Name ______________________ Date ______________ Class ______________________

STUDY GUIDE Chapter 21, Section 1

For use with textbook pages 543–546

REASONS FOR AND RESULTS OF GLOBAL INTEGRATION

KEY TERMS

global integration Interdependency among the countries of the world, especially within financial markets and telecommunications *(page 544)*

telecommunications Long-distance communication, usually electronic, using communications satellites and fiber-optic cables *(page 544)*

DRAWING FROM EXPERIENCE

Have you ever communicated with someone over the Internet who lived in a different country? Have you ever bought an item that was made in a country other than your own?

This section explains how we are all part of a global economy. Particularly, it focuses on how telecommunications inventions have helped to create global financial markets.

ORGANIZING YOUR THOUGHTS

Use the diagram below to help you take notes as you read through the summaries that follow. Think about the number of telecommunications products in your household.

Telecommunications Inventions
1. ______________________
2. ______________________
3. ______________________
4. ______________________

READ TO LEARN

■ Improved Telecommunications *(page 544)*

The United States is part of the global economy. There is evidence of this everywhere. Americans buy cars made in Japan, England, Mexico, or several other nations. Those countries are dependent upon the United States for revenues from their exports. This transaction illustrates the concept of ***global integration,*** or the interdependency among countries. Global integration has increased dramatically over the last few decades.

One of the main reasons for the increase in global integration is improved telecommunications. ***Telecommunications*** includes the first transatlantic telegraph cable completed in 1866 as well as communications satellites circling the earth every day. Thanks to these inventions, people all over the earth are able to communicate faster with one another than ever before. Other significant telecommunications inventions have been the computer chip and the Internet. These inventions also have contributed to the increase in global integration.

How does global integration affect people in other countries? Suppose teenagers in India are watching American television programs such as MTV. As a result, Indian teenagers want to buy the same fashions they see on MTV. Indian clothing manufacturers start copying American fashion designs.

1. How have advances in telecommunications contributed to global integration?

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The Globalization of Financial Markets *(page 545)*

As stated before, recent telecommunications inventions have increased the speed of communication between people all over the world. These same telecommunications inventions also have made it possible for banks to develop worldwide branch networks for loans and foreign exchange trading. Before the first transatlantic telegraph in 1866, it took two weeks to find out the price of the dollar in London. Today, currency is exchanged worldwide in the time it takes to send an e-mail message. In fact, foreign exchange, or the buying and selling of foreign currencies, is a 24-hour worldwide market. Other worldwide financial markets exist for government securities (bonds that the United States government sells) and other commodities such as grains, gold and silver, and stocks.

There also is a worldwide stock market, but it has had some problems. On October 19, 1987 the Dow Jones Industrial Average (DJIA) fell 508 points. The DJIA is a measuring system that tracks stock prices over the long run. When the DJIA fell 508 points, foreign investors started selling their stocks. This caused other foreign stock markets to crash, too. Foreign investors also started selling stock they owned in the United States stock market. It became a vicious cycle of selling. It took two years for the United States' stock market to recover. It took longer for most foreign markets to recover. In other words, there are pros and cons to having a globalized financial market.

2. What financial markets have become worldwide?

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STUDY GUIDE Chapter 21, Section 2

For use with textbook pages 548–551

DIRECT FOREIGN INVESTMENT—SHOULD WE BE WORRIED?

KEY TERMS

direct foreign investment The purchase by foreigners of real estate and businesses in another country *(page 549)*

DRAWING FROM EXPERIENCE

Have you ever eaten at Burger King? Did you know that Burger King is British-owned? Did you know it was possible for foreign people and businesses to purchase American companies?

This section focuses on how foreign investments can play an important role in a country's economy.

ORGANIZING YOUR THOUGHTS

Use the diagram below to help you take notes as you read through the summaries that follow. Think about the benefits and drawbacks of foreign investment in a country's economy.

Direct Foreign Investment in the U.S.	
Pro	**Con**

READ TO LEARN

■ Foreign Investment, Then and Now *(page 549)*

Foreigners have been investing in United States businesses for many years. In fact, Great Britain was the biggest investor in the railroad expansions of the late 1800s. One way in which foreigners invest in the United States is through ***direct foreign investment,*** or the purchase of real estate and businesses. Foreigners invest billions of dollars in American businesses and real estate every year. Oftentimes, political upheaval in their own nations makes foreigners want to invest in the United States. One of the main reasons for foreign investment in the United States is its political stability. Political stability helps promote economic stability. Foreigners living in politically unstable countries want to protect their money by investing in a more stable economy than their own.

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STUDY GUIDE (continued) Chapter 21, Section 2

Most economists believe the desire to make a profit is common throughout the world. In other words, foreign investors, like American investors, invest in American businesses in order to maximize profit. Some Americans argue against foreign ownership of American businesses. Their argument is that foreign owners of American businesses might gain too much control. For instance, foreigners own 38 percent of all United States government securities. Can foreigners use this to control United States foreign policy? Probably not. It is more likely that foreigners buy United States government securities simply to maximize profits. Also, when foreigners invest in United States government securities or private corporate securities, it allows United States business leaders to use their capital for other productive uses.

Foreign investors might *indirectly* influence United States government. For example, if the United States government were to make it difficult for foreigners to invest in American businesses, then foreign investors would take their money elsewhere. As a result, American businesses would not benefit from obtaining foreign capital. Hence, they would not have that foreign capital available for improving and expanding their businesses.

1. What might happen if the United States government made it difficult for foreigners to invest in American businesses?

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■ Investment Here and Abroad *(page 550)*

Foreigners own only about 6 percent of American industries. In Great Britain, 20 percent of that country's total sales come from companies owned by foreigners. In comparison, foreign investments in the United States are fewer than those in many other countries.

On the other hand, the United States' share of worldwide direct investment is more than 40 percent. In some foreign countries, the United States has been accused of economic imperialism. The term economic imperialism is used to describe what happens when one country, say country ABC, invests so much money in another country, say country XYZ, that country XYZ's culture begins to resemble the culture of country ABC.

However, most economists argue that countries benefit from direct foreign investment. This is true because foreign investors have an interest in seeing the economies in which they invest remain strong. For instance, foreign investors in United States real estate do not want real estate prices in the United States to collapse. Also, foreign investors in United States businesses want the United States to remain politically stable. This is true because a politically stable country usually has a stable and thriving economy. Finally, foreign investors in United States businesses want those businesses to compete effectively so that the investors' investments become profitable.

2. How do countries benefit from direct foreign investment?

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STUDY GUIDE Chapter 21, Section 3

For use with textbook pages 553–557

MULTINATIONALS AND ECONOMIC COMPETITION

KEY TERMS

multinationals Firms that do business and have offices or factories in many countries *(page 553)*

foreign affiliates Branches of multinational firms *(page 554)*

DRAWING FROM EXPERIENCE

Are you aware that more and more companies have branches or factories in many different countries? For instance, did you know that Japanese car manufacturers like Toyota and Honda have factories in the United States as well as in Japan and other countries?

This section explains how some corporations set up businesses in many different countries and regions.

ORGANIZING YOUR THOUGHTS

Use the diagram below to help you take notes as you read through the summaries that follow. Think about why it might be beneficial for a car company to manufacture cars in several different countries.

Multinationals

Regional Investments	Examples of Alliances
1. U.S. multinationals invest in ______________	1.
2. EU multinationals invest in ______________	2.
3. Japanese multinationals invest in ______________	

READ TO LEARN

The Size and Number of Multinationals *(page 554)*

Multinationals are companies that do business or have offices or factories in many countries. In the 1970s, many people believed that a few hundred multinationals would control 80 percent of the world's production by the mid-1980s, but that did not come to pass. By 2003, there were approximately 60,000 multinationals. These multinationals operated about 620,000 ***foreign affiliates,*** or branches of their firms.

According to the best estimates, the largest 100 multinationals control 15 percent of the world's production. Americans, Japanese, Germans, and Swiss own about half of the 60,000 multinationals. A growing number of multinationals are based in the industrializing nations of Asia, such as Taiwan, South Korea, and Malaysia.

1. What is a multinational?

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Regional Cross-Border Investments *(page 556)*

Most multinationals invest in regions close to home. For instance, most American multinationals invest in the United States, Canada, Mexico, and South America. Likewise, most Japanese multinationals invest in Japan, South Korea, China, and Southeast Asia. And most members of the European Union and Switzerland invest in western Europe.

2. In what countries do most American multinationals invest?

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Beyond Multinationals—Alliances *(page 556)*

Another way in which companies can conduct direct foreign investment is by forming alliances. These alliances are agreements between foreign and domestic firms. An example of an alliance might be a joint venture in which two firms develop a new product together. Another example might be a licensing agreement in which a foreign firm might license a domestic firm to sell the foreign firm's product. Most alliances are formed between firms in industrialized countries.

An alliance can be very beneficial. For example, suppose one firm has financial and technological limitations. That firm can form an alliance with another firm that has more available capital and more sophisticated technology. With more capital and sophisticated technology, the firm can compete more effectively in the market.

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3. How can a firm benefit from forming an alliance with another firm?

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■ The Global Village and Tolerance *(page 557)*

The population of America is more diverse today than ever before. In the 1980s, the Asian population in America increased more than 100 percent. In 2003, Hispanics became the largest minority group in the United States. This increase in immigration is one of the results of the globalization of the world. In such a diverse culture, it is important that people are tolerant of one another and more open-minded. For Americans this means maintaining friendships with people of different ethnic, cultural, national, and/or religious backgrounds.

4. What is one of the results of the globalization of the world?

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