EDS 211
WEEK 5
INTERNATIONAL ENTREPRENEURSHIP AND GLOBALIZATION

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Objectives

- **Globalization**
- **Components of Globalization (The Globalization of Markets** and **Globalization of Production)**
- **Drivers of Globalization**
- **International Entrepreneurship**

Globalization

- The world economy is experiencing a shift from self-contained entities, which is isolated from each other by barriers to cross-border trade and investment. The economy is moving towards a world in which barriers to cross-border trade and investment are tumbling; perceived distance is shrinking due to advances in transportation and telecommunications technology. Recently, material culture is beginning to look similar, national economies are merging into an independent global economic system. This whole emergence is called GLOBALIZATION.

Definition

- **Globalization** refers to the shift towards a more integrated and interdependent world economy. It has two main components:
- the globalization of markets
- the globalization of production.

Components of Globalization

- **The Globalization of Markets** refers to the merging of historically distinct and separate national markets into one huge global marketplace. This is made possible through the falling barriers to cross-border trade. Also, there is the emerging argument that the tastes and preferences of consumers in different nations are beginning to converge, thereby creating a global market.

Components cont'd

- **The Globalization of Production** refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production. In so doing, companies hope to lower the overall cost and improve the quality or functionality of their products, thereby allowing them to compete more effectively.

Drivers of Globalization (1)

- **Decline in trade and investment barriers:** during the 1920s and 1930s, many nations of the world erected barriers to international trade and foreign direct investment. Such barriers were in form of high tariffs on imports of manufactured goods. The aim of such tariffs was to protect domestic industries from foreign competition. This led to the great depression of the 1930s. Advanced industrial nations helped remove these barriers through the introduction of the treaty known as the General Agreement on Tariffs and Trade (GATT).

Reasons for barriers to cross-border trade (1)

- **GATT:** The General Agreement on Tariffs and Trade was signed by 23 countries in Geneva in 1947 and took effect on January 1, 1948. It is a multilateral agreement aimed at abolition of trade quotas and reduction of tariff duties among the contracting nations. The purpose of GATT is the "substantial reduction of tariffs and other trade barriers and elimination of preference, on reciprocal and mutually advantageous basis". To meet up with the purpose, GATT's most important principle was that of trade without discrimination, it ensured that every country in GATT opens its markets equally to every other. It also has a principle of "national treatment," which requires countries to treat foreign business people and foreign companies as locals do.

Reasons for barriers to cross-border trade (2)

- **WTO:** World Trade Organization was established on 1st of January, 1995 and replaced the GATT. It was created as a result of the Uruguay Round of GATT with the aim of enforcing GATT agreement. WTO is an institution which has authority to set and enforce rules governing trade between member countries. As at 26th April 2015, WTO has 161 members and 24 observer government. The institution can be considered as the most powerful legislative and judicial body in the world. It undermines democracy around the world by promoting the free trade agenda of multinational corporations above the interests of local communities, working families, and the environment.

Reasons for barriers to cross-border trade (3)

- **NAFTA:** the North American Free Trade Agreement is an agreement signed by Canada, Mexico and United States, creating a trilateral rules-based trade bloc in North America. In 1994, the North American Free Trade Agreement came to effect, creating one of the world's largest free trade zones and laying the foundations for strong economic growth in rising prosperity for Canada, United States and Mexico.

Reasons for barriers to cross-border trade (4)

- **European Union Agreement:** EU is a union of 28 independent states based on European Communities and founded to enhance political, economic and social co-operation. The EU has developed a single market through standardised system of laws that apply in all member states. Within the area (Schengen area), passport controls have been abolished. EU policies ensure free movement of people, goods and services and capital, enact legislation in justice and home affairs and maintain common policies on trade, agriculture, fisheries and regional development. In 2002, the monetary union was instituted, 18 member states use euro as their legal tender.

Reasons for barriers to cross-border trade (5)

- **ECOWAS**: Economic Community for West African States is a regional group of 15 countries founded on May 28, 1975 with the aim of promoting integration in all fields of economic activity, most especially, industry, transport, telecommunication, energy, agriculture, natural resources, commerce, monetary and financial questions, social and cultural matters. ECOWAS consist of two institutions to implement policies- the ECOWAS commission and ECOWAS Bank of investment and development.

Drivers of Globalization (2)

- **The role of technological change:** the lowering of trade barriers made globalization a reality through technological change. Since the end of World War II, the world has witnessed major advances in communication, information processing, and transportation technology. Telecommunication is creating a global market and transport is creating a global village.

International Entrepreneurship

The emergence of Globalization has birthed a great desire in Entrepreneurs to delve into the International Market.

To this end, an Entrepreneur who desires to delve in the international business environment can take the following forms:

Forms of International Entrepreneurship

- Exporting
- Licencing
- Franchising
- Internet
- Joint ventures
- Wholly owned subsidiaries
- Foreign direct investment