

# Chapter 2

## **Global Marketplaces and Business Centers**

# Learning objectives

**At the end of this lesson, you should be able to:**

**2.1 Describe** North America as a major marketplace and business center in the world economy.

**2.2 Describe** Western Europe as a major marketplace and business center in the world economy.

**2.3 Analyze** the role of Eastern Europe and Central Asia in the world economy.

# Learning objectives

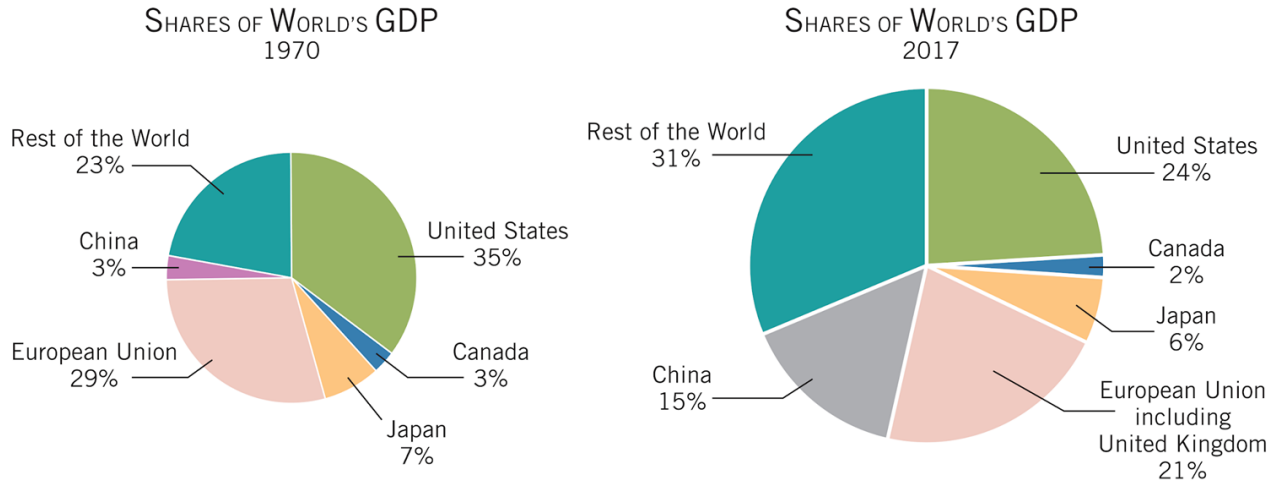
Next week

**2.4 Discuss** Asia as a major marketplace and business center in the world economy.

**2.5 Assess** the development challenges facing African and Middle Eastern countries.

**2.6 Evaluate** the economic prospects of the South American countries

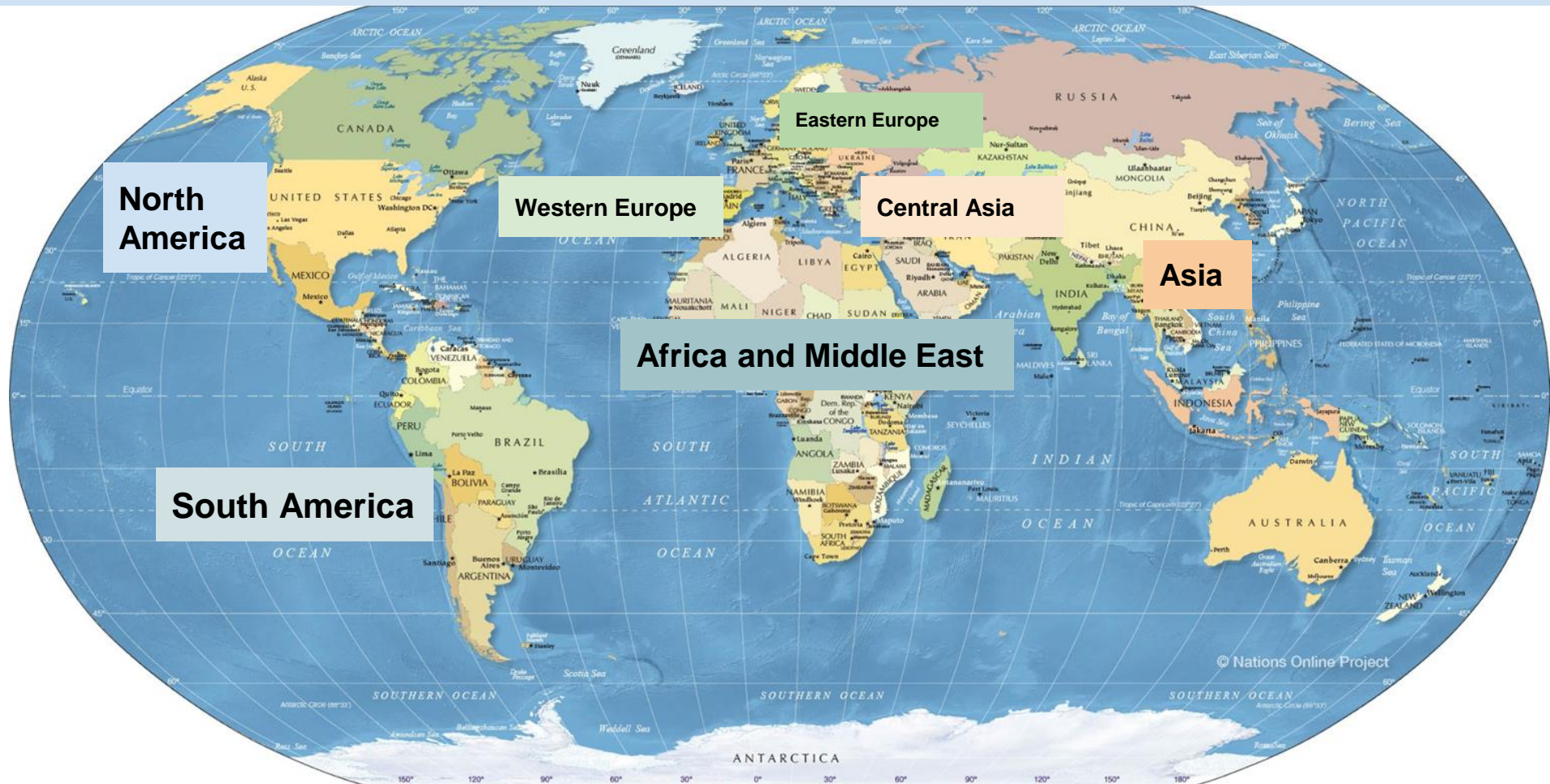
# Figure 2.1 The World Economy 1970 and 2017



**China and India - 17 % of world GDP**  
**Growth rate - 7%**  
**Compared Japan 1.3%, German 1.7%, USA 2.3%**

**Providing an overview of the world economy is a challenge - vast size. Much of the global economic activity (about 54%) concentrated in developed countries of North America, EU, and Japan. International managers must not ignore other markets to compete successfully**

# Where are the world's market and Business centers?



# North American Market

## US Market

- 3rd largest population
- 4th largest land mass
- Largest economy - 24% of world's 80.7 Trillion GDP in 2017
- Per Capita income = \$59500

(see Classifying Countries by Income Levels)



# The Marketplaces of North America: The United States (1 of 2)

- World's largest economy
  - 24% of the world's GDP in 2017
  - One-tenth of world exports of goods and services
  - About one-eighth of world imports of goods and services
- Prime market for
  - Lower-income countries - export oriented economic development
  - Higher-income countries - FDI large businesses
- U.S. Dollar
  - **Invoicing currency - currency sales of goods and services denominated**
  - Foreign-currency reserve

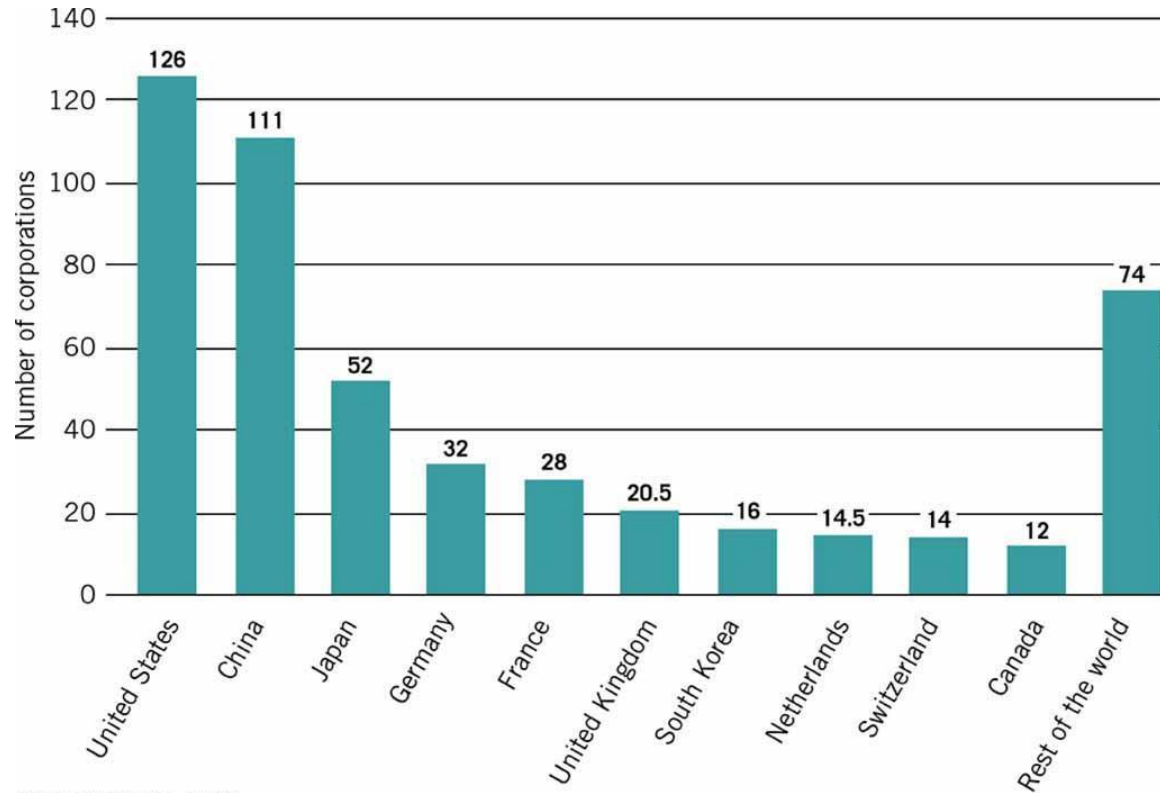
# The Marketplaces of North America: The United States (2 of 2)

- Political stability and military strength
  - Flight Capital - unstable country to safe haven
- Foreign Investments
  - Important recipient of long-term foreign investment
- International Trade
  - Increasingly more important
  - Relatively small component of the U.S. economy
- M N C s
  - 27% of the world's 500 largest corporations are headquartered in the United States



# Headquarters of World's 500 Corporations in 2017

## - By Country



# The Marketplaces of North America:

## Canada (1 of 2)

- Exports
  - Vital to the Canadian economy: 31% of its 2017 GDP of \$1.7 trillion
  - Rich natural resources (forest products, petroleum, minerals, and grain): Canada's most important exports
  - The United States: The dominant market for Canadian goods
  - US-Canada two-way trade is one of the largest bilateral trading relationships in the world - US\$680Billion

# The Marketplaces of North America: Canada

(2 of 2)

- Foreign Investments
  - Proximity to the huge U.S. market
  - Stable political and legal systems
  - Excellent infrastructure and educational systems
  - Lingering Risk: long-standing conflict between French-speaking Canadians and English-speaking Canadians

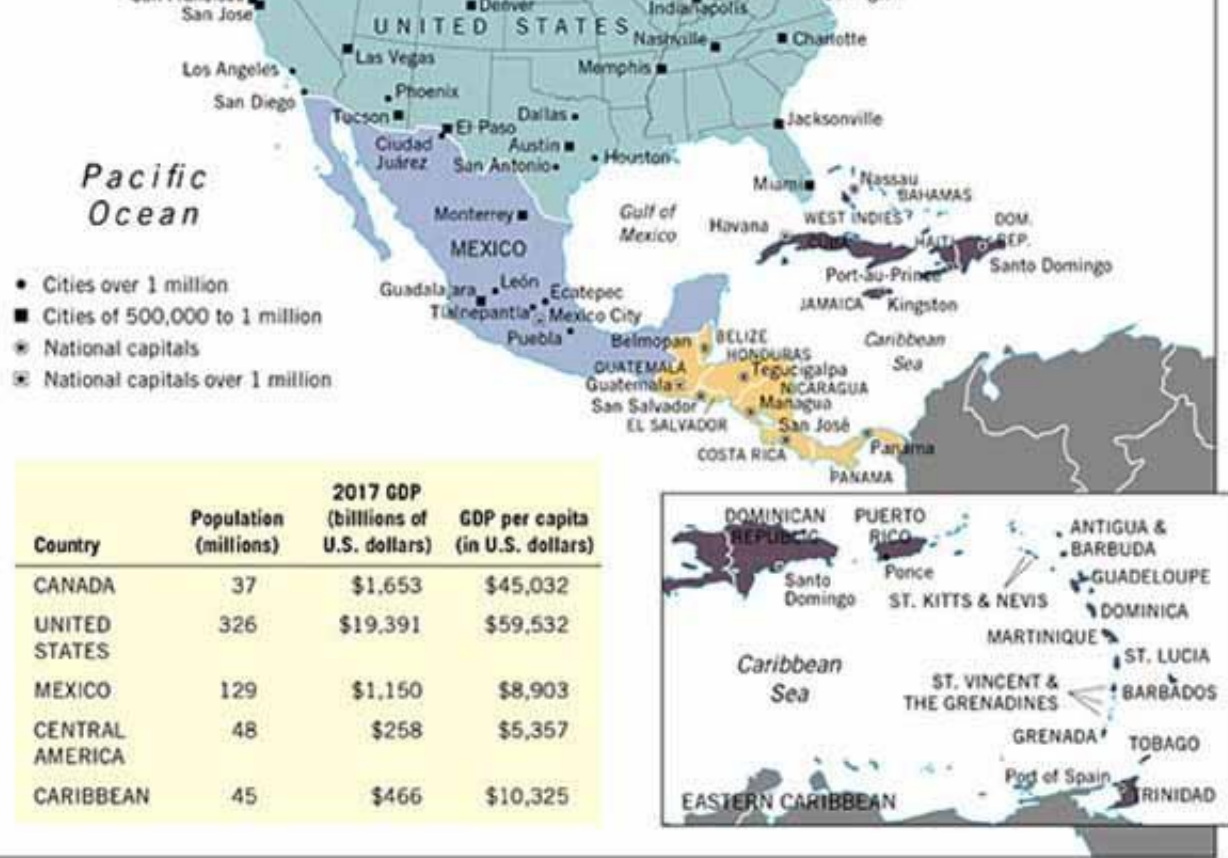
# The Marketplaces of North America: Mexico

- The world's most populous Spanish-speaking nation
- Open-market system
  - Reversed economic nationalism policies (discouraged FDI and high tariff)
  - Opened its markets to foreign goods and investors
  - Reduced government's role in its economy
  - Signed a series of free trade agreements
    - In 1994, Canada, Mexico, and the United States - NAFTA)
    - 1999, Mexico signed a similar agreement with the EU
    - 2000, signed free trade pacts with neighboring El Salvador, Guatemala, and Honduras

# The Marketplaces of North America: Central America and the Caribbean (1 of 2)

- Divided geographically into two groups:
  - Central America
  - The Island States of the Caribbean
  - Population total 93 million GDP \$724 bil (half Canada)
- Several island states have achieved high income status
  - Vibrant **offshore financing** or **tourism** industries  
(Aruba, the Bahamas, the Cayman Islands, and Curaçao)
- Costa Rica and Panama are classified as upper-middle

# Central America and Caribbean



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## BRINGING THE WORLD INTO FOCUS

### THE CANALS OF COMMERCE

The chapter's opening case discusses the implications of opening an ice-free Arctic passage between eastern Asia and the Atlantic Ocean. For now, however, two canals play a major role in channeling ocean-borne trade between Asia and the Americas and Europe. The Suez Canal, a sea-level canal that cuts through Egypt, was constructed under the leadership of French developer Ferdinand de Lesseps. It opened for business in 1869. This canal played a major role in allowing the United Kingdom to control its Asian colonies, particularly British India. In 1956, Egyptian President Gamal Nasser seized control of and nationalized the canal. British, French, and Israeli troops formed an expedition to recapture it from the Egyptians, but diplomatic pressures from the Eisenhower administration squelched their effort. Today more than 20,000 vessels transit the Suez Canal annually, generating \$5.3 billion in tolls.

The Panama Canal is the younger of the two canals. Serving more than 14,000 vessels a year and yielding \$2.3 billion in tolls, the Panama Canal accounts for 5 percent of global commercial trade. After Spanish explorer Vasco Núñez de Balboa explored the Isthmus of Panama in 1513, entrepreneurs and dreamers for centuries sought to connect the Atlantic and Pacific Oceans at



this narrowest point of the Americas. In 1881, France, under the leadership of de Lesseps, raised millions of dollars to do this. However, the French effort was frustrated by mudslides, malaria, and yellow fever, killing 22,000 workers. It was abandoned in 1893, after burning through \$287 million. A second French company was formed, but sold its rights and equipment to a U.S. company in 1903. When the government of Colombia denied the United States rights to build the canal, the U.S. government backed the independence claim of Panama, thereby securing its building rights. Completed in 1914, the Panama Canal is one of the great engineering feats of the early twentieth century. A series of locks raise or lower ships 85 feet to accommodate the differences in the height of the two oceans. The Panama Canal is so crucial to the ocean-going trade that a standard class of ships are labeled Panamax, the maximum size vessel that can transit the canal. However, the locks of the Panama Canal are too narrow for many modern container ships; eager to expand its market share, the managers of the Panama Canal are in the process of building another set of locks to accommodate these larger ships, a project costing \$5.2 billion that is expected to be finished in 2015.



# The Marketplaces of North America: Central America and the Caribbean (2 of 2)

Problems faced other countries in this region

- Political instability
- Chronic U.S. military intervention
- Inadequate educational systems
- Weak middle class
- Poverty
- Import limitations by the US/developed countries

# The Marketplaces of Western Europe

- Western Europe - 2 groups
  - Members of the EU
  - Other Western European Countries

- Among world's prosperous countries in the world
- Attract businesses to market their products to region wealthy consumers



# The Marketplaces of Western Europe: The EU

- Comprises 28 countries
  - 27 after Brexit
- Seeks to promote European peace and prosperity
- One of the world's richest markets
- Free-market-oriented members
- Parliamentary democracies
- 19 EU members adopted the euro (€)

**2017 GDP of  
\$17.3 trillion  
and a  
population of  
513 million**

# The Marketplaces of Western Europe:

## Influential Members of the EU

- Economically, Germany is the EU's most important member GDP 2017 \$3.7 Trillion, world's 4th largest economy
  - Germany's strict anti-inflation policies
- Politically, France exerts strong leadership within the EU
  - French protectionist tendencies
- The United Kingdom has challenged France's positions
  - British exiting the EU (Brexit)



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Small- and medium-sized family-owned firms, known as the *Mittelstand*, are a critical element in Germany's exporting success. *Mittelstand* firms rely on skilled German craftsmen to produce high-quality, well-engineered products that dominate many product niches.

# The Marketplaces of Western Europe: Newest EU Members

- Were either part of the Soviet Union (Estonia, Latvia, and Lithuania) or allied with the Soviet Union (Bulgaria, Czech Republic, Hungary, Poland, Slovakia, and Romania)
- Restructured their economies from centrally planned communist systems to decentralized market systems
- Implemented political, legal, and institutional reforms
- Some are achieving high-income status

# The Marketplaces of Western Europe: Other Western European Countries

- **High Income Countries:**

- Iceland, Norway, and Switzerland
- Several small, “postage stamp” countries such as Andorra, Monaco, and Liechtenstein
- Account for 2 percent of the world’s G D P

- **Middle Income Countries:**

- The Balkan countries of Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia
- Post–Cold War economic progress was slowed by chaos and conflicts

# The Marketplaces of Eastern Europe and Central Asia

- Gorbachev's *glasnost* (openness) and *perestroika* (economic restructuring) from communism to capitalism, totalitarianism to democracy
- Soviet Union's collapse in 1991
  - Newly Independent States (N I S) - 15 states
    - Commonwealth of Independent States (C I S) 12 of the NIS formed CIS



# The Marketplaces of Eastern Europe and Central Asia: Russia

- Difficult transformation from communism to a free-market system
- The world's second largest oil producer and exporter
- Collapse of Oil price in the 2010s: Slow G D P growth

# The Former Soviet Union

The three Baltic republics were conquered by Soviet troops in 1940. They were among the first of the republics to claim their independence and are the only ones that did not join the Commonwealth of Independent States.

- Baltic republics
- Caucasus republics
- Central Asian republics
- Cities of 650,000 to 1 million
- Cities over 1 million
- ⊙ Capitals
- ⊞ Capitals over 1 million



The five Central Asian republics are populated largely by Muslims, whose cultural heritage is very different from that of their former countrymen in Russia, Belarus, and Ukraine. The area is rich in natural resources such as oil and gas.

The Caucasus republics have suffered much political instability. Armenia and Azerbaijan have fought over their regional boundary; ethnic conflicts in Abkhazia and South Ossetia have led to military conflict between Georgia and Russia. That portion of Russia lying in the Caucasus (the land between the Black and the Caspian Seas) has had similar problems, most notably in Chechnya.



# The Marketplaces of Eastern Europe & Central Asia: **The 5 Central Asian Republics**

- Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan, and Kyrgyzstan
- Common characteristics
  - Russian Influence
  - Religion: Dominantly Islam
  - Language: Turkic/Persian roots
  - Scarce Arable Land
  - Low Per Capita Income
  - Fossil Fuel Reserves

# Markets in Asia



# The Marketplaces of Asia

- More than 50% live in Asia
- Produces only  $\frac{1}{3}$  of world GDP
- Source of both high-quality and low-quality products
- Source of both skilled and unskilled labor
- Major destination for foreign investments by M N C s
- Major supplier of capital to non-Asian countries
- Aggressive and efficient entrepreneurs - Chinese, Japanese, Korean, Indians, Thai, Indonesian

# The Marketplaces of Asia: Japan

- One of the world's economic superpowers
- Japan's economic success
  - Partnership between M I T I and Keiretsu
  - Sogo shosha
- Japan's challenges
  - Slow economic growth in the 1990s
  - Adjustments to changes in the the world economy
  - Trade practices
  - Growing demographic crisis