

GLOBAL LINKS TODAY

Today, world trade and investment are central to the well-being of the global community. In centuries past, trade was conducted internationally, but not at the level or with the impact on nations, firms, and individuals that it has recently achieved. In the past 30 years alone, the volume of international trade in goods and services has expanded from \$200 billion to more than \$7.6 trillion. The growth in the value of trade has greatly exceeded the level of overall world output. During the same period, foreign direct investment (FDI) mushroomed to more than \$4.7 trillion. The sales of foreign affiliates of multinational corporations are now twice as high as global exports.

The sheer volume and value of international trade has led to the forging of a network of global links around the world that binds us all—countries, institutions, and individuals—much closer than ever before. These links tie together trade, financial markets, technology, and living standards in unprecedented ways. The collapse of Argentina's currency following its divorce from the U.S. dollar reverberated throughout South America and affected trade in the United States, Europe, and the Far East. The economic turmoil in Asia influenced stock markets, investments, and trade flows in all corners of the earth. Terrorist attacks and the resulting war in Afghanistan. Corrupt accounting practices by U.S.-based multinationals sent world stock markets into shock.

Global linkages have also become more intense on an individual level. Communication has built new international bridges, be it through music or through international programming transmitted by CNN or MTV. New products have attained international appeal and encouraged similar activities around the world—we carry colorful cell phones; we dance the same dance; we eat hamburgers and drink double lattes. Transportation links and Internet access allow individuals from different countries to meet or otherwise interact with unprecedented ease. Common cultural pressures result in similar social phenomena and behavior—for example, more dual-income families are emerging around the world, which leads to higher levels of spending.

International business has also brought a global reorientation in production strategies. Only a few decades ago, for example, it would have been thought impossible to produce parts for a car in more than one country, assemble it in another, and sell it in yet other countries around the world. Today, such global strategies, coupled with production and distribution sharing, are common. Consumers, union leaders, policymakers, and sometimes even the firms themselves are finding it increasingly difficult to define where a particular product was made, since subcomponents may come from many different nations. Firms are also linked to each other through global supply agreements and joint undertakings in research and development.

Firms and governments are recognizing production's worldwide effects on the environment common to all. For example, high sulfur emissions in one area may cause acid rain in another. Pollution in one country may result in water contamination in another.

It is not just the production of goods that has become global. Increasingly, service firms are part of the global scene. Consulting firms, insurance companies, software firms, and universities are participating to a growing degree in the international marketplace. Service activities can have cross-national impacts as well. For example, weaknesses in some currencies, due to problems in

a country's banking sector, can quickly spill over and affect the currency values of other nations. The deregulation of some service industries, such as air transport or telephony, can have a ripple effect on the structure of these industries around the world.

All these changes have affected the international financial position of countries and the ownership of economic activities. For example, the United States, after having been a net creditor to the world for many decades, has been a world debtor since 1985. This means that the nation owes more to foreign institutions and individuals than to U.S. entities. The shifts in financial flows have had major effects on international direct investment into plants as well. U.S. direct investment abroad in 1999 had a market value of more than \$2.6 trillion; foreign direct investment in the United States had grown to \$2.8 trillion. In spite of its long-term recession, Japan has the largest gold reserves. In today's era of multinational corporations, countless people around the world toil for foreign bosses. All of these developments make nations more dependent on one another than ever before.

This interdependence, however, is not static. On an ongoing basis, realignments take place on both micro and macro levels that make past orientations at least partially obsolete. For example, for its first 200 years, the United States looked to Europe for markets and sources of supply. But today, the picture has shifted: In 2001, merchandise trade across the Pacific totaled \$709 billion, \$259 billion more than trade across the Atlantic. Furthermore, the relative participation of countries in world trade is shifting. The market share of Western Europe in trade, for example, has been on the decline. Concurrent with this shift, the global market shares of Japan, Southeast Asian countries, and China have increased dramatically.

The composition of trade has also been changing. For example, from the 1960s to the 1990s, the trade role of primary commodities had declined precipitously while the importance of manufactured goods has increased. This has meant that those countries and workers who had specialized in commodities such as caoutchouc (rubber plantations) or mining were likely to fall behind those who had embarked on strengthening their manufacturing sector. With sharply declining world market prices for their commodities and rising prices for manufactured goods, commodity producers were increasingly unable to catch up. More recently, there has been a shift from manufacturing to services-perhaps presaging a similar shift of trade composition for the future.

Not only are the environment and composition of trade changing, but the pace of that change is accelerating. Atari's Pong was first introduced in the early 1980s; today, action games and movies are amazingly sophisticated. The first office computers emerged in the mid 1980s; today, home computers have become commonplace. E-mail was introduced to a mass market only in the 1990s; today, many college students hardly ever send personal notes using a stamp and an envelope.

All these changes and the speed with which they come about significantly affects counties, companies, and individuals, altering almost every aspect of the global marketplace.

Czinkota, Michael R., Ilkka A. Ronkainen and Michael H. Moffett. Fundamentals of International Business. Mason: South-Western, 2004.