various countries. Therefore, its COO may become fuzzy. Moreover, the idea of a product which is not limited by a country's border and culture does not comply with the idea that it symbolises a single COO. In Chapter 6, entitled, "Does country of origin matter in a global market?", Aurifeille and Dave explicitly consider this question and propose a typological approach to the problem.

The geographical heterogeneity of parts used to produce products as a result of that globalisation leads to an increase in the frequency of business partnerships. Because partners are complementary and, therefore, dissimilar, the management of these differences in a global market is complex. The problem is analysed by Aurifeille and Medlin, in Chapter 7, using the variables currently considered in partnership studies: trust, commitment, experience, economic goals and relationship performance. Unlike classical approaches, the methodology proposed does not merge partner's characteristics into a single entity. Instead, it relies on two models per partner: a self-model, that reflects how a firm's characteristics explain its own performance, and a "contributive-model", that explains how they influence its partner's performance. Based on this conceptualisation, a dyadic clusterwise regression analysis is proposed. It reveals four relationship modes (merging, teaming, symmetric and asymmetric sharing) with corresponding implications for partnership performance.

Understanding the evolution of consumer behaviour is less manageable than analysing partnerships. To understand the former and define the corresponding global strategy, variables are needed that must be (1) stable, (2) valid in large number of countries and cultures, and (3) easy to collect. Human values (eg. "to be respected", "security", "accomplishment") satisfy these conditions because they result from education and influence human behaviours in a consistent and lasting way (Rokeach, 1973). Moreover, many researchers have demonstrated that the same limited list of human values is significant in all countries. Finally, unlike psychoanalytic motivations, human values can be collected using large-scale interviews, because they are socially admissible and people are aware of them. Hence, personal values are a major asset for extending market segments to foreign consumers sharing the same value hierarchy. However, as discussed by Manin and Lebon in Chapter 8, personal values are poor long-term predictors of the bought products. To explain this phenomenon, the authors adopt the hypothesis that not all persons are equally concerned about human values. This hypothesis does not comply with the current concept of people differing only in their value hierarchy, that is by the way they rank these values. Therefore, using a structural equation model based on the existing lists of values, Manin and Lebon propose a global measure of value-importance that satisfies the characteristics required for global market segmentation: generality, stability and operationality.

In Chapter 9, Johnston and Healy analyse a complex case of relationships between firms and consumers: the supply chain, which involves a series of agents linking producers to consumers. Subject to the limits set by their financial constraints, these agents are also willing to comply with relevant cultural values in their management of these chains. In the agribusiness supply chain, chosen to exemplify this research, at least three types of goals are successively considered: the farmer's conception of his identity and mission, the distributor's concern for low prices and constant flows of goods, and the consumers' need for sound and natural products. Johnston and Healy clarify the problem by transposing the supply chain into a "means-end chain" (Reynolds and Gutman, 1988). A means-end chains is a series of causal links between persons' or firms' values and actions. Because it provides a more detailed conception of agents' decision processes, the means-end chain methodology is being used more frequently than previously (Aurifeille, 2004) by many of the world's largest firms with a global strategy. Johnston and Healy's exposition shows that a limited number of situations, based on the agent's expected benefits, can occur and determines the supply chain's efficiency.

In Chapter 10, Marde also uses means-end analysis to study a phenomenon whose influence varies considerably across countries and cultures: the role of wife and husband in decision-making. Although most buying decisions are family decisions, a methodology was missing to collect data so that a family can be considered as an entity whose role may differ from its members. Extending Aurifeille and Medlin's approach to international business partnerships (Chapter 7), Marde considers three means-end processes per couple: the wife's, the husband's and the couple's. Based on this trilogy a clusterwise analysis reflects five modes of couple's decision making, corresponding to the fact that all three MEC belong to the same cluster (fusion), to different cluster's (independence), that only one member's MEC is grouped with the couple's MEC (dominant mode), and so on. The method is illustrated empirically in the service area, by a product (foreign holiday) whose international and cultural aspects fit into the globalisation scheme.

In most of the new markets influenced by globalisation, strong social changes are likely to occur. The persistence of a firm's first image may then become a handicap. In Chapter 11, Villeneuve approaches this problem by considering the "dream-reality" paradox operating in advertising. Indeed, advertising must, altogether, seduce with promises of a dream-product and avoid disappointment with the bought product. The challenge is particularly important in a global strategy, where the dream-reality ambiguity may be felt differently depending on the culture and the experience of the consumers. In this context, managers are faced with two dangers: selling their products to people who dream of other products, with the corresponding lack of loyalty, or to have their products idealised but not sold. A similar problem arises when a range of products is to be defined; for instance carmakers are constantly thinking of how their low-end product should be non-expensive and how prestigious should be their high-value vehicle. Villeneuve analyses the problem by considering two MEC per consumer: one corresponding to the bought product and one to the dream-product. Then, a clusterwise regression method indicates how an advertisement may reconcile the two MEC (same cluster) and which type of advertisement is best.

4. AN OVERVIEW OF PART IV: GLOBALISATION, INTERNATIONAL COMPETITION AND INEQUALITIES

The contributions in Part IV mostly address economic issues raised by growing economic globalisation and their potential social consequences rather than business management and marketing issues which are mainly considered in Part III in which contributions on the whole have a more detailed micro-focus. An important feature of growing economic globalisation in modern times is that it is associated with the extension of markets. All the contributions in Part IV examine or propose some economic consequences arising from the extension of markets connected with growing globalisation.

Questions covered in Part IV include the following: Does economic globalisation really increase the economic efficiency of industries? Does it raise the economic vulnerability of industries? Does growing globalisation result in greater fiscal competition between nations to attract FDI? How does inequality in the fiscal regimes of nations affect the behaviour of multinational enterprises and how do they use transfer prices to manipulate their reported profits and reduce their global tax burden? Are small and medium firms disadvantaged compared to large firms by the globalisation process? If such disadvantage exists, what are its consequences and how can small and medium enterprises reduce their disadvantage? Is there any empirical evidence that nations or groups of nations that are more deeply involved in economic globalisation are technologically more progressive? Are their adopted technologies likely to be nearer global best practice as measured by the distance between their adopted technologies and the global technology frontier?

Apart from questions involving international technological inequality, questions are raised about globalisation and income inequality. Has increased globalisation promoted greater income (economic) equality and in what sense? How can we improve on use of data and methodology to provide a more definite answer to this question?

Genetic material provides a ‘technological’ (biological) specification for agricultural production. What effect does economic globalisation have on the selection of agricultural genetic material? Does it favour particular combinations of genetic material such as those reflected in more specialised livestock breeds or crop varieties? What implications does such selection have for the sustainability of agricultural production?

Thus Part IV deals with a wide range of questions about the implications of globalisation for economic performance. It is worthwhile briefly considering the coverage of each of the individual contributions in Part IV.

One of the advantages claimed for globalisation is that it increases business competition and that consequently, it raises economic efficiency which in turn could increase global economic welfare. Clem Tisdell, however, suggests in Chapter 12 that this has a downside because globalisation fosters increased leverage by businesses (increased ratios of capital to variable costs) and increases the economic vulnerability of businesses to a sudden change in economic conditions. Furthermore, increased competition induces firms to adopt similar ‘best practice’ techniques. Consequently, their economic structure and performances become very similar. As a result of this low degree of heterogeneity, industry adjustment to changed economic conditions is less efficient than when greater heterogeneity of firms exists. Therefore, industry adjustment is impeded. Given the analysis presented, it is, found that growing globalisation can result in economically less efficient and more vulnerable industries.

Globalisation can also reduce economic welfare by promoting fiscal competition between nations (Tisdell et al., 2004). Reduction in corporate taxes to induce foreign direct investment in a host country is one such form of fiscal competition. This is the main focus of Isabelle Soubaya in Chapter 13.

As pointed out by Isabelle Soubaya in Chapter 13, increasing foreign direct investment is an important component of growing economic globalisation. Multinational corporations are responsible for most of this investment. Furthermore, many multinational enterprises segment their business activities and locate components of these in different countries in order to increase their economic returns. Consequently, their overall economic activity involves a considerable level of intra-firm trade and this now accounts for a large proportion of the international trade of OECD countries. This situation raises questions about influences on the behaviour of multinational corporations of differences in tax regimes in different countries. Soubaya examines two different aspects of this matter. The first is the impact on foreign direct investment in host countries of their offering lower tax rates to multinationals than other nations. The second aspect investigated is how international differences in tax rates influence the profits reported in different nations by multinational corporations. Also the role is investigated of transfer pricing in bringing about international transfers in reported profits of multinationals.

In her study, Soubaya, amongst other things, considers whether there is evidence that growing economic globalisation is associated with increasing fiscal competition between nations and its consequences. She also examines the economic benefits and costs to host nations of using low corporation tax rates to lure foreign direct investment by multinational corporations.

Sunil Venaik contends in Chapter 14 that small and medium sized enterprises (SMEs) are the major sources of technological advance and economic growth in modern economies as well as the principal providers of employment. However, with the advent of growing economic globalisation, they are disadvantaged compared to multinational corporations (MNCs) because they often lack suitable networks to take full advantage of the process of economic globalisation. This could result in increasing concentration in the ownership of industry by MNCs, and SMEs may become increasingly dependent on MNCs for their survival and access to international markets. Both factors could slow technological progress and innovation generally (compare Tisdell, 1999). In particular, Venaik observes that SMEs are relatively disadvantaged in undertaking foreign-direct investment (FDI) compared to MNCs. This is important because the relative expansion in FDI in recent decades has outstripped the relative growth in world trade.

By extending the resource-based approach (RBA) to the firm, Vernaik develops a new framework for determining whether firms can gain sustainable competitive advantage. He then shows how SMEs by developing transnational SME networks could gain a sustainable competitive advantage as globalisation occurs. He specifies the different types of transnational SME networks that should be advantageous for SMEs in a globalising environment.

Differences in the international industrial competitiveness of nations depend in part on variations in the technologies adopted by them. Iyer, Rambaldi and Tang, adopting a macroeconomic approach, seek to answer the following question in Chapter 15: Does increased global involvement by nations (regions) as measured by their degree of trade openness and by their levels of inward and outbound foreign-direct investment reduce their technology gap in relation to the global (or meta) frontier? Their empirical analysis indicates that developed countries and middle income Asian countries show technological growth that is positively associated with their degree of openness (involvement in economic globalisation) but that no clear pattern emerges for other groups of countries.

Turning to a different facet of the economic consequences of growing globalisation, there has been considerable debate about whether growing economic globalisation can be expected to promote greater global inequality in incomes (or similar economic variables) or make for greater equality of these. So far this debate has proven to be inconclusive. Rao, Heady and Shepherd suggest in Chapter 16 that this is because of differences in the type of data and methodology used in the various empirical studies completed to date. They propose a methodological approach that should make for more informed debate about this subject.

It is widely believed that economic growth and development reduces genetic diversity (Swanson, 1999). To the extent that economic globalisation promotes economic growth, it can be expected to add to biodiversity decline. In addition, as pointed out by Tisdell (2003), there are also other mechanisms associated with economic globalisation that result in reduced biodiversity of domesticated livestock and crops. This results in concentration on restricted genetic material, for example, a few breeds of livestock with specialised traits and similar selection of crop varieties. As observed by Wilson and Tisdell in Chapter 17, growing economic globalisation and associated market extension results in increasing concentration in agriculture on use of genetic material best able to meet market needs. This results in the selection of fewer breeds or crop varieties with more specialised traits. Initially, this selection raises agricultural and economic productivity but there is a long-term risk that this genetic erosion will threaten the sustainability of agricultural supplies.

5. Conclusion

Thus, this book pinpoints and addresses a wide range of globalisation issues of relevance to business management, marketing, finance and economics. Although contributions to this book are arranged in three parts, several contributions in different parts deal with related issues. For example, many final products today are produced by inputs (components, materials, capital, finance, entrepreneurship) coming from several different countries located in different parts of the globe; as dramatically illustrated by an item in the *National Geographic* about the production of the Mini range of motor vehicles in the UK by the German-based BMW company (Gwin, 2005). While the managerial consequences of such international sourcing of components and inputs is emphasised in Part III, it is also a consideration in Chapter 14 in assessing the future of small and medium enterprises in a globalising world, and in Chapter 13 in discussing foreign direct investment by multinational enterprises.

While contributions in this book provide novel insights about the implications of globalisation processes for business management, marketing, and for economic performance and policy, they are still only able to provide a partial picture because the topic is complex and of wide scope. Furthermore, its subject matter is continually evolving as new technologies are developed and as international institutional reforms occur. However, as the Chinese sometimes say, if one is to walk a mile, it is necessary to take the first step.

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