MANAGEMENT PERCEPTIONS ABOUT GLOBALISATION OF MARKETS AND PRODUCTION: MYTH OR REALITY?

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The focus of this article is on how managers perceive globalization of markets and production. A globalization diagnostic is used to measure the perceptions of management on how they perceive globalization of markets and production on three dimensions; globalization of markets and production, globalization as an interlinked closed system where distance still matter and globalization of firms. The main conclusion is that managers have a misconception about how global markets and production are, how countries are interlinked in a global world where distance still matter, and that globalization is an option for firms and not an imperative.

Keywords: Globalisation, GAGE, Closed system, Perceptions.

Introduction

The globalization means many things to many people; from the writings in the popular press to academic debates in the management and economic literature. According to Scholte (2007), the number of entries of the word globalization in the United States Library of Congress has increased from 34 in 1994 to 5245 in 2005 and has become a major growth industry. It deals with debates on the globalization of culture, emigration, human rights, jobs, labour policies, global justice, the environment, markets and production. While most of the above debates focus mainly on political, ethical and social issues confronting the world and world organizations, the globalization interest in business is more about the globalization of markets and production; the focus of this article.

The first section of the article discusses the literature and provides empirical evidence on how global the world is, how the world remains an interlinked but closed system where distance still matter and how global firms have become. The following section introduces a globalization diagnostic that measure the perceptions of management on the three dimensions of globalization. The subsequent section discusses the results and the last section, draw some general conclusions about the myths and realities on how management perceives globalization and discuss the implications that this holds for management.

Globalisation

Theodore Levitt (1983) defines globalization as a world that is converging towards a commonality." He further argues that the old assumptions of how the world works will be forever gone and that a “new world order” is emerging. Thus, according to him, the world is becoming border less through the
integration of markets and production. In this brand-new world, he argues; it has become an imperative for firms to globalise and not just an option to consider. From his definition, three distinct constructs emerge; that differences matter less in the "new world" order and that the old assumptions of how the world “work” is forever gone. This implies that in order to survive, in this 'new world order', firms need to globalise or they will find it difficult to survive.

Czinkota, Ronkainen and Moffet (2010: 453) define globalization as a world that “...is becoming more integrated, where the distinctions between national markets are fading that will split the world eventually up into winners and losers.” According to them and in line with Levitt (1983), in this “new world order,” companies need to globalise in order to take advantage of globalisation or be prepared to go out of business. Wall, Minocha and Rees (2010:14) analysed a number of definitions of globalization and concludes that all the definitions have at least three elements in common; shrinking space, shrinking time and the disappearance of borders. Therefore, it appears that all definitions lead back to a Levitt (1983) world. Ghemawat (2003, 2007), on the other hand, argues that we live in a semi-global world where differences still matter very much, and that globalisation is an option to consider and not an imperative (Ghemawat, 2008).

One can argue that globalisation of the world started with Ricardo’s “global mindset” in 1817 where he theorised that trade, without impediments, is a positive sum game. The acceptance of Ricardo’s “global mindset” caused trade and production to expand and by 1929, globalisation of markets, measured by exports as a percentage of world-GDP, reached nearly 10% of world output as shown in table 1. At the same time, globalisation of production as measured by net capital flows as a percentage of world-GDP and FDI as a percentage of the world fixed investment reached 5.8% and 6 % respectively. Globalisation then disappeared with the great depression in 1929, and mercantilism returned as the dominant way of thinking through “beggar they neighbour policies.” In 1947, Ricardo’s “global mindset” was rejuvenated with the start of the Geneva Round of GATT.

It was not until 1983, when world trade returned to the levels of “globalisation” that it reached before the start of the great depression. World exports reached 16.8% of world GDP but net capital movements remained low at 1.6% of world GDP compared to the 5.8% it was before the great depression (table 1). It was also in 1983 that globalisation was introduced to the intellectual vocabulary of the business world. In his seminal HBR article, Theodore Levitt (1983) argued that, “a powerful force drives the world towards a converging commonality, and that force is technology.” He went on to argue that the new commercial reality is a global market and that the old assumptions of how the world works are forever gone. According to him, a “new world order” was at hand, therefore the world, as we knew it, was no longer relevant. The world had become borderless through the integration of markets, and a new organisation was at hand; the global corporation.

**Table 1.** World percentages; Exports/world GDP and FDI/ world Investment.

<table>
<thead>
<tr>
<th></th>
<th>Before the Great depression</th>
<th>The GATT years</th>
<th>The New World Order (does not inclued the crisis years)</th>
<th>Trade volumes reached the 1930 levels</th>
<th>GLOabalisation years</th>
</tr>
</thead>
<tbody>
<tr>
<td>WORLD exports as % GDP</td>
<td>10</td>
<td>12.09</td>
<td>15.85</td>
<td>18.49</td>
<td>20.66</td>
</tr>
<tr>
<td>FDI as % of world Investment</td>
<td>6</td>
<td>1.3</td>
<td>1.6</td>
<td>2.71</td>
<td>6.13</td>
</tr>
<tr>
<td>Net capital flows</td>
<td>5.8</td>
<td>1.2</td>
<td>1.6</td>
<td>2.1</td>
<td>2.6</td>
</tr>
</tbody>
</table>

All over the world, the globalisation became the buzzword academic circles and a brand-new body of knowledge emerged, with a strong focus on globalisation. From a management perspective, globalisation has become the new way of thinking. A study done by Verdin & van Hack (2001) confirms this thinking. He surveyed over 200 CEOs, all over the world, and all of them believed that the world has become global, and that it has become an imperative for firms to globalise as indicated by the web of slogans presented in figure 1. This supports the globalisation imperative that emerged in the 1990s, and beyond; that firms need to globalise in order to stay competitive in this “new world order.” This view about the world reflects a new business orientation based on the belief that; the world becomes more integrated, the distinctions between national markets are fading, which will split the world up into winners and losers; therefore, the result is that companies need to globalise in order to take advantage of this new world order” (Czinkota, Ronkainen & Moffet, 2010: 453). Globalisation has become a “sacred religion” that everyone believes in.

Only a few players will survive
All bets are off tomorrow
Our competitors are already doing it
We have to take positions now
There are only a few targets left
Eat or be eaten
Bigger is better
We have to tap into the global market
Its key to have global access to global clients
Its is too risky to depend on the home market alone

Globalisation slogans by CEO’s.

This way of thinking came about without any empirical evidence or basic logical thinking of the emergence of this “new world order.” No consideration was given to the validity of the conviction that the world and countries have now become, just like firms, battleground competing for their fair share of world markets (Krugman, 1994a, 1994b) or the assumption is that we live in a borderless world where distance does not really matter so much anymore. In such a world, globalisation has become an imperative for firms and not option to consider. This understanding of globalisation seems to be real, but in reality, it appears to be a myth.

Globalisation of the World

To verify the new “religion” one has to ask, how global is the world? If export as a percentage of GDP is used as an indicator of the globalisation of markets and foreign direct investment (FDI) as a percentage of fixed investment is used as an indicator of the globalisation of production, then, more or less, 80% of all goods and services are still produced and consumed locally. As shown in table 1, exports has increased from 18% in the 1980s to 26% in the 2000s and foreign direct investment (FDI) as a percentage of world fixed investment increased from 3% to 10%. This means that during the 2000s, 74% of world markets and 90% of all investments remain local. Throughout the globalisation years, the average of exports as a percentage of GDP was 22% and that of FDI as a percentage of total real investment 6%.
The trade data in table 1 somehow overstates exports as a percentage because it does not take re-exports into consideration (Krugman, 1995a). During the globalisation years firms started to realise the significance of Ricardo’s “global mindset” by outsourcing parts of their value chains in order to leverage the comparative advantages that countries offer. Millions of people became better off as Ricardo predicted. New demand for exports was created for firms from developing countries, which resulted in high growth and a higher standard of living in many developing countries. In short, they were adding value through re-exporting (Krugman, 1995a) to such an extent that a country like Hong Kong was exporting 180% of its GDP in the 2000s as shown in table 2. How is this possible – how can a country that produces a 100 “Gucci bags” export 180? The answer is through re-exports; import some, add a bit of value, and re-export again. This new phenomenon of re-exporting caused an upward bias in trade statistics during the globalisation years (Krugman, 1995a). For many newly industrialised countries like China, imports become part of their exports but not part of their GDP (value added). Thus, exports as a percentage of GDP became biased upwards, which creates a false sense of the degree of globalisation when exports are expressed as a percentage of GDP. Most countries will have re-exports as part of their export data even if a country’s exports are as low as 12% of their GDP, like Japan.

Table 2. A sample of re-exporting countries (exports as % of GDP).

<table>
<thead>
<tr>
<th>Country</th>
<th>Avg 60's</th>
<th>Avg 70's</th>
<th>Avg 80's</th>
<th>Avg 90's</th>
<th>Avg 20's</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>42.36</td>
<td>53.16</td>
<td>66.04</td>
<td>69.43</td>
<td>85.73</td>
</tr>
<tr>
<td>Hong Kong SAR, China</td>
<td>77.46</td>
<td>87.22</td>
<td>106.65</td>
<td>133.29</td>
<td>179.70</td>
</tr>
<tr>
<td>Ireland</td>
<td>39.56</td>
<td>51.96</td>
<td>72.01</td>
<td>87.62</td>
<td></td>
</tr>
<tr>
<td>Luxembourg</td>
<td>83.24</td>
<td>91.96</td>
<td>98.60</td>
<td>110.82</td>
<td>157.77</td>
</tr>
<tr>
<td>Malaysia</td>
<td>42.60</td>
<td>44.13</td>
<td>57.25</td>
<td>91.24</td>
<td>113.15</td>
</tr>
<tr>
<td>Netherlands</td>
<td>44.04</td>
<td>47.62</td>
<td>56.08</td>
<td>58.83</td>
<td>69.48</td>
</tr>
</tbody>
</table>


According to Krugman (1995a) countries with exports as a percentage of GDP greater than 30% to 40% adds a small amount of value to their imported intermediate goods and services. Thus, the assumption here is that any percentage above 35% is a clear indication of a country involved in re-exporting and that will cause export statistics to be biased upward. Because data on re-exports are difficult to come by, exports are recalculated by adjusting the export data in table 1 with value added exports of those countries whose exports are greater than 35%. The adjusted trade data are shown in table 3.

Countries with exports as a percentage of GDP exceeding 35% have increased from 23 in the 1960s to 64 in the 2000s, a good indicator of how companies are outsourcing their value chains. Based on the rough estimate above, re-exports increased from 16% in the 1960s, to 35% in the 2000s. If world exports are adjusted for re-exports the estimate of value added exports as a percentage of world GDP becomes approximately 17% of world GDP in the 2000s and not 26% as the official export data indicates. Based on this data, 83% of markets and 90% of production thus still remains local. If the average of the two values is taken as an indication of the globalisation of markets and production, then the best guess of how global, the world has become, is about 13%.
Management Perceptions About Globalisation of Markets and Production: Myth or Reality

Table 3. Value added exports as percentage of GDP.

<table>
<thead>
<tr>
<th></th>
<th>Before the Great depression</th>
<th>The GATT years</th>
<th>The New World Order (does not include the crisis years)</th>
<th>Globalisation years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Avg 20's</td>
<td>Avg 60's</td>
<td>Avg 70's</td>
<td>Avg 80's</td>
</tr>
<tr>
<td>No of countries with exports as % GDP greater than 35%**</td>
<td>na</td>
<td>23</td>
<td>38</td>
<td>43</td>
</tr>
<tr>
<td>Estimate of re-exporting percentage***</td>
<td>na</td>
<td>16.02</td>
<td>23.12</td>
<td>29.68</td>
</tr>
<tr>
<td>WORLD exports as % GDP</td>
<td>10</td>
<td>12.09</td>
<td>15.85</td>
<td>18.49</td>
</tr>
<tr>
<td>Estimate of value added exports as % of GDP****</td>
<td>na</td>
<td>8.94</td>
<td>11.40</td>
<td>13.00</td>
</tr>
<tr>
<td>FDI as % of world Investment</td>
<td>6</td>
<td>1.3</td>
<td>1.6</td>
<td>2.71</td>
</tr>
</tbody>
</table>

* Excluding crisis years ** Excluding oil exporting countries *** Average of export % greater than 35% **** Adjusted by re-export percentage


The question is, how global is the world? Ghemawat (2007) believes it is about 10%. By collecting data, that goes beyond the standard economic data presented above he found the average level of globalisation is about 10% as shown in the figure 2. However, export is in his data is not adjusted for re-exporting; therefore, a more informed guess, would probably be less than 10%.

![Figure 2. Globalisation: The ten percent presumption.](http://example.com/figure2.png)

Source: Adapted from Ghemawat (2007 and 2011)

The empirical evidence presented above does not support the “sacred religion” of globalisation where many believe in shrinking space, shrinking time and the disappearance of borders (Wall, Minocha & Rees, 2010:14).
Globalisation and the New World Order

Levitt’s (1983) argues that the old assumptions of how the world works will be forever gone, a new world order is at hand and the world as we knew is not relevant anymore does not seem to tie up with the evidence provided above. In a world that appears to be more or less 10% global and where most firms remain local, one should rather talk about the world of CAGEs (with reference to Ghemawat’s (2001) CAGE framework) where cultural (C), administrative (A), geographic (G) and economic (E) distance still matter very much as shown in figure 3.

Figure 3. CAGE space.

In a world of CAGEs there is no borderless world and CAGEs differ on many dimensions. Market, industry structures, resource endowments, institutional structures and national policies differ dramatically from country to country (CAGE to CAGE). Thus, on a country-by-country basis, one will always find large differences in market and industry structures, institutional structures and national policies as well as in resource endowments.

Four main themes can help us to understand the world of CAGEs as shown in figure 3. Firstly, in a world of CAGES, there is no borderless world as is assumed in a “Levitt” world – there is no space outside CAGE space. Secondly, in a world of CAGEs countries are closed systems (Krugman, 1996). An open system perspective - a “Levitt” world - leads to a wrong assumption about how the world works. While firms are open systems, the world and countries are closed systems (Krugman, 1996). In order to produce output (GDP) a country employs scares resources. Scares recourses are paid out of the income earned (GNY) by selling the output (GDP). However, it's this same income earned by the scares recourses (the owners) that buys up the output (GDP) produces from it. In fact a country “incorporated” sells its products/services to its “employees” who earned their income by producing the products/services they buy. If a country increases its productivity, it can sell the extra output so produced to the extra income generated from the increased productivity. Thus, for a country, there is a strong feedback system. This, however, is not true in a business. A firm competes for scares resources within a country and therefore, can appropriate any number of these resources to itself depending on the ability of the firm. The resources employed by the firm are used to produce the firm’s products which it then sells in the market to pay for
the resources employed. The income paid to resource of the firm, however, does not flow back to buy the company’s products. The income is primarily spent on other products (local and imported products). In order for the firm to sell its products it has to compete in the markets against rivals and thus for national income earned by the resources within the country in general. Thus, firms are open systems where the feedback structure is weak and undefined.

Thirdly, the world is still linked together through the balances of payments of countries and by exchange rates; an automatic adjustment mechanism that adjusts for economic differences between countries (Smit, 2010). For example, if demand goes down in one county, the demand for imports from other countries will also go down. Therefore, exports will fall as well because the purpose of a country is to import as Ricardo has explained in 1817. Furthermore, if there is a financial crisis in one country, it can easily spill over to other countries through capital flows that will influence exchange rates, interest rates, inflation rates, imports, exports and thus GDE and GDP in other countries. Capital flows between countries not because the world is global, but because the returns/risks of capital between countries (CAGE differences) differ. These linkages work today exactly in the same way as they did during the great depression and before although faster due to the advances in technology. Fourthly, themes one to three define the world of CAGEs as a closed system; a set of interlinked ideas of how the world works (Krugman, 1995b). From a closed system perspective, CAGE differences still matter very much.

Themes one to three provide us with better insights into the workings of the world from a closed system perspective instead of relying solely on open system business perspective. Together, themes one to four provide us with new strategic insights into how to conduct business in CAGE space where distance still matters very much (Ghemawat, 2007).

Globalisation as an Imperative for Firms

Peng (2009) provides some evidence of globalisation at the firm level. According to him, 90% of all businesses are SME is producing 80% of world GDP and providing 60-90% of all employment. Thus, just 5% of all businesses are regarded as MNEs contributing at most 20% of world GDP. Furthermore, of the Fortune 500 global companies, 80% derives their sales, on a weighted average, from their home region and just nine companies have sales of 20% or more outside their home regions (Rugman and Verbeke, 2004). Even the largest company throughout the world, in terms of sales, Wall Mart (number 19 in terms of sales on the list of countries and firms and number 44 on a value-added basis) derived 80% of its sales in 2005 from the US market (204 billion) and just 20% ($ 60 billion) from its overseas operations (Ghemawat, 2007).

By combining the data on the globalisation of markets and production, reported in table 3, an expected value matrix is used to classify industry globalisation as shown in figure 4. The classification of industries in the matrix uses Grant’s patterns of industry globalisation (Grant, 2002: 412). Trading industries are primarily involved in export business from their home bases; multi-domestic industries globalise through FDI and thus produce in foreign countries; global industries are the true MNEs that are involved in slicing up their value chains where production and trade are conducted all over the world.

By comparing the globalisation patterns of industries in figure 3 it is noticeable that the percentage of world GDP that became global, since the 1920s, is about 5% (84.6% local in the 1920s versus 79.8% since 1980s). This increase is mostly due to an increase in trading industries because FDI as a percentage of world investment is marginally up from the 1920s. However, Global industries have increased by 56% since the 1920s they still make up only a very small percentage of world GDP; about 1%. Together, all three industries commands about 20, 2% of world GDP, which is more or less in line with the findings of Peng (2009).
Methodology

The diagnostic used (appendix A) measures the perceptions of management on how they perceive globalisation of markets and production on three dimensions; globalisation of the world, globalisation of the world as an interlinked closed system and globalisation of firms.

Part A of the diagnostic measures the perception management on how global they think the world has become. Each manager is asked a simple question; what is your best guess, as a percentage, of how global the world has become? Their perception is expressed as a percentage, for example, 30%.

Parts B and C of the diagnostic consist of a number of statements that can either be more true than false, or more false than true. The reason for this kind of questioning is that more “true than false” implies that even though there might be a chance that the statement may not always be true, it will more often be truer than false and vice versa. A score of one is given if the statement is selected as true and a zero if the statement is false.

Part B of the diagnostic tests how management perceives distance, and how well they understand that the world is a closed system, linked together by a complex set of automatic adjustment mechanisms (Krugman, 1995b) and why distance still matter (Ghemewat, 2007 and 2011). The first six questions measure their closed system perspective and the last two questions their understanding of distance. A score of four or higher implies that they support the notion that the old assumptions of how the world works are gone, and that distance does not really matter anymore.

Part C of the diagnostic tests, whether or not management believes that globalisation is an imperative for firms and not just a mere option to consider. The seven statements, listed in the diagnostic, measure their perception with regard to how global firms are, and if they believe that it is an imperative for firms to Globalise. A score larger than three implies that they do believe that globalisation is an imperative for firms.

The sample consists of three groups of managers. The first group consists of 253 MBA students, all of which are part-time students with at least four years of work experience. The second group consists of 19 executives from a private business firm on an in-house Executive Development Programme. The last group consists of 38 executives from the private and public sector on an open Executive Development Programme. The diagnostic was handed out in class, and all groups were allowed 30 minutes to complete it. No discussion was allowed to ensure that each participant express his/her or her own perception.
Globalisation Perceptions: Myth or Reality

The empirical evidence showed that a realistic view of globalization of markets and production is most probably less than 15% and thus does not support the “sacred religion” of globalization that everyone believes in. A score of higher than 20%, in section A of the diagnostic, seems to be unrealistic. A somewhat more realistic view would be between 15% and 20%. A realistic view is 15% or less. The results of perceptions of managers about how global the world is, is shown in figure 5.

![Figure 5. Globalisation of the world: Perceptions of management.](image)

What emerged from the results is that only a small percentage of managers (8%, 0% and 8%) in all three groups have a realistic perception of how global the world is. The majority (72%, 84% and 74%) seems to believe in a “Levitt” world and more than half the sample believe that the world is more than 50% global. Thus, their assumption seems to be that we live in a borderless world where distance does not really matter so much anymore. However, this is in stark contrast with the empirical evidence presented here on how global the world really is.

The least understood dimension in the diagnostic is that countries and the world are closed systems, and that distance still matter very much. From a closed system perspective, all the answers of this section are more false than true because it measures the understanding of the world as a closed interlinked system where distance still matters a great deal. Thus, a score of zero is regarded as in this section of the diagnostic. A score higher than three indicates a very unrealistic understanding of distance and that the world and countries are linked together as a closed system. The results are shown in figure 6.

It is not surprising to find that between 80% and 98% of the managers has an open system perspective of how the world works. Such an open system perspective implies that countries are like firms in global markets. Thus, their view is that the principles that apply to business also apply to countries. This obviously makes intuitive sense from an open system business perspective, but it is not true from a closed system country perspective (Krugman, 1996).

The open system perspective is indicative of the answers to the first six questions in section B of the diagnostic. By applying management principles, it is logical to think that these questions are more true than false. Managers equate surpluses and deficits on the current account of the balance of payments of countries to the profits and losses of a firm, which it is not. A deficit is preferable than a surplus because a country gives up less goods and services to foreign countries than what it receives from them (Smit, 2010). Furthermore, they think that net capital flows of a country are similar to the net cash flows in a business while in fact it is the difference between domestic savings and investment in an economy. Thirdly, for management exports are sales, but for a country, it is a real loss in terms of goods and
services (Smit, 2010). Thus, they do not understand that the purpose of a country is to import (Krugman, 1994b). They think foreign exchange reserves are building up a company’s cash reserves or financial assets while, in fact, it is domestic savings that finance foreign consumption. Lastly, they fail to recognise that productivity is purely a domestic matter and has nothing to do with the international competitiveness of countries (Krugman, 1994b). Therefore, they do not understand that a country is not a company, competing for its fair share of world markets (Krugman, 1994b). The reason why they think the last two questions are, more true than false, is that they believe that business principles apply at a country level and because of their unrealistic perception of how global the world really is.

![Figure 6. Globalisation and the New World Order: Management perceptions.](image)

As far as firms are concerned, the empirical evidence presented in the previous section, 80%, of all production is very much still for domestic consumption, thus, most firms compete successfully in their respective home markets. Based on the empirical evidence most of the questions in section C of the diagnostic are more false than true because nearly 80% of all businesses remain local. Thus, a score of four to seven in section C of the diagnostic becomes unrealistic. Only a few answers maybe more true than false for a select few very large MNE’s. A score of zero or one is a far more realistic view of globalisation of how global firms became and that it is not an imperative for firms to globalise. The results on this section of the diagnostic are shown in figure 7.

![Figure 7. Globalisation as an imperative for firms: Perceptions of management.](image)
Of the managers surveyed, between 69% and 74% have an unrealistic view of the globalisation of firms. They believe that, in this new world order, globalisation of businesses is essential and not just a mere option to consider. Given that, nearly 80% of all production and consumption remains local, it is highly unrealistic to think that globalisation is an imperative for most firms. Thus, given that the statements in section C may, only in a very few instance, can they be more true than false. Therefore, one cannot generalise them for all firms. They may be all true for a select few very large firms. For most firms in the world, these statements are more false than true. Even for the world’s 500 largest global corporations these statements remain on average more false than true, based upon the research done by Rugman and Verbeke (2004).

Conclusion

It is clear from the evidence presented, that managers seem to have an open system perspective of how the world works. They cannot distinguish between the myths and realities of globalisation and believe in a borderless world. This underscores their belief in a “new world order”: that the world becomes more integrated; that distinctions between national markets are fading, which will split the world eventually into winners and losers. Therefore, the thinking is that companies need to globalise to take advantage of this new world order or be prepared to go out of business. However, such a belief is unrealistic. We live in a world where distance, in terms of CAGEs, still matters very much (Ghemawat, 2007). Thus, management needs to understand that there is no space outside CAGE space and that the world and countries are closed systems with some very powerful underlying equilibrating forces at work, which link them together (Smit, 2010).

The main confusion in the management literature centers on the myths regarding the extent of globalisation and a general misconception of how the world “works” as a closed system. The perception is that countries are similar to companies and that management principles can explain how the world functions. As Krugman (1995b: 124) once proclaimed, “....ten years from now the talk shows and the op-ed pages will still be full of men and women who regard themselves as experts on the global economy, but do not know or want to know about comparative advantage.” Based on the sample of managers used for this study, this statement seems still valid, seventeen years after it was made.

This general misconception on how the world is linked together is based on a lack of understanding of CAGE space as defined in this article. Such an understanding is central to how the world “works” as a web of interlinked ideas within a complex closed system perspective. This explains why there is such a wide difference between how management perceives the world as an open system and how economists see it as a closed system (Krugman, 1996) and therefore, the belief in management that countries compete, which is not the case from an economic perspective (Smit, 2010). These are two distinctly different views about the world and one view alone cannot explain the understanding of globalisation, the global mindset and global business.

The globalisation myth and the lack of understanding how the world functions as a closed system have led to the wrong assumptions on how to conduct business across CAGE pace. The focus is on how doing business in a world where differences matter less, instead of realising that we live in a world with CAGEs where differences matter very much (Ghemawat, 2007) and that a closed system perspective is required to truly understand how CAGEs are linked together (Krugman, 1996).

Ghemawat (2001, 2002, 2007and 2011) has gone a long way to address this misconception about a world where differences matter less and how to strategise in a world where differences still matter very much. However, he does not explicitly conceptualise his CAGE framework as part of a world of CAGEs; a web of interlinked ideas in a complex closed system perspective. Therefore, the CAGE framework, on its own, cannot explain the complexity of the globalisation of markets and production. One needs to understand that the world and countries are linked together as a complex closed system. It is this conceptualisation, of a world of CAGEs, which provides deeper insights into the complexity of
globalisation, the global mindset and global business. In such a world, management will have to rethink the globalisation imperative.

Of course, the conceptualisation of globalisation of markets and production within the context of CAGE space are by no means intended to be the final word on this much-debated topic, but rather an attempt to get a more balanced insight into the myths and realities of the globalisation of markets and production.

References

Appendix A: Globalisation Diagnostic

### Part A: Globalisation of the world

**What is your best guess of how GLOBAL the world is of markets and production?** (expressed it as a percentage)

Think about the following possible indicators of globalisation as a percentage of cross border activity: Direct investment; Trade; Shares; Mail; Internet traffic; Telephone calls; Management research; Tourist arrivals; Immigration; Internet Traffic; Shares, Patents, etc.

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<th>Your perception %</th>
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### Part B: Globalisation and the New World Order

*Which of the following statements do you believe is more TRUE than false OR more FALSE than true* (Score: True = 1 and False = 0. Add up your score and write it in space provided here)

1. It is preferable for a country to export more than it import.  
2. It is preferable for a country to have surplus on the current account and a net inflow of foreign capital.  
3. The economic strength of China’s is demonstrated by its massive foreign exchange reserves of trillions of dollars.  
4. From a trade perspective one can argue that the purpose of a country is to export and imports are just a mere necessity pay for by exports.  
5. The international competitiveness of a country is to a large degree determined by the productivity of that country.  
6. In the new world order countries like companies must compete for their fair share of world markets.  
7. In the new world order the world is moving towards full integration of markets, production and capital.  
8. In the new world order distinctions between national markets are fading where distance matters less.

### Part C: Globalisation as an Imperative for Firms

*Which of the following statements do you believe is more TRUE than false OR more FALSE than true* (Score: True = 1 and False = 0. Add up your score and write it in space provided here)

1. A truly global firm are stateless.  
2. Globalisation is a strategic imperative for firms and not just an option to be evaluated.  
3. Firms need to globalise in order to reap the growth opportunities that global markets provide.  
4. There probably is no business today that can’t afford to think global.  
5. A truly global firm should aim to compete nearly everywhere.  
6. To be successful firms need to strive to become global.  
7. Firms need to globalise to take advantage of the new world order or be prepared to lose their competitive edge.