GLOBALIZATION: WHAT IS NEW; EFFECTIVE GLOBAL STRATEGIES

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Abstract

What is new and important about globalization and how do players who wish to dominate, such as multinational enterprises (MNEs), adapt to the changing scene. The empire strategy of Ancient Rome is discussed and contrasted to the U.S. ongoing hegemony building approach in order to glean ideas useful to MNEs. The strategies of MNEs from the two leading emerging powers China and India are analyzed and compared to the above. The acquisition and merger activities taking place in the MNE sector indicates that global leader strategies are driving towards hegemony power. Such strategies emphasize global integration and adaptations to market, and also show the third leg of control through size and power that emerges for successful global leadership.

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1. Introduction

What is so new and important about globalization? This is looked at and then we discuss the empire building strategy of Ancient Rome in comparison to the ongoing hegemony building approach of the US, in order to glean ideas on what multinational enterprises (MNEs) should be doing to dominate markets. Further the strategy of the two largest and new emerging giants, China and India, are analyzed in comparison to the above. The article progresses towards examining selected recent acquisition and merger developments taking place within the large MNE sector. This results in evidence that global leader strategies are being based on the pursuit of hegemony power. Such strategies emphasize the importance of global integration of worldwide activities and necessary market adaptations, but more importantly they introduce a third vector - control through size and power— that emerges as a requisite for successful future global leadership.

2. The Waves of Globalization

2.1. First Wave

In the past globalization amounted to little more than evolutionary change in a few scale driven industries. In the future, its impact will be ubiquitous. Information technology and trade linking the world have made foreign markets a vital part of the sales growth for firms. So MNEs will have to learn to play in a globalizing economy where new rules are still being created.

The infrastructure that permits globalization is becoming more powerful. The pillars of this infrastructure are mutually reinforcing. The most important factor is probably the expanding scale, liquidity, mobility and integration of the capital markets. The second factor in order of importance is the growing ability worldwide to leverage on knowledge, talent and technology, giving firms that are rich in intangibles strong incentives to develop global strategies. Firms like Coca-Cola., Microsoft, and Hyatt Hotels are gaining much from a business model that minimizes their investment in fixed assets and maximizes their ability to leverage brands, standards, management skills, and intellectual property across the global arena (Underwood, 2004). The third factor is the liberalization of national regulations and lowering of economic barriers to trade, capital flows, and technology links. The worldwide deregulation of the telecommunication industry has cut the marginal cost of computing and communications almost to zero. This is enabling a massive increase in the cross-border information flows that serve to reduce the risks associated with unfamiliarity, speed up the arbitrage of price anomalies, and stimulate the consumer demand for world class products and services.

The fourth factor is the growth of the global labor pool that in the next ten to twelve years will absorb nearly two billion workers from emerging markets. These people will be working for much less than their counterparts in rich lands earn and will not be too much less productive; so the unit cost of production will go down dramatically.

2.2. *Second Wave*

It is estimated that even today the motivation of reaching new customers explains perhaps 80% of FDI. Many are in industries such as automotive, where tariffs and other trade barriers force foreign firms to set up locally to do business better, or in service industries, where a local presence is required. Thus a second wave of globalization has occurred with MNEs from the West building plants in low--wage countries.

The global marketplace is being institutionalized through the creation of a series of multilateral entities that establish common rules for international commerce. In many nations business is the primary engine driving globalization but the implications of globalization have spread well beyond the commercial arena. International organizations have arisen to coordinate policy among nations on global issues such as trade, the environment, development, health and crisis management. The community of nations increasingly accepts that such supranational entities are demanded by the exigencies of the times. However the leading economically powerful states struggle over the power to organize the global economy. States are increasingly faced with the integration of domestic and international policy. Globalization requires an integrative vision. This integrative vision treats social structures with different levels integrating in different ways. (Kontopoulos 1993)

With globalization come intensifying competition, diminishing control, shortening product cycles and deepening uncertainty. The new global economy is one in which most firms are permanently vulnerable, When you look at the success stories of leading globalizers, you find companies that have learned to think differently from the herd. We are on the brink of a major long-term transformation of the world economy from a series of local industries locked in closed national economies to a system of integrated global markets contested by global players, where intangible and not physical assets are the source of strategic advantage. Let us now turn to global strategies

3. Global Strategies: The Evolution and Discussion

3.1. Traditional International and Global Firms

In the earlier 20th century, firms doing international expansion were categorized as resource seekers, market seekers, and efficiency seekers. At a later time firms emerged that are market adaptors and market integrators. In the earlier case, some firms pushed beyond geographic national boundaries and won access to new customers, raw materials, labor, and technologies. They gained the ability to adapt to specific geographic areas to obtain the benefits of scope and specialization. These firms generally followed a multilocal expansion strategy. At the core of the multilocal approach is the privileged local access stemming from large local investments. ABB, Nestle, Shell, and Unilever took this approach internationally. A Swedish example is Swedish Match Company, one of the first multilocals.

Later, in ***the*** 1960s a different type of firm, the market integrator, began to emerge, one aiming to create global markets for specific products. The market integrators grew out of efficiency seekers and their path was to benefit from globalization. They created global demand and established global standards. Boeing used scale in airframes and Canon used specialization in 35 millimeter cameras to satisfy foreign markets without making large foreign investments. (Bryan & Fraser, 1999). These ‘global’ companies tended to grow up in relatively large national economies where scale and specialization let them develop significant intangible assets that they could patent and / or reuse on foreign markets in their proprietary production techniques. More recently firms have been converging around a global-local or transnational model that combines the best aspects of each approach (Bartlett & Ghoshal, 1989). This model relies on greater internal integration to capture global specialization and scale advantages, and on local approaches to gain privileged access. However, the MNE’s market position is very different in various regions of the world (Rugman & Verbeke, 2004). This indicates the need for very different competitive strategies. It implies that international markets are characterized by incomplete integration. Global strategy does not mean doing everything the same way everywhere.

Around the turn of the millennium there was quite some research on ‘Born Globals’, small firms that often originated from smaller countries and had the vision to globalize rapidly (see e.g. Gabrielsson & Kirpalani, 2004), However with the exception of a few, many of them ended up as regional, rather than really becoming important global players. Firms that outsource many of their input requirements give another viewpoint on globalization. The star performer here is Nike. This firm sources most of its products offshore, primarily in China and Southeast Asia. But on the market side the bulk of its sales are in the Americas, with 29% in Europe and only 13% in Asia. This has been termed the back end portion of the MNE’s strategy. This largely reflects an arbitration issue, with the MNE taking advantage of the incomplete integration of factor markets. (Ghemawat, 2003) This may reflect a global logic in the minds of executives, but is distinct from a strong global market performance.

The globalization of production unleashes mechanisms that cause a convergence between industrialized and nonindustrialized countries. Global economic growth has eliminated precapitalistic niches and resulted in a shift from capital intensive to technology intensive production. (Schwartzrnan, 1998) As this happens many firms are losing geographically privileged access to customers, labor, capital, and production techniques. Thus many historic determinants of cost and value advantages will disappear, to be replaced by intangibles such as talent, intellectual property, brands, and networks. Intangibles now enable a firm to 'buy' the access that used to come with geographical privilege. The integration of the global economy promotes specialization, and since intangibles lie at the heart of specialization, they will be the new scarce resource. This will be the differentiating capability that generates enormous scale effects. Thus Pfizer wins large returns from Viagra, Microsoft from Windows, and Twentieth Century Fox from titanic (Bryan & Fraser, 1999, 77).

3.2. Global Leader Firm Strategies

Global leader firms realize how large the profits can be for a player that captures arbitrage opportunities between countries or shapes a global industry. There is no structural reason why soft drinks should be global while beer and spirits remain much more local. The only difference is that Coca-Cola has redefined soft drinks as a global industry. As most of the world's economy and most services are still in the early stages of globalizing, it is likely that the great growth firms of the 21st century are still in the making. These new firms will start out with a vision of the world as their market. Lacking respect for the status quo and having nothing to gain by preserving it, they will be the architects of discontinuity in their industries.

Even large MNEs in global industries such as automobiles and chemicals face significant upheavals. They have to learn how to prosper in a world where the key to profitability is to leverage intangible assets such as knowledge, talent, and people. Thus global thinking is what is important for firms, not just having a good amount of international sales. Global connotes holistic, integrated activity. Global strategy involves thinking in an integrated way about all aspects of a business: its suppliers, plant sites, markets, and competition. It means deepening the firm understanding of cultural differences in order to work towards being global.

How do powerful players control their market reach, lessen uncertainty, and build wealth? Can we gain insights from empire builders?

4. Empire Builder Strategies

An empire is a multinational or multiethnic state that extends its influence through formal or informal control of other polities. There is no empire without a conglomeration of linguistically, racially, and culturally different nationalities and hegemony of one of them over the rest. What is hegemony? Is it a euphemism for ‘empire’ or does it describe the role of a primus inter pares, a country that leads its allies but does not rule subject peoples? The literature is mixed on the definitional issue. The word hegemony has been used to describe the relationship of Athens to the other Greek city—states that joined it in an alliance against the Persian Empire. Another definition offered is that a hegemonic power is a state able to impose its set of rules on the interstate system, and thereby create temporarily a new political order. It offers certain advantages for enterprises located within it or protected by it, advantages not accorded by the ‘market’ but obtained through political pressure. Another version is that hegemony’s principal function is to underwrite a liberal international trading system that is beneficial to the hegemony. The fundamental question then is how far and for how long the hegemonic lead power would remain committed to free trade once other economics, benefiting from the free trade, began to catch up economically with it.

The current international system, with some 200 independent states and not a single confessed empire, is a historical anomaly. Most people throughout history have lived under some form of hegemony. Therefore lessons might be learned as to strategies by studying some of them. Here we analyze Ancient Rome and the present American approach. Roman legions suffered military disasters from its outreach regions of a kind that American *troops* have not suffered. Incidentally, the other notable international empire, the British, had armed forces that were negligible in comparison. The British Navy undoubtedly ruled the seas in the period of empire but teetered constantly on the verge of technological obsolence. (Cohen, 2004) Britain was a much weaker hegemony as was evident with the unfolding of the 20th century.

4.1. The Empire Strategy: Ancient Rome

From a strategic perspective, the empire builders are a class of players of their own league in the thrust to globalize. These empire builders drove economic integration first through conquest, then through colonialism, and eventually through their firms. Historically the Roman Empire was one of the largest political empires ever created and the second longest lasting, after the Chinese. The territory once occupied by the Roman Empire was extensive: basically she was mistress of the Mediterranean basin. The population totaled perhaps 60 million people, or some one-fifth of the world population at that time. (Hopkins, 2000) The Mediterranean Sea was at the center of Roman power. The empire was a fusion of coastal cultures, bound by cheap sea transport. Rome enjoyed the surplus produce imported from all its coastal subjugated provinces.

Size matters; it was an important source of Rome’s power. The larger the Roman Empire became the more people it subjected, the more taxes it exacted, the more wealth it controlled, and the more territory it was able to acquire and defend. The empire’s persistence was a symptom of the thoroughness with which the Romans destroyed previous political systems, and overrode or obliterated the separate cultural identities of the people they had conquered. Local autonomy was limited and was restricted by the Roman provincial governors' expectation of subservience. Also, it was restricted by the local elites' own desire for assimilation: whether to Roman style rank, or to the borrowings of Roman power to resolve local power struggles. So, provincial cultures within the empire, became ostensibly Romanized. By the end of the second century, half of the central Roman senate was of provincial origin. The elite of the conquerors had merged with the elite of the conquered.

4.2. The Empire Strategy: The American Empire

The U.S. has been engaged for decades in what you could call an empire project - A project in which the U.S. attempts to permanently order the world of states and markets according to its own national interests. During the Cold War era, this empire project was constrained by the need to mobilize allies to contain the Communist bloc. During the Clinton years the empire project was given full rein, especially on the economic front. It was at times called the 'enlargement' strategy. The word 'empire' used here does not just refer to 'full spectrum dominance' of A over B and C. It is a world order concept, where A sets the rules that B and C have to follow. (Challenge, 2004) This world order helps to allow the U.S. with less than 5% of the world's population to accrue about 25% of world income.

What features of the world economic architecture allows the U.S. to sustain this position of overwhelming economic dominance that permits military dominance? One important step was Nixon's breaking of the link between dollar and gold in 1971. This was called by Charles de Gaulle as the start of the hegemony of dollar (Ferguson, 2003). Thus the U.S. had access to a gold mine of paper. This allowed the U.S. to run increasingly large current account deficits, provided the dollar remained the main international currency. Therefore it can spend on consumption and the military much more than it earned. Moreover it has more autonomy over interest rates and taxes. The U.S. has been doing everything to get all countries to open their capital accounts; thus removing impediments to the inflow and outflow of financial capital. This latter is a fundamental part of the architecture of this empire. As capital markets grow, the financial instruments that can be used to unbundle different classes of risk are becoming more sophisticated. Today more and more projects are funded by private sector sponsors. They can disaggregate various components of risk, allocate them to different parties best able to handle them, and securitize the project financing. Thus the world's capital markets now possess both the power and the instruments to globalize the world economy. (Fraser & Oppenheim. 1997) With free entry and exit of financial capital, investors can go elsewhere if they think their national programs are too expensive and they can push their political economy closer to that of the U.S. The benefits of free capital markets is in creating a more efficient world resource allocation; that especially benefits LDCs in being able to invest more than they save.

Many LDCs have to restrain their rate of growth by the fear of a financial crisis, such as the one that happened in East Asia in 1997. They have maintained higher interest rates because, in the condition of open capital markets, capital can stampede out. The still poorer LDCs are being put under pressure to practice free trade. In effect this forces them to specialize in line with their comparative advantage. Such countries can easily get locked into the role of commodity supplier. This subjects their exports to high volatility and they have little endogenous capacity for growth.

The U.S. probably can go on sustaining its current strategy for quite some time. In today's world the U.S. also is the sole military superpower. The U.S. now accounts for more than 40% of global defense spending, more than double the total spending of its European allies. In virtually every sphere of warfare, the US. dominates, an unprecedented phenomenon in military history. Further it is the world's information superpower.

The contrast between the U.S. and its imperial predecessors is striking. Rome *was a* city, Britain a set of moderately sized islands, but the U. S. spans a vast, rich continent. By the middle of the 19th century Britain's population was only slightly more than half that of France and much less than Germany, the U.S. and Russia. Its economic lead over Europe had dwindled everywhere but in the finance sector. By the end of the century it had fallen behind Germany in steel production and electric power. The might of Rome and Britain depended on ideas as much as resources. Imperial power resided in sciences, literature, and education. The U.S. can claim great influence in the realm of ideas as well. U.S. universities dominate in higher education, while low arid middle-brow American culture floods a planet that simultaneously loathes arid embraces Spielberg, Starbucks and MTV.

5. China's and India's Strategy

5.1. The China Strategy

In the 21st century China has departed from the Bandung Conference spirit of 1955 where it tried for economic self-sufficiency without being dependent on imported food or materials. This has become evident in China's efforts to secure energy and raw materials from around the globe. Seen by outsiders, China is being viewed in one of two ways. One, as a consumer of the world's scarce resources and an entity that will flood consumer markets and take jobs. Two, as a manageable player with an interest in global stability and economic growth (Thompson 2005). The former is more likely to be correct.

In 2003 China surpassed Japan to become the world's second largest importer of oil after the U.S. Now China's oil imports will only grow rapidly driven by rising numbers of cars, greater energy consumption by consumers and industrial growth. The Middle East accounts for the majority of China's imported oil, with Iran supplying around 15% and Saudi Arabia 16%. The China Petrochemical Corporation recently signed a 25 year agreement with Iran to import $70 billion of liquefied natural gas and invest in exploration and production projects, such as developing the lucrative Yadavaran oil field (Stakelbeck 2006). China has many agreements in Africa and Latin America, including one with Venezuela. As an example Angola exports some 25% of its oil export to China and has received a 17 year $2 billion loan from China for infrastructure development. China combines foreign assistance with purchases. Chinese construction and engineering firms will execute many of these projects. A very recent example is China's deal with the Democratic Republic of Congo, wherein Congo will has pledged 10.62 million tons copper and 620,000 tons of cobalt to China in exchange for China contributing U.S.$ 9.25 billion to be used by Chinese firms building roads, railways and other infrastructure in Congo (Financial Times, May 10, 2008).

China's typical approach to diplomatic relations refuses to address governance, human rights and other political issues. China has adopted an aggressive global positioning strategy while pursuing the systematic dismantling of perceived Western hegemony led by the U.S. In Asia, China threatens Taiwan with military force, employing a policy of total capitulation. Indonesia, Laos, Malaysia, Myanmar, Thailand and Vietnam increasingly look to Beijing for guidance on regional issues. China supports North Korea. Also the Shanghai Cooperation Organization member states include Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan is seen by some as a modern day "Warsaw Pact." Also India, Iran, Mongolia and Pakistan may become permanent members. In the EU cheap Chinese imports threaten a number of manufacturing jobs. Moreover China has conducted joint military exercises and has a joint bilateral energy agreement with Russia. In the Middle East, Iran, Kuwait and Saudi Arabia have become energy partners with China.

China's accession to the World Trading Organization (WTO) meant it could not impose protectionist tariffs and was subject to restrictions that the WTO's Technical Barriers to Trade Act places on the use of standards to erect barriers to trade (Updegrove, 2005). Almost all manufactured goods are effectively regulated by global standards bodies and global treaties such as that of the WTO. Standards necessarily impact on patents and most patents are owned outside of China. Western and Japanese competitors often cross-license their patents, lowering their royalties and therefore the costs of manufacturing, for example, consumer electronics. Few Chinese firms can do this as they do not have patents that would be infringed. Therefore Chinese firms pay the full royalty burden. Thus foreign powers enjoy spheres of influence over Chinese production based upon these intellectual property rights. In response China has executed a high priority standards strategy to provide advantages to its domestic firms. In April, 2001 it created a new agency "Administration for Quality Supervision, Inspection and Quarantine," which in turn created the "Standards Administration of China (SAC)." Almost 28,000 technical specialists have been deployed in 2003 to create standards. The goal is to avoid payment of foreign royalties. In parallel China has dramatically upgraded its patent infrastructure. More than one million patents were filed by domestic inventors in 2004. So many Chinese firms can now make products based on standards that do not infringe foreign patents, or might require foreign makers to pay royalties to Chinese patent holders.

It is obvious that the U.S. global model based on individual freedom, market competition and democracy is very different from that of China. The latter's philosophy of globalism is a system with limited individual freedoms, highly regulated economic expansion, and state controlled entities to secure strategic resources. In 2006 China passed an 'Anti-Secession Law' asserting its legal authority over Taiwan, pressured Central Asian republics to remove U.S. bases, obstructed U.N. Security Council action against Iran, actively supported several African and Latin American dictators, and oppressed the Tibetan people. These are not the acts of a country laboring through a maturation process. One must keep in mind that China, when ruled by the Ming and Qing dynasties from 1368 to 1911 had extended influence beyond its borders. The Chinese army was one million strong, some estimates placed it at 1.9 million, and its navy enabled it to reach Africa. Qing control stretched over Xinjiang, Tibet and Mongolia. So although the Western powers, Japan and Russia weakened the Qing's Empress Dowager Cixi, it was not enough to significantly lower Chinese pride and memory of a glorious past. Thus it is likely that the future will see an increasingly capable China with economic, military, political, cultural influence and power.

China's rapid economic growth of around 10% a year seems unstoppable for the foreseeable future. It is by far the highest recipient of FDI in the world. Furthermore, in 2007 China became the world's largest exporter, and in 2008 it is likely to remain ahead of second place Germany since it is increasingly the world's leading supplier of manufactured components. Further, China's GDP at market exchange rates will place its economy as the third largest in the world after the U.S. and Japan, and ahead of Germany. Furthermore China will overtake the U.S. in having the most internet users. Moreover its total stock market capitalization might push ahead of Japan's and be second only to the U.S. In 2008 PetroChina could even eclipse Exxon Mobile as the world's largest company in terms of market value.

China has a core advantage in access to low cost resources. Their labor rate for manufacturing workers is on average about one U.S. dollar per hour but can run up to five dollars an hour, which is still a fraction of the $20 to $25 in the rich West. Firms there also obtain land and plant machinery relatively cheaply, as local communities compete hard for investors. In addition they have access to large pools of skilled workers. In 2010 China is expected to graduate 800,000 engineers, mathematicians, scientists and technicians well over six times the number in the U.S. Furthermore the local market is very large. Steel consumption is well over double and auto sales are close to one-third of what they are in the U.S. (BCG, 2006) In addition, firms in key sectors such as aerospace, equipment for telecommunications and the automotive industry receive substantial financial help from the government. The factor advantages and the government help make Chinese firms formidable competitors.

5.2. India's Strategy; and One Asia

India has never been a world power. In part this is because the country has always been a conglomeration of cultures and peoples. Also, it's large domestic market and near self-sufficiency in most resources, outside oil, meant there was no need to expand into international markets, or to acquire resources abroad. Furthermore for over 200 years it was a British colony. Such a background tends to limit the urge to dominate vast areas. In addition, India geographically does not have easy land access to many other countries. The above background tends to reflect itself in the thinking of its major firms that go international. They want to grow themselves but are not rapacious in their approach. But they have systematic advantages in low labor costs, like China a plentiful supply of some 600,000 engineers, mathematicians, scientists and technician graduates annually as compared to about 120,000 in the U.S., and a rampart informal shadow cash economy that helps to keep costs down. But, the state helps the market. The Indian Finance Minister P. Chidambaram announced that the Ministry actively encourages bank merger proposals. He is quoted as saying "Consolidation is the name of the game in oil and telecom sectors and I am glad that the banking sector is also looking into this as a strategy" (Times of India, 2004). The idea is to give Indian banks the scale to act like global banks.

The phrase 'Asia is One' has come into being. The great powers of Asia: China, Japan, India and Korea ranked in order of economic size have started to think of it as a single space in which the commercial and political interests of the major powers range across the continent (Emmott, 2007). They have benign interests but are also rivals. They are coming together in the fourth annual East Asian Summit in December 2008 and even New Zealand will attend. The U.S. civil nuclear deal with India exploits the rivalry by strengthening India to balance China. Japan's security alliance with Australia in 2007 is a protective offset, as was the four-way military exercises conducted by the U.S., Japan, India and Australia in September 2007. Japan is providing the finance in 2008 for a transport project in India linking Delhi, Kolkata and Mumbai.

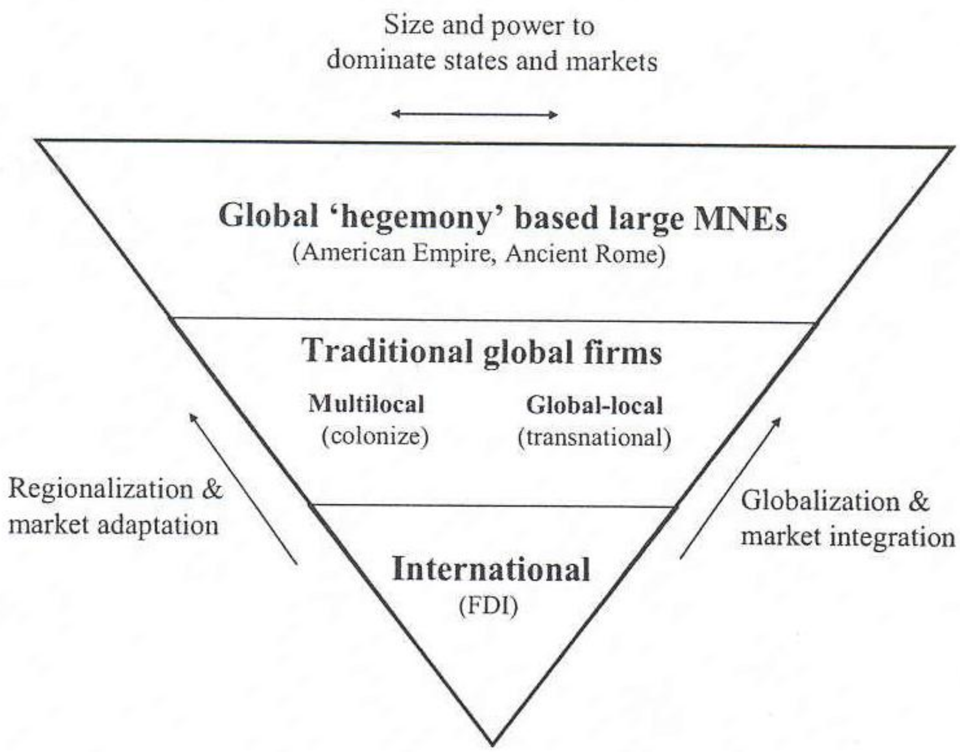
Let us now turn to examine the hegemony strategies of large Western MNEs and then look at the strategies of Chinese and Indian firms that are global challengers.

6. Hegemony Strategies of Large Western MNEs and Global Challengers from China and India

6.1. Large Western MNEs and Hegemony Strategies

Large Western MNEs often have an influence on governments, international trade organizations and financial institutions. See Figure 1 below for an illustration of the strategic development of such global leader firms.

Figure 1: Global leader strategies



Among large firms the hegemony strategy seems to have caught on. Cemex S.A. the Mexican cement /concrete giant has bought the U.K.'s RMC Group. This now makes

Cemex, with revenues of $15 billion, the largest firm in this industry in the world. Cemex, once a provincial firm in North Mexico, has acquired 15 companies since 1992. Cement would seem to be a localized, unconcentrated industry involving heavy transport and close relationships with builders hut has become through mergers and acquisitions a surprisingly global one. The main competitors are now Lafarge SA of France, Holcim of Switzerland, and Heidelberg Cement of Germany, with revenues of $12, 10, and 8 billion respectively.

Can large MNEs be successful with hegemony strategies? Certainly industry after industry is being consolidated and oligopolies are consequently being formed. Dominant firms in each of these oligopolies are becoming hegemonic. They retain dominance by constantly trying to differentiate their products. Witness the range in oil, milk and coal. On the other hand, wherever one gets significant differentiation, the period is very short and the principle of convergence starts to apply so that the differentiation is quickly imitated. In the automobile industry, every successful new development is duplicated by almost all members within a short period. Witness how Toyota pickups and Mercedes SUVs are looking very American and Ford and Chevy sedans look like their Japanese counterparts. It has been documented that Wal-Mart, the world's largest corporation, has used its hegemonic power to obtain some $ One billion in state and local government subsidies. General Dynamics has built itself through many acquisitions, including European firms. The armed forces of the U.S. and some European nations have hardly anywhere else to turn for motorized armored vehicle, complex battlefield targeting systems or naval craft. A similar hegemonic position is maintained by Boeing, Raytheon and Lockheed Martin who have wiped out most of their competition in segments of the defense industry. (Oligopoliwatch, 2004) Dean Foods' has a growing hegemony in the diary industry. The firm has taken over major producers such as Land O'Lakes, Borden, Pet and other smaller local diaries, plus they control soy milk made by Silk and White Wave. Recently they took over Horizon Organics, the largest supplier of organic milk in the U.S. and U.K.

Microsoft has hegemony in software and dominates through its Windows operating system. Another consolidating global industry is the Advertising Agency one. There are now only four big players: WPP, Omnicom, Interpublic, and Publicis, with WPP leading at revenue of $8.6 billion. The motivation offered by WPP is “the big can really serve the big.’’ The problem is that conflicts of interest arise. WWP will service Proctor & Gamble, Unilever and Colgate-Palmolive whose products compete. Furthermore, the top advertising minds within ad agencies regularly switch from one big client to another, so there is a constant convergence of thinking processes and approaches. Sony is buying MOM/United Artists. In terms of market share the #3 studio is buying the #8 studio. But the value of the takeover is really in the libraries, the ownership of hundreds of other important films including the James Bond franchise, the Pink Panther movies and 4000 older films. This is in line with Sony’s strategy of acquiring music content via the Sony Music-BMG merger and it’s making an ally out of Comcast to supply video-on-demand. Sony’s strategy is obviously hegemonic rather than mergers for innovation or new creative energy. Ticketmaster also is following a hegemonic strategy. It has bought ticket firms at the rate of two a year in the past few years in the U.S. and abroad. It is absolutely dominant **in** the U.S. where it is the main ticket seller for over 70% of major events. It has become the essential middleperson of most sports teams, concert promoters, monster truck rally promoters, theater producers and museum directors. (Olignpolywatch, 2004b)

There are a significant amount of mergers and acquisitions taking place. As size increases MNEs achieve the potential to exercise hegemonic power. The wireless industry of North America is consolidating into just a few big players. AT&T and Cingular are merging. The $ 41 billion dollars deal will make the merged group the nation’s largest wireless carrier with 47 million customers. Verizon the 2nd largest has over 40 million customers with Sprint being 3rd with 27 million customers, AT&T, once the world’s largest company and its most advanced technology company is now being bought by SBC. Verizon is now buying MCI and Sprint is buying Nextel.

Proctor & Gamble have just acquired Gillette for $57 billion. Both are leaders in their fields and the move will make P&G the largest consumer product company in the world. Further it will give it hegemonic power in detergents and men's grooming products, plus number one position in various female grooming products, women's personal care, and make it the world leader in writing instruments, and oral care products. Gillette acquired Parker Pen Holdings Limited in 1993. Earlier Gillette had bought Waterman; through Waterman, Gillette enjoyed a 21% share of the luxury world pen market. Now with Parker, Gillette owns 40% of that market. (Kanter & Dretler, 1998)

Globalization: Relationship Between MNEs, States, and Markets

Globalization is transforming the relationship between MNEs and markets. Globalization does not consist of an inevitable match to a neo liberal order but is a politically contested process in which different MNE-State-Market models of interaction corne into conflict nationally and transnationally. It has been argued that state, market and society are constructed by their interactions with one another (O'Riain, 2000). As each wave of technological change enables an expansion in corporate size and control this stimulates popular demand for compensatory regulation from the government. Thus each past round has led to an expanded state chasing after an expanding corporate size (Chase-Dunn, & Grimes. 1995).

Today, large Western MNEs are in many cases pushing states and international institutions to permit these corporates to form the rules of the game. We know that large MNEs have dominated the drafting of the texts on international economic agreements so as to promote their own interests. In the Uruguay Round Agreement on Trade Related Intellectual Property Rights (TRIPs) the claim was that any new rules would be confined to their 'trade related' aspects. The resulting TRIPs agreement requires that all WTO members enforce Intellectual Property Right (IPR) laws that are roughly comparable to those in the developed countries. The effect of this is that LDCs are protecting the IPRs of individuals and firms in the developed countries. This can only harm poor country consumers. India resisted this effort to bring IPRs into the rules of the world trading system. Large MNEs from the pharmaceutical industry were the initiators of the push for TRIPS since they wanted to prevent importation into tile U.S. and Europe of unlicensed generic drugs manufactured in LDCs, say India.

The NAFTA chapter 11 clause on investment is another example favoring the corporate world. Chapter 11 requires that any expropriation of the property of an FDI investor, direct or indirect, be accompanied by appropriate compensation. Furthermore it entitles the victim to bring a case before a NAFTA tribunal against the national government where the expropriation took place. Cases have arisen where attempts at environmental regulation have been challenged under Chapter 11 as they reduce the profit of a foreign NAFTA firm. The Canadian Methanex Corporation for example has brought a case against the U.S. seeking compensation for a California prohibition against a fuel additive they supplied that bad been judged to be toxic (Deardorff, 2004). Prior to NAFTA, such tribunals were available in trade law only for disputes between governments. The existence of Chapter 11 is evidence of the power of corporate interests in setting the rules of the international trading system.

6.2. Chinese Global Challengers

100 new global challengers from rapidly developing economies were selected from 14 such economies for 2008 (BCG, 2007). China leads with 41 such challengers. The firms were country based, this meant foreign joint ventures and subsidiaries of MNCs were not included. The well known are Lenovo, which bought IBM’s PC business in 2005. In television one has TCL, in home appliances Haier, in telecommunications equipment there is Huawei, and in oil there is CNOOC. China International Marine Containers Group has a 50% share of the marine container market, Galanz Group commands a 45% share of the microwave market in Europe and has a 25% share in the U.S Johnson Electric is the world’s leading manufacturer of small electric motors, and Hisense is the number one seller of flat-panel TVs in France. Some other local firms that are going to

benefit from the Beijing Olympics since they will officially be involved are the state owned China Mobile, and Air China. Air China is having its hub at Beijing Airport upgraded into a large new terminal (The Economist, 2008). It is China's largest international carrier. Furthermore, it set up a 17.5% cross-shareholding with Hong Kong's well known Cathay Pacific Airways in 2006 and has joined the Star Alliance in late 2007. Another notable is Chery Automobile (China) that has over 7% of the domestic market, makes almost 500,000 autos a year, and is the leading exporter of autos. It is currently building plants in Eastern Europe, the Middle East and South America. Further, in July 2007 it made an alliance with Chrysler for the latter to sell Chery made vehicles. Other firms are Nine Dragons Paper, which may become the world's largest paper producer in 2008, COFCO (China) the largest manufacturer of oils and food with a turnover of about $18 billion; China Shipbuilding Industry Corporation The largest manufacturer of ships and marine equipment with sales of $ 8 billion; and Sinomach (China) one of the world's leading machinery contractors with turnover of $5.1 billion.

Chinese firms use different models to help their globalization. Some are trying to take their brand global like Lenovo. Others rely on turning their engineering into global innovation and thus success. China Aviation 1 with revenues of over $10 billion is doing this. It is China's largest manufacturer of defense and commercial aircraft, missiles, and other aeronautical products. Some are pushing to obtain global category leadership. BYD Company (China) is the world's largest manufacturer of nickel –cadmium batteries, has a 23% share of the mobile hand-set battery market, and competes head-on with major international players including the Japanese. A few major companies are in the business of acquiring foreign natural resources. Their focus reflects the high priority the government places on securing access to such resources. A representative firm is China Minmetals, the largest metals manufacturer and trader and the largest importer of steel and non-ferrous metals. It has revenues of about $19 billion, and receives strong government support, as does CNOOC, China's largest producer of offshore crude oil and natural gas (Woodall, 2007). Another example is Shanghai Baosteel, the biggest steel maker with a capacity of about 20 million tons annually. It wants stable iron-ore supplies and to that end in 2001 it acquired a 50% interest in the CVRD Agua Limpa iron mining complex in Brazil, and a year later invested in a joint venture with Hammersley Iron, an Australian subsidiary of the Rio Tinto Group. This joint venture will supply more than 20 million tons of iron ore to Baosteel annually. In February 2008, BHP Billiton, an Anglo-Australian company that is the world's largest mining firm is trying to buy Rio Tinto; the industry's number three for #147 billion. In an unexpected move Chinalco, the state-owned parent of China's biggest aluminum producer teamed up with the U.S. Alcoa to buy 9% of Rio Tinto for $14 billion of which Alcoa is contributing $1.2 billion (The Economist, 2008).

6.3. Indian Global Challengers

Of the 100 global challengers list mentioned earlier, 20 companies come from India. Of these seven follow the model of taking their brands global, which means that most of them pursue growth organically. A leading example is India's Bajaj Auto, the country's leading exporter of two-wheeler and three-wheeler vehicles. It holds a dominant position in nine developing countries, and has revenues of over $ 2 billion. Another model that is used is turning R&D into global innovation leadership. Suzlon Energy with revenues of some $ 2 billion is the fifth largest company in the world for installed wind energy capacity. Bharat Forge is now the world's second largest forging company. Ranbaxy Pharmaceuticals is among the top ten generic-pharmaceutical players in the world. Another model that is used is the control of natural resources. India's Hindalco Industries uses mergers and acquisitions. It is Asia's largest integrated primary producer of finished aluminum. Its revenues are well over $ 4 billion. It purchased Canadian Alcan's Indal facilities in India in 2001, two Australian copper mines in 2003, and Canada's Novelis, aluminum rolled products company, in 2007 for $ 6 billion. The Novelis acquisition should raise Hindalco's revenue to $ 10 billion. The Tata Group with four companies: Tata Consultancy Services, Tata Motors, Tata Chemicals and Tata Tea amongst the challengers,   is the largest single sub-group of the companies from India. The Tata Group also uses the path of mergers and acquisitions. The Group is an industrial conglomerate of 98 operating companies and a total turnover of about $ 29 billion Tata Motors is a good example of international growth through mergers and acquisitions. It acquired Daewoo Commercial Vehicle Company in 2004, took a 21% stake in Hispano Carrocera, a Spanish coach and bus in 2005, made a joint venture with Fiat Auto in 2006 to produce Fiat and Tata cars and a Fiat powertrains for India and overseas markets, and bought Jaguar and Land Rover from Ford in 2008 for about $ 2 billion. Tata Motors revenues are presently over $ 7 billion (Carty, 2008). Tata Steel bought the British steel company Corus in 2007. Mittal Steel also has grown through mergers and acquisitions plus the smartness to utilize direct reduced iron pellets to make steel rather than more expensive scrap iron or imported steel billets. The largest steel company in the world is AcelorMittal forged in 2006/07 when Mittal Steel acquired Acelor. In 2007 the combined firm earned over $19 billion earnings before interest and tax, up 27% on previous year's profits, on sales of $105 billion. Mittal also owns a Chinese steel company and has a stake in another (The Economist, 2008).   In software India leads the world. India will graduate 600,000 engineers, mathematicians, technicians, and scientists annually in the coming years, some five times more than in the U.S. . . . Tata Consultancy Services is very big in its field, as is Infosys Technologies. Their model for global growth is by turning their engineering software skills into global innovation leadership. Their companion firm Wipro has become the world's largest third-party engineering –Services Company.

7. Discussion and Conclusions

Our survey of the word globalization is that the best definition is probably centered on the term integration rather than just international (Kanter & Dretler, 1998). The key to success in global strategy is for firms to build greater integration across the products/functions/countries they operate in to use all their resources simultaneously in order to tap the power of the whole.

The strategic goals, capabilities, resources, and intent of a firm define its position in global markets. This is basically the resource based theory of the firm. Another key factor is the ability of the firm to assess market signals and opportunities. Thus the decision depends on anticipated market growth, the presence of competitors, and a low risk environment. Firms that have a significant overseas engagement can benefit from the learning and experience associated with their operations in foreign markets, and their extensive market networks (Clang, 1995). Because they can leverage their accumulated knowledge and experience, they are in a better position to overcome the risks and uncertainties of entry into other foreign markets.

Traditionally firm size has been related to market power in both domestic and international contexts. This supports the hegemony approach detailed above. Larger firms compete in a broader spectrum of products and markets using scale and scope economies (Chandler, 1962). This enables the firm to develop synergy across different product sectors. Such synergy gives rise to both efficiency and quality in product development and product marketing. Larger firms are able to make preemptive moves that limit or prevent later entrants from gaining access to suppliers markets, customers and other scare assets (Lieberman & Montgomery, 1998). Larger firms have more resources to invest in innovations, and to pursue aggressive expansions. Other advantages include access to privileged learning channels (Tan & Ventisky, 1996), risk reduction through wider portfolios, and from a stronger bargaining power to gain concessions and incentives from host country governments (Pan & Chi, 1999). In the modern marketplace, firm size is not a unique form of ownership advantage and thus many smaller firms have succeeded in international markets. But a possible reconciliation of conventional arguments about firm size and treatments of ownership advantage might come with the size of the target market. It is argued that firms will capitalize on their size when facing particularly large markets. While uncertainty conditions prevail, larger sized firms are in a stronger position to adopt standardized global marketing strategies in particularly large markets, as in the cases of Coca-Cola, Caterpillar, Marlboro, Nike, Philips and Toyota in China (Gaha, Pan & Ungson, 2002).

Carrying the above argument further**,** when the market is the world and the target is globalization, the larger firm with a hegemonic strategy is the one most likely to succeed. The evidence from the numbers of mergers and acquisitions taking place reflects the thinking of top business leaders that their firms must become bigger and develop hegemonies that dominate the industries they operate in**.** It behooves academies to further their research in this 'hic question' sector and develop theory to explore the possibilities of success on this vector. For sure, the consolidation of various industry sectors towards market domination by fewer players is fundamentally altering the competitive economic landscape from what we have known it to be in the past. Consequently leadership vision, managerial activities and the strategies of smaller firms are being impacted, and will be changing.

7.1. Chinese and Indian Global Challengers

Many of the Chinese global challengers have developed adaptive strategies. China's Midea Holding Company sells air conditioners through two large retailers Home Depot and Wal-Mart, China's BYD sells mobile-phone batteries B2B to Motorola, Nokia and Sony Ericsson, China's Konka Group concentrates on Australia, a market that other MNCs do not focus on and where it has the second largest share of TV sales, and similarly China's Skyworth established a significant share of the consumer electronics market in Malaysia, Mexico and Russia before entering Western Europe. A few are taking their brand global like Lenovo, Haier, Huawei, Hisense and Galanz, or linking with an established player abroad like Chery Automobiles is doing with Chrysler. However, in general, Chinese firms have considerable trouble marketing to the West. They do not do enough marketing research to understand consumer and channel needs. Thus often they do not design the right products, nor build competitive distribution capabilities. Other Chinese challengers are active resource seekers. As mentioned earlier, examples are China Minmetals, CNOOC, and Shanghai Baosteel. The Chinese are very flexible in their approach and often combine purchases of raw materials with offering bilateral foreign aid, in which Chinese firms will participate in project execution.

Many Indian global challengers follow the model of taking their brands global. Another model that is used is turning their R&D into global innovation leadership, especially in software and medicines. Furthermore, in today’s world both China and India have large foreign exchange reserves. Both countries have evidenced willingness for their large firms to utilize this foreign exchange for the merger and acquisition route, when required. Morgan Stanley and Bear Sterns have received infusion of funds from China, and India has approved funds for mergers and acquisitions by, for example, the Tata Group.

7.2. Future Research Directions

This paper adds a new vector for research that examines globalization and global strategies. This vector indicates that with size and hegemonic strategies one can control global industry sectors. The research question is “to what extent has the ‘hegemony building’ strategy the potential to explain diverse research results on firm level strategies and performance that could not be explained by research building on earlier FDI and / or globalization conceptualizations.” The second new vector of research is “what strategies are Chinese and Indian global challengers going to prefer for growth in the future?”

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