



# GLOBAL BUSINESS TODAY

Fourth Canadian Edition

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## Global Business Today

### Fourth Canadian Edition

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# DEDICATION

For June and Mike Hill, my parents.

*-Charles Hill*

To my mother, Dorothy McKaig.

*-Thomas McKaig*

## ABOUT THE AUTHORS

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## THE GLOBAL BUSINESS TODAY APPROACH

*Global Business Today* is intended for the first international business course at either the undergraduate or the MBA level. Our goal with this fourth Canadian edition is to set new standards for international business textbooks. We have written a book that (1) integrates the Canadian perspective on international business and Canada's place within the international business environment, (2) is comprehensive and up-to-date, (3) goes beyond an uncritical presentation and shallow explanation of the body of knowledge, and (4) focuses on implications for business and makes important theories, issues, and practices accessible and interesting to Canadian students.

### INTEGRATED COVERAGE OF THE CANADIAN PERSPECTIVE

Although this book is geared to the Canadian reader, this does not mean that all examples within are Canadian examples. The authors have written about those realities and examples that best portray chapter topical themes, as well as writing about what the market wants, based upon market research in the academic field. The textbook pays particular attention to small- and medium-sized enterprises and their push onto the international business scene.

### COMPREHENSIVE AND UP-TO-DATE COVERAGE

To be comprehensive, an international business textbook must clearly communicate

- how and why the world's countries differ;
- why a comprehensive review of economics and politics of international trade and investment is necessary in understanding international trade;
- how the functions and form of the global monetary system are tied into global trade;
- how the strategies, objectives, and international structures of international business need to conform to certain guidelines set out by international organizations and other bodies; and
- the special roles of an international business's activities.

This book pays close attention to these issues. Ultimately, a successful business is an informed business. It is our intention to cover, in an in-depth manner, the linkages between success and knowledge on the global business stage. As time moves forward, an increasing number of students will become international managers, and this book will better equip them with knowledge about the strategies, operations, and functions of small and large businesses alike.

The theories behind international trade help students to grasp the scope and execution of international business. Many books convey an adequate task of communicating long-established theories (e.g., the theory of comparative advantage and Vernon's product life-cycle theory) but they ignore important newer works included in *Global Business Today*, such as

- the new trade theory and strategic trade policy;
- the work of Nobel prize-winning economist Amartya Sen on economic development;
- Samuel Huntington's influential thesis on the "clash of civilizations;"
- the new growth of economic development championed by Paul Romer and Gene Grossman;
- recent empirical work by Jeffrey Sachs and others on the relationship between international trade and economic growth;
- Michael Porter's theory of the competitive advantage of nations;
- Robert Reich's work on national competitive advantage;
- the work of Douglas North and others on national institutional structures and the protection of property rights;
- the market imperfections approach to foreign direct investment that has grown out of Ronald Coase and Oliver Williamson's work on transaction cost economics;
- C. A. Bartlett and S. Ghoshal's research on the transnational corporation;

- the writings of C.K. Prahalad and Gary Hamel on core competencies, global competition, and global strategic alliances, and
- Paul Samuelson's critique of free trade.

In addition to providing cutting-edge theory and examples of the exponentially quickening pace of the international business environment, every effort has been made to ensure that this book is as current as possible when it goes to press. The book now includes discussion questions attached to each Management Focus and Country Focus. This Canadian edition contains current data from the World Trade Organization, the Organisation for Economic Co-operation and Development (OECD), and the United Nations Commission on Trade and Development (UNCTAD), among others. This book provides readers with a fresh insight into factors influencing Canada and other countries in the world of international trade, Canadian businesses' forays into world markets, and reactions to ongoing economic structural readjustments in 2015 and beyond. Here are some examples:

- Chapter 2, "Country Differences in Political Economy," deals with critical forces affecting Canadian businesses working in the global arena.
- Chapter 5, "International Trade Theories," explains various international trade theories, while providing practical explanations of their applications within various international companies.
- Chapter 9, "The Foreign Exchange Market," provides insights into how Canadian corporations can receive payment in international transactions. Similarly, foreign exchange risks and various economic theories of exchange rate determination will prove helpful for those individuals and corporations contemplating doing business beyond Canada's borders.
- Chapter 11, "Global Strategy," comprehensively covers leveraging core competencies and formulating global strategies through distributions channels and more.
- Chapter 12, "Entering Foreign Markets," offers insight into reactions in other countries to privatization issues, as described in the Opening Case, "JCB in India."
- Chapter 15, "Global Production, Outsourcing, and Logistics," neatly clarifies the details of global supply management through its opening case, "Making LCD TVs, Today and in the Future." Significant explanations are

provided on strategy, manufacturing and logistics, the strategic roles of foreign factories, and make-or-buy decisions.

- Chapter 16, "Global Human Resource Management," underscores the benefits and disadvantages of human resource management in terms of dealing with expatriate employees. International labour relations complicate the fabric of human resource departments for those companies with foreign operations.

### BEYOND UNCRITICAL PRESENTATION AND SHALLOW EXPLANATION

Many issues in international business are complex and thus necessitate considerations of pros and cons. To demonstrate this concept to students, we have adopted a critical approach that presents the arguments for and against economic theories, government policies, business strategies, organizational structures, and so on.

Related to this, we have attempted to explain the complexities of the many theories and phenomena unique to international business so the student might fully comprehend the statements of a theory or the reasons a phenomenon is the way it is. These theories and phenomena typically are explained in more depth in *Global Business Today* than they are in competing textbooks.

### FOCUS ON BUSINESS IMPLICATIONS AND ACCESSIBLE PRESENTATION

The fourth Canadian edition of *Global Business Today* offers many opportunities for students to engage with and apply the material to their lives and their future careers. The features listed below are explained in greater detail in the Learning Features section beginning on page xix.

- Each chapter begins with a new or an updated **Opening Case** and concludes with a new or updated **Closing Case** that illustrates the relevance of chapter material for the practice of international business. The opening case in Chapter 4, "Imagine No Metal," looks at mining and how "big business" in northern Ontario is also an important and growing sector worldwide. Chapter 12 opens with a new case "JCB in India" and its entry into global markets. The new closing case in Chapter 11, "Avon Products" looks at the flexibility needed by a successful, major corporation to adapt to change when expanding internationally. The

case accentuates the need for a global corporation to respect local preferences.

- Each chapter also contains at least one type of focus box. Updated **Management Focus** boxes, like the updated cases, illustrate the relevance of the chapter material for the practice of international business. Examples include: an updated “Starbucks Wins Key Trademark Case in China” in Chapter 2, an updated “Four Seasons Hotels and Resorts” in Chapter 7, an updated “NAFTA—Friend or Foe of Canadian Business?” in Chapter 8, an updated “Barrick Gold” in Chapter 9, and a re-written Management Focus “The ‘Reel’ Threat to the Canadian Film Industry” in Chapter 10. **Country Focus** boxes provide background on the political, economic, social, or cultural aspects of countries grappling with an international business issue. Examples include, “Venezuela after Chavez” in Chapter 2, and an updated “Foreign Direct Investment in China” in Chapter 7, a new Country Focus “A Government Strategy for Business in Canada” in Chapter 11, and an updated “Countries Want to Hold on to Their Jobs” in Chapter 16.
- **Another Perspective** sidebars help students to think critically about adjacent text material.
- Each chapter concludes with an **Implications for Business** section that explains the managerial implications of the chapter material. This feature helps business students to understand the linkage between practice and theory.
- **Sustainability in Practice Cases** help students to understand how businesses are engaging in the solutions to sustainable development challenges.
- **GlobalEdge™ Research Tasks** allow students to practice using real business data.

## THE STRUCTURE OF *GLOBAL BUSINESS TODAY*, FOURTH CANADIAN EDITION

*Global Business Today*, Fourth Canadian edition, offers a tight, integrated flow of topics from chapter to chapter.

### Part One: Globalization

Chapter 1 provides an overview of the key issues to be addressed and explains the plan of the book.

### Part Two: Country Differences

Chapters 2, 3, and 4 focus on national differences in political economy and culture and the implications of these

differences for ethical decision making. Most international business textbooks place this material later, but we believe it is vital to discuss national differences first. After all, many of the central issues in international trade and investment, the global monetary system, international business strategy and structure, and international business operations arise out of national differences in political economy and culture. To understand these issues, students must first appreciate the differences in countries and cultures.

### Part Three: Cross-Border Trade and Investment

Chapters 5 through 8 investigate the political economy of international trade and investment, fostering understanding of the trade and investment environment in which international business occurs.

### Part Four: Global Money System

Chapters 9 and 10 examine the global monetary system, while detailing the monetary framework in which international business transactions are carried out.

### Part Five: Competing in a Global Marketplace

Chapters 11 through 16 move away from the macro environment of the international business realities into the workings of companies within this framework. How do companies adapt their strategies to compete beyond their own borders? How do production and logistics proceed on a global scale? These chapters explain how firms can perform their key functions—manufacturing, marketing, R&D, and human resource management—to compete and succeed in the international business environment.

## WHAT'S NEW IN THE FOURTH CANADIAN EDITION?

This fourth Canadian edition not only explains theoretical aspects of international trade but, more importantly, attempts to connect the practical applications involving international trade into a framework of helpful understanding for those exporters, both new and experienced, in this field. Extensive re-writes of learning objectives have been included along with new Learning Objective Summary sections at the end of each chapter throughout this book. Thought-provoking questions have been added to the end of each of the popular Management Focus and Country Focus boxes.

### CHAPTER-BY-CHAPTER CHANGES

**Chapter 1: Globalization.** All of the statistics have been updated to the most recent available at the time of this book going to production. A new opening case on “Who Makes the Apple iPhone” has been written. A newly updated Management Focus details the impact on



businesses of the recent global economic meltdown. The emergence of global institutions is detailed. Also, the latest round of World Trade Organization talks (WTO) and revised WTO membership numbers of the troubled, yet growing membership of the WTO, are chronicled. Similarly, the innovative spirit of one of Canada's best known corporations shines through in an updated closing case, "Tim Hortons: A Canadian Company Looking for New Markets," as this "made-in-Canada" enterprise increases its forays into the American marketplace.

**Chapter 2: Country Differences in Political Economy.** The discussion of differences in legal systems provides insight into the linkage between corruption and negative economics within a country. Demonstrating this theme is the new case written about Ghana. An updated Management Focus, "Starbucks Wins Key Trademark Case in China," talks about the legalities in country differences, and a new closing case, "The Polish Surprise" depicts the transformation of a socialist system.

**Chapter 3: The Cultural Environment.** The chapter opens with a new opening case, "Why Did Walmart fail in Germany?" The importance of Buddhism in the world today is emphasized by adding a separate section on the "Economic Implications of Buddhism." The 2013 World Competitive Scoreboard shows Canada lagging in areas of competitiveness when compared to other countries. Various religions and their significance within the world are discussed and the new closing case pertains to "Culture and Business in Saudi Arabia."

**Chapter 4: Ethics in International Business.** This chapter has been updated and includes references to recent Canadian events. A new section called "Ethical Decisions and Approaches to Corporate Social Responsibility" has been added, as has a new Management Focus box, "Avoiding Paying Taxes—Cheating the Government."

**Chapter 5: International Trade Theories.** Over the past few years, numerous empirical studies have been published that look at the relationship between a country's "openness" to international trade and its economic growth. This work is discussed in this chapter. A new opening case, "India's Drug Business," provides a clean example of international trade theories, while a new closing case, "The Rise of Bangladesh's Textile Trade," links thematically to international trade theories.

**Chapter 6: The Political Economy of International Trade.** The contentious bilateral trade issues that have periodically soured Canadian trade relations with the United States over the past couple of decades are dealt with in the context of the World Trade Organization and the North American Free Trade Agreement. There is a

new opening case, "China Limits Exports of Rare Earth Minerals," in addition to a new Country Focus, "Subsidized Wheat Production in Japan."

**Chapter 7: Foreign Direct Investment.** Both up-to-date international foreign direct investment (FDI) flows and FDI figures show the importance of FDI, in its different forms, including mergers and acquisitions, in the economies of Canada and other countries. In spite of Canada's growing presence on the world economic stage, it can still only boast two transnational corporations that manage to slip into the world's top 100 non-financial TNCs, ranked by foreign assets. A new opening case, "Foreign Retailers in India," and a new closing case on Walmart in Japan neatly illustrate the topic of foreign direct investment.

**Chapter 8: Regional Economic Integration.** On July 1, 2013, Croatia joined the European Union, bringing its current membership to 28. This chapter covers the post-World War II levels of economic integration within Europe, leading to the European Union and its monetary union, while covering lesser initiatives, including the Free Trade Agreement, now NAFTA, which includes Mexico, Canada, and the United States. To reflect the importance of the European Union within this chapter, a new opening case has been added, "I Want My Greek TV." A new Country Focus, "Creating a Single Market in Financial Services," remains close to the theme of trading blocs, while the new closing case, "NAFTA and Mexican Trucking," portrays an important aspect of NAFTA trade relations.

**Chapter 9: The Foreign Exchange Market.** The Canadian dollar's recent fall against the U.S. dollar and other currencies is significant for Canadian importers and exporters. Also, economic theories of exchange rate determination are explained that are vital to business people conducting business abroad. A new opening case, "The Curse of the Strong Yen," ties in neatly with our chapter's theme as does the new Country Focus, "Quantitative Easing."

**Chapter 10: The Global Monetary System.** One of the more interesting phases of the development and growth of the Canadian economy came during the period of time in which Canada was under the gold standard from 1854–1914 and 1914–26. Internationally, many policies and institutions have influenced and shaped the value of currencies. The ever-increasing U.S. trade deficit and the fall of the U.S. dollar have wreaked havoc on the international monetary system. The universality of currency problems is depicted in a new opening case, "Currency Trouble in Malawi," while the new Country Focus, "The U.S. Dollar, Oil Prices, and Recycling Petrodollars," further explains these linkages. A new closing

case on “Economic Turmoil in Latvia” explains economic life in the “post-Soviet” era. After reaching record-breaking prices, gold and oil prices have remained elevated through 2015, and their effect on the global monetary system remains noteworthy.

**Chapter 11: Global Strategy.** Multinational corporations have long recognized the importance of leveraging skills, strategic alliances, and competencies in their foreign locations for improved business practices at home and abroad. A new opening case, “Ford’s Global Strategy,” has been written along with a new Management Focus, “A New Strategy for Loblaw Companies,” detailing strategic elements. The international expansion of Avon is noteworthy as depicted in the new closing case.

**Chapter 12: Entering Foreign Markets.** The ways through which companies enter foreign markets is covered through a look at the pros and cons of greenfield investments and other alternative strategies for entering foreign markets. The new opening case, “JCB in India,” explains how this British success story is expanding internationally. The new Management Focus, “Gildan’s International Growth Strategy,” highlights one Canadian company’s successes in the international marketplace. A new closing case, “Canadian Banks Around the World,” describes how Canadian banks are becoming more competitive internationally.

**Chapter 13: Exporting, Importing, and Countertrade.** The discussion on export assistance to Canadian companies provides a detailed look at the institutional means and mechanisms through which many Canadian companies engage in export, for example, with the assistance of Export Development Canada. A new opening case, “SteelMaster Buildings,” has been added in addition to a second Management Focus, “Nexterra Finances its Export Growth.” An Another Perspective box shows how countertrade works internationally. A new closing

case, “Empire Steel and the Reuse of a Siemens Plant,” further explains exporting, importing, and countertrade.

**Chapter 14: Global Marketing and R&D.** Global marketing and R&D are what makes or breaks a company. A new opening case, “Burberry’s Global Brand Strategy,” has been included. The Management Focus, “Dove’s Global ‘Real Beauty’ Campaign,” depicts one successful Canadian company’s evolving foray into new markets. Distribution and communication strategies are also discussed within this chapter. American–Canadian softwood lumber irritants are further explained in the context of NAFTA and WTO rulings on this evolving and contentious issue. To end the chapter, a new Closing Case on Domino’s Pizza appears.

**Chapter 15: Global Production, Outsourcing, and Logistics.** Web-based IT systems now play a vital role in materials management around the world. A new opening case, “Making LCD TVs, Today and in the Future,” and new closing case, “The Maturing Indian Vehicle Industry,” detail other trade practices. In addition, substantial Six Sigma information has been included in this chapter.

**Chapter 16: Global Human Resource Management.** Employment legislation can have both positive and negative impacts for foreign businesses operating abroad and companies must be aware of rules and guidelines so they can act accordingly. A new opening case based on a January 2014 interview with James Helik, Contributing Editor, *Benefits and Pensions Monitor* magazine, “Compensation and Other Human Resource Mistakes in the Global World,” depicts compensation and other Human Resource mistakes. A new closing case on “Learning from the Original Expatriates” provides insights into the diplomatic corps and organizational adjustments as seen through the eyes of Ambassador Fernando López Fabregat, Director General for International Economic Affairs, Uruguayan Ministry of Foreign Affairs and former Consul General of Uruguay in Toronto.

## SUPPLEMENTS

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Canadian Content authored by Tim Richardson, Seneca College of Applied Arts and Technology/University of Toronto.

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### Instructor Resources

**Instructor's Manual** The Instructor's Manual contains lecture notes and teaching suggestions for each chapter, and is written by the text author, Thomas McKaig, to ensure accurate and current material, relevant to text content.

**Test Bank in Rich Text Format** The test bank contains approximately 100 questions per chapter and is written by the text author, Thomas McKaig, to ensure tight alignment to text content.

**Computerized Test Bank.** This flexible and easy-to-use electronic testing program allows instructors to create tests from book-specific items. It accommodates a wide range of question types and instructors may add their own questions. Multiple versions of the test can be created and printed.

**Microsoft® PowerPoint® Slides** These presentations offer approximately 15 to 20 slides per chapter and were created by Tim Richardson, Seneca College of Applied Arts and Technology/University of Toronto.


### Video Collection

A video collection, consisting of news footage and original business documentaries for each chapter, is available through Connect.






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## ACKNOWLEDGEMENTS

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Market feedback indicated that more expansive coverage of the important role that ethics plays in the international business arena was necessary. We called upon Tim Richardson, who teaches at Seneca College of Applied Arts and Technology and the University of Toronto, Department of Management, [www.witiger.com](http://www.witiger.com). Tim enthusiastically and ably responded to this request, providing Chapter 4, "Ethics in International Business," rich in Canadian content and current research. We thank him for his invaluable and ongoing contribution to this text.

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Fritz Rieger, *University of Windsor*

Thomas McKaig

# LEARNING FEATURES

*Global Business Today*, Fourth Canadian edition, has a rich selection of learning features that highlight companies' ups and downs in the international business arena, stimulate learning and understanding, and challenge students to respond.

## Opening Case

Each chapter begins with an engaging opening case that sets the stage for the chapter. These brief case studies introduce students to critical issues and often challenge their preconceptions. The opening case provides rich, introductory examples from actual countries and organizations.

## Learning Objectives

Learning Objectives have been updated in this new edition. Each chapter contains a new section on "Learning Objectives Summary." These two features tell students what they will know after completing the chapter, and notation in the chapter indicates where the learning objective is discussed in the text.

**2**  
PART TWO

**2**  
PART TWO: Country Differences

**2**  
CHAPTER 2  
Country Differences in Political Economy

**OPENING CASE**

**COUNTRY DIFFERENCES**  
Ghana: An African Dynamo

**THE EAST AFRICAN NATION OF** Ghana has emerged as one of the fastest growing countries in sub-Saharan Africa during the last decade. Ghana's GDP reached an all time high of \$40.7 billion (\$US) in December of 2012, from \$7.8 billion (\$US) in 1960. This came after several years of steady GDP growth in the 6 to 8 percent range. In 2011, this country of 25 million people became Africa's newest middle-income nation. Driving this growth has been strong demand for two of Ghana's major exports—gold and cocoa—as well as the start of oil production in 2010. Indeed, due to recent oil discoveries, Ghana is set to become one of the biggest oil producers in sub-Saharan Africa, a fact that could fuel strong economic expansion for years to come.

It wasn't always this way. Originally a British colony, Ghana gained independence in 1957. For the next three decades, the country suffered from a long series of military coups that killed any hope for stable democratic government. Successive governments adopted a socialist ideology, often as a reaction to their colonial past. As a result, large portions of the Ghana economy were dominated by state-owned enterprises. Corruption was rampant and inflation often a problem, while the country's dependence on cash crops for foreign currency earnings made it vulnerable to swings in commodity prices. It seemed like yet another failed state.

In 1981 an air force officer, Jerry Rawlings, led a military coup that deposed the president and put Rawlings in power. Rawlings started a vigorous anticorruption drive that made him very popular among ordinary Ghanaians. Rawlings initially pursued socialist policies and banned political parties, but in the early 1990s he changed his views. He may well have been influenced by the wave of democratic change and economic liberalization that was then sweeping the formerly communist states of Eastern Europe. In addition, he was pressured by Western governments and the International Monetary Fund to embrace democratic reforms and economic liberalization policies (the IMF was loaning money to Ghana).

Presidential elections were held in 1992. Prior to the elections, the ban on political parties was lifted, restrictions on the press were removed, and all parties were given equal access to the media. Rawlings won the election, which foreign observers declared to be "free and fair." Ghana has had a functioning democratic system since then. Rawlings won again in 1996 and retired in 2001. Beginning in 1992, Rawlings started to liberalize the economy, privatizing state-owned enterprises, instituting market-based reforms, and opening Ghana up to foreign investors. By late in 2000 more than 300 state-owned enterprises had been privatized, and the now largely privately held economy was booming.

Following the discovery of oil in 2007, Ghana's politicians studied oil revenue laws from other countries, including Norway and Trinidad. They put in place laws designed to limit the ability of corrupt officials to siphon off oil revenues from royalties to enrich themselves, something that has been a big problem in oil-rich Nigeria. Some oil revenues are slated to go directly into the national budget, while the rest will be split between a "stabilization fund" to support the budget should oil prices drop and a "heritage fund" to be spent only when the oil starts to run out.

The biggest challenging now facing the country's politicians is to upgrade infrastructure fast enough to keep pace with the booming economy. Projects are underway to double the country's electricity supply between 2010 and 2015, build a new road system, and expand the nation's main airport. If they

get it right, Ghana could cement its position as one of the most dynamic economies in sub-Saharan Africa.

Sources: D. Hinchshaw, "In an African Dynamo's Expansion, the Perils of Prosperity," *The Wall Street Journal*, December 30, 2011, p. A9; "Dangerously Hopeful," *The Economist*, January 2, 2010, p. 38; "Cocoa and Oil: A New Dawn for Ghana," *The Economist*, March 3, 2010, p. 48; and "Rawlings: The Legacy," *BBC News*, December 1, 2000, <http://news.bbc.co.uk/2/hi/afrika/1050310.stm>, [www.tradingeconomics.com/ghana/gdp](http://www.tradingeconomics.com/ghana/gdp)

**LO LEARNING OBJECTIVES**

By the end of this chapter you should be able to:

1. Give examples of how the political systems of countries differ.
2. Distinguish how the economic systems of countries differ.
3. Explain how the legal systems of countries differ.
4. Explain what determines the level of economic development of a nation.
5. Summarize the main changes that are currently reshaping the political, economic, and legal systems, worldwide.
6. Describe how transition economies are moving towards market-based systems.
7. Explain the implications of changes in political economies.

**INTRODUCTION**

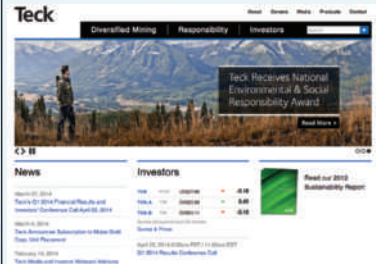
As noted in Chapter 1, international business is much more complicated than domestic business because countries differ in many ways. Countries have different political, economic, and legal systems. Cultural practices can vary dramatically from country to country, as can the education and skill level of the population, and countries are at different stages of economic development. All these differences can and do have major implications for the practice of international business. They have a profound impact on the benefits, costs, and risks associated with doing business in different countries; the way in which operations in different countries should be managed; and the strategies international firms should pursue in different countries. A main function of this chapter and the next is to develop an awareness of and appreciation for the significance of country differences in political systems, economic systems, legal systems, and cultural systems of many of the countries in the world. This chapter and the next is to put the implications of these differences into context. The chapter and the next is to put the implications of these differences into context. The chapter and the next is to put the implications of these differences into context.



## ANOTHER PERSPECTIVE

### Corporate Social Responsibility Index

One of the indicators of how serious the concept of corporate social responsibility is taken is the prevalence of this term on the corporate Web sites of medium- and large-sized firms in Canada. Most of the major banks and consumer product companies have a section noting specific policies and actions the firm has taken to address corporate responsibilities in a social context in the communities in which the company operates. Royal Bank, perennially Canada's largest financial institution and one of the most profitable, has a complete section on its corporate Web site devoted to corporate social responsibility, noting that in recent years it ranked #1 on the annual *Report on Business* listing. Canadian auto parts giant Magna describes their corporate social responsibility in terms of Community Activities, Environmental, and Health & Safety.



Teck, Canada's largest mining company, lists a tab for "Responsibility" right in the middle of their Web site, which, interestingly, is available in English, Spanish, and Turkish—reflecting the regions in which they operate. *Courtesy of Teck Resources Ltd.*

BlackBerry, like many high tech companies, is often pressured to attend to matters of environmental considerations, ethics, and local community concerns. On BlackBerry's Web site (2013) they say that "it is important to give back to the local, national, and global communities in which we operate," a phrase

## Another Perspective

With multiple examples per chapter, Another Perspective boxes provide students with an alternate way of thinking about important global issues presented in the text. These not only hone students' critical thinking skills but also give a deeper understanding of chapter topics.

## Country Focus

Country Focus boxes provide real-world examples of how different countries grapple with political, economic, social, or cultural issues.

## COUNTRY FOCUS

### VENEZUELA AFTER CHAVEZ

Hugo Chavez, a former military officer who was once jailed for engineering a failed coup attempt, was elected president of Venezuela in 1998. Chavez, a self-styled democratic socialist, won the presidential election by campaigning against corruption, economic mismanagement, and the "harsh realities" of global capitalism. When he took office in February 1999, Chavez claimed he had inherited the worst economic situation in the country's recent history. He wasn't far off the mark. A collapse in the price of oil, which accounted for 70 percent of the country's exports, left Venezuela with a large budget deficit and forced the economy into a deep recession. Soon after taking office, Chavez worked to consolidate his hold over the apparatus of government. A constituent assembly, dominated by Chavez followers, drafted a new constitution that strengthened the powers of the presidency. The national congress, which was controlled by Chavez supporters, approved a measure allowing the government to remove and appoint Supreme Court justices, effectively increasing Chavez's hold over the judiciary. Chavez also extended government control over the media. By 2012, Freedom House, which annually assesses political and civil liberties worldwide, concluded Venezuela was only "partly free" and that freedoms were being progressively curtailed.

On the economic front, things remained rough. The economy shrank in the early 2000s while unemployment remained persistently high at 15 to 17 percent and the poverty rate rose to more than 50 percent of the population. A 2003 study by the World Bank concluded Venezuela was one of the most regulated economies in the world and that state controls over business activities gave public officials ample opportunities to enrich themselves by demanding bribes in return for permission to expand operations or enter new lines of business. Indeed, despite Chavez's anticorruption rhetoric, Transparency International, which ranks the world's nations according to the extent of public corruption, has noted that corruption increased under Chavez. In 2013, Transparency International ranked Venezuela 160 out of 177 nations. Consistent with his socialist rhetoric, Chavez progressively took various enterprises into state ownership and required that other enterprises be restructured as "workers' cooperatives" in return for government loans. In addition, the government began to seize large rural farms and ranches that Chavez claimed were not sufficiently productive, turning them into state-owned cooperatives.

In mid-2000, the world oil market bailed Chavez out of mounting economic difficulties. Oil prices started to surge from the low \$20s in 2003, reaching \$150 a barrel by mid-2008. Venezuela, the world's fifth-largest producer, reaped a bonanza. On the back of surging oil exports, the economy grew at a robust rate. Chavez used the oil revenues to boost government spending on social programs, many of them modelled after programs in Cuba. As a result, the government's share of GDP increased from 20 percent at the end of the 1990s to almost 40 percent in 2008. Chavez also

and take 12 years to get a new drug on the market). Without the guarantees provided by patents, it is unlikely that companies would commit themselves to extensive basic research.<sup>23</sup>

The protection of intellectual property rights differs greatly from country to country. While many countries have stringent intellectual property regulations on their books, the enforcement of these regulations has often been lax. This has been the case even among some of the 187 countries that have signed the **Paris Convention for the Protection of Industrial Property**, an important international agreement to protect intellectual property ([www.wipo.int/treaties/en/text.jsp?file\\_id=288514](http://www.wipo.int/treaties/en/text.jsp?file_id=288514)). Weak enforcement encourages the piracy of intellectual property. China and Thailand have recently been among the worst

PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY  
International agreement to protect intellectual property, signed by 187 countries.

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## MANAGEMENT FOCUS

### GOVERNMENTS GROWING TO LOVE AND HATE GAMBLING

For decades if you wanted to gamble in Canada or the United States, legally that is, you had to go to Las Vegas, Nevada, the one jurisdiction where gambling was legally allowed. All other provincial, state, and federal jurisdictions in both Canada and the United States outlawed all forms of gambling, including lotteries.

This began to change in the 1970s, as governments were attracted to the potential revenue from gambling. Canada's first lottery was Quebec's Inter-Loto in 1970, promoted in part as a way for the province and the City of Montreal to cope with the debt of Expo 67. During the 1980s and 1990s gambling spread across North America, as cities saw gambling as a valid form of economic development, and as a way to keep up with the growing number of nearby jurisdictions that allowed casino gambling in at least some form. In early 2013, the Ontario provincial government both allowed and encouraged a casino to be built in the Toronto area. The City of Toronto grappled with the issue of allowing a large casino/entertainment/convention complex within its borders. Toronto City Council eventually rejected any form of casino gambling (though it continued to allow slot machines at a racetrack in Toronto).

Internet growth in the late 1990s spread the reach of gambling to a broader market than had previously been known. It also brought up an interesting legal question: if an online casino gets a gambling licence in an offshore jurisdiction, does that make it legal? Can it offer services to Canadians? Just as important, players want to know who regulates such gambling. Players know that a casino in Las Vegas will pay out if they win, but who will make sure that an online casino will do the same?

In this rapidly emerging field, there has been no single government response. Some jurisdictions, like Australia, have legalized online gambling and granted licences in the early part of this decade, then reversed their position and only allowed online sports betting and lotteries. In North America, the laws have changed over time. In 2006 the United States passed the Unlawful Internet Gambling Enforcement Act, which prevented credit card companies and banks from processing fund transfers for unlawful Internet gambling. This effectively prevented Americans from playing in any online gaming forum, no matter where that online facility was located. One such company, PokerStars, attempted to buy a land-based casino in Atlantic City in 2013, but did not gain a license from regulators, in part due to the company's previous online activities, which had resulted in the payment of a \$731 million (\$US) settlement to the U.S. government for money laundering and illegal gambling. In Canada, gambling is under the control of the provinces, though the position of online gambling was initially unclear. Provincial governments were not permitted to issue licences to run online gambling operations until 2010. In mid-2010, British Columbia launched the first fully legal online casino in North America. It is estimated that this brings an additional \$30-\$40 million annually to the government.

The Canadian firm Cryptologic Inc. operated until very recently in this rapidly changing environment. The company, founded in 1995, produces software for the Internet gambling industry. It grew rapidly to a market capitalization of around half a billion dollars, and had its shares listed on both the London and the Toronto Stock exchanges. With the legal changes in the United States in 2006, the company responded by a continued international focus, so that by the summer of 2006, 100 percent of the company's revenue came from outside the United States, principally from the United Kingdom, Europe, and Scandinavia. The company also established an office, later to be its headquarters, in Dublin, which has emerged as the home of regulated online gambling in Europe. However these actions were not enough to save the company. By 2010 the company had incurred eight continuous quarters of significant operating losses and negative cash flow. Its shares, which had once traded as high as \$30, dropped to less than \$1.75 by 2012. The company agreed to be bought out by Amaya Gaming Inc for \$2.535 a share in 2013.

### Questions

1. What can a company do when laws in a jurisdiction or in overlapping jurisdictions (such as between Ottawa and a province, or a province and a city) are contradictory, unclear, or change over time?
2. Why would governments have such a shifting set of laws when it comes to gambling?

Sources: Cryptologic, *Annual Report*, 2009, 2006, 2003, 2002; Cryptologic, [www.cryptologic.com](http://www.cryptologic.com); Fasken Martineau, "Is Internet Gambling Legal in Canada: A Look At Starnet," [www.fasken.com](http://www.fasken.com); Press of Atlantic City.com, "PokerStars' parent company grew up bid to buy Atlantic City Casino, August 3, 2013; offer and Director's Circular by Amaya Gaming Group Inc. February 17, 2012.



## Management Focus

Management Focus boxes illustrate the relevance of chapter concepts for the practice of international business.

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**RESEARCH TASK 1**  [globeedge.msu.edu](http://globeedge.msu.edu)

Use the globeEDGE™ site to complete the following exercises:

1. The "Freedom in the World" survey evaluates the state of political rights and civil liberties around the world. Provide a description of this survey and a ranking, in terms of "freedom," of the leaders and laggards. What factors are considered in this survey when forming the rankings?
2. Market Potential Indicators (MPI) is an indexing study conducted by the Michigan State University Center for International Business Education and Research (MSU-CIBER) to compare emerging markets on a variety of dimensions. Provide a description of the indicators used in the indexing procedure. Which of the indicators would have greater importance for a company that markets laptop computers? Considering the MPI rankings, which developing countries would you advise this company to enter first?

## GlobalEDGE/CIBER™ Research Task

Using the text and the GlobalEDGE™ Web site, <http://globeedge.msu.edu>, students solve realistic international business problems related to each chapter. These exercises expose students to the types of tools and data sources international managers use to make informed business decisions.

## Critical Thinking and Discussion Questions

These questions are suited for in-class discussion or personal reflection.

### CRITICAL THINKING AND DISCUSSION QUESTIONS

1. "Free market economies stimulate greater economic growth, whereas state-directed economies stifle growth." Evaluate this statement.
2. "A democratic political system is an essential condition for sustained economic progress." Evaluate this statement.
3. What is the relationship between corruption in a country (for example, bribe taking by government officials) and economic growth? Is corruption always bad?
4. The Nobel Prize-winning economist Amartya Sen argues that the concept of development should be broadened to include more than just economic development. What other factors does Sen think should be included in an assessment of development? How might adoption of Sen's views influence government policy? Do you think Sen is correct that development is about more than just economic development? Explain.
5. During the late 1980s and early 1990s, China was routinely cited by various international organizations such as Amnesty International and Freedom Watch for major human rights violations, including torture, beatings, imprisonment, and executions of political dissidents. Despite this, in the late 1990s, China received record levels of foreign direct investment, mainly from firms based in democratic societies such as the United States, Japan, and Germany. Evaluate this trend from an ethical perspective. If you were the CEO of a firm that had the option of making a potentially very profitable investment in China, what would you do?
6. You are the CEO of a company that has to choose between making a \$100-million investment in Russia or the Czech Republic. Both investments promise the same long-run return, so your choice is driven by risk considerations. Assess the various risks of doing business in each of these nations. Which investment would you favour and why?

been more widespread than it was at the beginning of the millennium. Although command economies still remain and totalitarian dictatorships can still be found around the world, the tide has been running in favour of free markets and democracy.

The implications for business are enormous. For the best part of 50 years, half of the world was off-limits to Western businesses. Now all that is changing. Many of the national markets of Eastern Europe, Latin America, Africa, and Asia may still be undeveloped and impoverished, but they are potentially enormous. With a population of 1.39 billion, the Chinese market alone is potentially bigger than that of the United States, the European Union, and Japan combined! Similarly India, with its 1.27 billion people, is a potentially huge future market. Latin America has another 581.4 million potential consumers. It is unlikely that China, Russia, Poland, or any of the other states now moving toward a free market system will attain the living standards of the West anytime soon. Nevertheless, the upside potential is so large that companies need to consider making inroads now.

However, just as the potential gains are large, so are the risks. There is no guarantee that democracy will thrive in the newly democratic states of Eastern Europe, particularly if these states have to grapple with severe economic setbacks. Totalitarian dictatorships could return, although they are unlikely to be of the communist variety. Although the bipolar world of the Cold War era has vanished, it may be replaced by a multipolar world dominated by a number of civilizations.

In such a world, much of the economic promise inherent in the global shift toward market-based economies may evaporate in the face of conflicts between civilizations. While the long-term potential for economic gain from investment in the world's new market economies is large, the risks associated with any such investment are also substantial. It would be foolish to ignore these.

## Implications for Business

At the end of every chapter, this section spotlights the managerial implications of the chapter material.

### IMPLICATIONS FOR BUSINESS

The implications for international business of the material discussed in this chapter fall into two broad categories. First, the political, economic, and legal environment of a country clearly influences the attractiveness of that country as a market and/or investment site. The benefits, costs, and risks associated with doing business in a country are a function of that country's political, economic, and legal systems. Second, the political, economic, and legal systems of a country can raise important ethical issues that have implications for the practice of international business. Here we consider each of these issues.

#### ATTRACTIVENESS

The overall attractiveness of a country as a market and/or investment site depends on balancing the likely long-term benefits of doing business in that country against the likely costs and risks. Below we consider the determinants of benefits, costs, and risks.

#### Benefits

In the most general sense, the long-run monetary benefits of doing business in a country are a function of the size of the market, the present wealth (purchasing power) of consumers in that market, and the likely future wealth of consumers. While some markets are very large when measured by number of consumers (for example China and India), low living standards may imply limited purchasing power and, therefore, a relatively small market when measured in economic terms. While international businesses need to be aware of this distinction, they also need to keep in mind the likely future prospects of a country. In 1960, for example, South Korea was viewed as just another impoverished Third World nation. Currently, it is the world's 11<sup>th</sup> largest economy

### KEY TERMS

Bill S-21	Human Development Index (HDI)	product liability
civil law	individualism	product safety laws
collectivism	innovation	property rights
command economy	late-mover disadvantages	public action
common law	legal risk	purchasing power parity (PPP)
communist totalitarianism	legal system	representative democracy
communists	market economy	right-wing totalitarianism
contract law	mixed economy	social democrats
copyrights	Paris Convention for the Protection of Industrial Property	theocratic law
democracy	patent	theocratic totalitarianism
deregulation	political economy	totalitarianism
economic risk	political risk	trademarks
first-mover advantages	political system	tribal totalitarianism
Foreign Corrupt Practices Act	private action	United Nations Convention on Contracts for the International Sale of Goods (CISG)
gross national income (GNI)	privatization	

### LO LEARNING OBJECTIVES SUMMARY

This chapter has reviewed how the political, economic, and legal systems of different countries vary. The potential benefits, costs, and risks of doing business in a country are a function of its political, economic, and legal systems. These major points were made in the chapter:

1. Political systems can be assessed according to two dimensions: the degree to which they emphasize collectivism as opposed to individualism, and the degree to which they are democratic or totalitarian. Collectivism is an ideology that views the needs of society as being more important than the needs of the individual. Collectivism translates into an advocacy for state intervention in

economic activity and, in the case of communism, a totalitarian dictatorship. Individualism is an ideology built on an emphasis of the primacy of individual freedoms in the political, economic, and cultural realms. Individualism translates into an advocacy for democratic ideals and free market economics. Democracy and totalitarianism are at different ends of the political spectrum. In a representative democracy, citizens periodically elect individuals to represent them and political freedoms are guaranteed by a constitution. In a totalitarian state, political power is monopolized by a party, group, or individual, and basic political freedoms are denied to citizens of the state.

## Key Terms and Learning Objectives Summary

These resources help students review key concepts.

### U.S. TARIFFS ON TIRE IMPORTS FROM CHINA

In September 2009, President Obama placed a tariff on imports of tires from China. The tariff was a response to a rising tide of imports from China and intense lobbying from the United Steelworkers union, which represents 15 000 workers at 13 tire plants in the United States. Tires imported from China are usually low-end models that sell for half the price of American-made, name-brand tires. In 2008, the United States imported 46 million tires from China, three times as many as it did in 2004. China's share of the American market leaped from 5 percent to almost 17 percent over the same period, while U.S. employment in the industry fell by more than 5 000 and domestic production slumped from 218 million tires to 160 million tires.

The United Steelworkers petitioned the International Trade Commission, which is a unit of the U.S. Department of Commerce, for protection. After reviewing the case, the commission concluded that the surge in Chinese tire imports was causing significant "market disruption" and recommended imposing a three-year tariff on Chinese imports of tires. The Obama administration agreed and placed a 35 percent tariff for one year on tire imports from China, followed by a 30 percent tariff in the second year and a 25 percent tariff in the final year. These tariffs were placed on top of an existing 4 percent import tariff.

The Chinese quickly objected, calling the tariffs "a serious case of protectionism" and arguing that the United States was violating WTO rules, of which both countries were members. For its part, the United States argued that the tariffs were allowed under the terms of a special safeguard provision that was part of the U.S. agreement to support China's entry into the WTO in 2001. Under that provision, U.S. companies or workers harmed by imports from China can ask the government for protection simply by demonstrating that American producers have suffered a "market disruption" or have experienced a surge in imports from China.

The WTO's dispute resolution panel quickly took on the case. In December 2010, the panel issued its ruling, finding that the United States "did not fail to comply with its obligations" under world trade agreements and allowing the tariffs to remain. China immediately appealed the ruling. Chinese officials stated the tariff has hurt the interests of both China and the United States. They argued that the

tariffs cost jobs in the U.S. sales sector, causing some small and medium-size wholesalers and dealers to go out of business. Moreover, they argued that the tariff has burdened low-income consumers in the United States, with the average price of tires increasing 10 to 20 percent since the tariffs were imposed.

For its part, the United Steelworkers argued that the tariff had been a big success. For the first six months after the tariffs were imposed, U.S. production increased more than 15 percent, and the union claimed that U.S. producers were making plans to add additional capacity. During the same period, tire imports from China fell by 24 percent. However, the union may have been too quick to claim victory. Over the next 18 months, tire imports surged from Thailand, Indonesia, and Mexico, suggesting that low-cost producers in other countries were taking advantage of the tariffs on Chinese tires to increase their exports to the United States. Furthermore, U.S. producers did not add capacity. Indeed, several U.S. tire makers have factories in China and elsewhere and had, for some time, been exporting from them. To complicate matters, China responded to the tariffs on tires by placing tariffs on the export of some U.S. products, such as broiler chickens, to China.

Sources: S. Chan, "World Trade Organization Upholds American Tariffs on Imports of Tires from China," *The New York Times*, December 14, 2010, p. B3; "WTO Rules US Tariff on Chinese Tire Imports," *China Daily*, December 14, 2010; J. M. Freedman, "WTO Rules US Tariffs on Chinese Tire Imports Legal," *Bloomberg Businessweek*, December 27, 2010; and J. Bussey, "Get Tough Policy on Chinese Tires Falls Flat," *The Wall Street Journal*, January 20, 2012.

#### CASE DISCUSSION QUESTIONS

1. Which groups benefited from the imposition of U.S. tariffs on Chinese tire imports? Which groups suffered? What does this tell you about tariffs in general?
2. How do you think that the United States would have reacted if the Chinese had raised tariff rates on the importation of certain goods from the United States?
3. What does the rise of tire imports from Thailand, Indonesia, and Mexico during 2010 and 2011 tell you about the value of this kind of trade policy?
4. Do you think that the policy was in the best interests of the United States? Justify your answer.

## Closing Case

The closing case wraps up the material in the chapter by relating the experience of a company to the practice of international business.

## Sustainability in Practice

Located at the end of some parts, these vignettes illustrate how businesses are engaging in the solutions to sustainable development challenges.

### SUSTAINABILITY IN PRACTICE

#### ADIDAS GROUP: SUPPLY-CHAIN MANAGEMENT

##### SITUATION

The Adidas group is the second largest sportswear manufacturer in the world. Its German holding company, Adidas AG, produces products under the Reebok, Rockport, and Ashworth brands, among others including the flagship Adidas brand.

Existing as a company for almost a hundred years, and with operations all over the world, the company has taken a highly visible and integrated approach to sustainability.

##### APPROACH TO SUSTAINABILITY

The company's Sustainability Statement is as follows:

PERFORMANCE, PASSION, INTEGRITY, DIVERSITY  
These are the Adidas Group values.

They help us to create brands that our customers believe in and they commit us to playing by the rules that society expects of a responsible company. Unlike sport, society's rules are not always written down.

We discover them by engaging with the people that our business touches, learning above all that companies are expected to be accountable for their actions. So we are committed to reporting publicly on the steps we take to have a more positive impact on society and the planet.

For the Adidas Group, this means designing products that are environmentally sound, and reducing the environmental impacts of our day-to-day operations and in our supply chain.

It is about setting workplace standards for our suppliers to meet and helping them to ensure fair, safe and healthy conditions in their factories. Importantly, it also means looking after the well-being and careers of our employees—the company's biggest asset—and making a positive contribution to the communities where we operate.

Adhering to all applicable laws, directives and guidelines is a business imperative. But that is not enough. We are continuously striving to improve our performance and our standing in society. We set ourselves targets that stretch us, regularly review our progress and set ourselves new goals.

You can read the rest of the company's Sustainability Statement, and Adidas' sustainability practices, at: <http://www.adidas-group.com>.

Far too often, such broad and important goals are left as words on paper. Adidas goes further by also implementing a five-year sustainability strategy that fully supports the company's business strategy. It breaks the broad goal of sustainability into five areas: products and planet

(integrating environmental thinking into daily operations); compliance in the supply chain (recognizing a responsibility to the workers in the company's suppliers' factories); stakeholder engagement (with both internal and external stakeholders); employees (creating a culture that fosters innovation, team spirit, and engagement); and community engagement (knowing the needs of the local communities where Adidas operates, and therefore having a largely decentralized community involvement approach, as people in the local offices best understand the needs and cultural sensitivities of their communities). As the company notes, performing well on these five metrics will help it to become a global, leading, and profitable company.

##### APPROACH TO SUPPLY CHAIN MANAGEMENT

For any company operating with many different suppliers around the world, bringing sustainability to supply chain management is no easy task. Adidas accomplishes this through stated workplace standards, policies, and guidelines. Its workplace standards, for example are clear and unequivocal. Regarding two highly visible areas, namely forced labour and child labour, the company states, "Business partners must not use forced labour, whether in the form of prison labour, indentured labour, bonded labour or otherwise. No employee may be compelled to work through force or intimidation of any form, or as a means of political coercion or as punishment for holding or expressing political views. Business partners must not employ children who are less than 15 years old, or less than the age for completing compulsory education in the country of manufacture where such age is higher than 15."

These guidelines implement the standards and cover matters from health and safety and employment guidelines through to environmental and worker cooperative guidelines. They are translated into ten languages, and can be found at <http://www.adidas-group.com>.

The company monitors the activities of suppliers itself as well as through independent parties. The company is a member of the Fair Labor Association (FLA), which makes it subject to external assessments by independent monitors, to participation in a third-party complaint system, and to public reporting. Since the company joined the FLA in 2005, over 300 independent assessments have been conducted at Adidas' suppliers.

Source: <http://www.adidas-group.com/en/>; [http://www.adidas-group.com/media/1162\\_public/2013/07/3/English\\_workplace\\_standards\\_en.pdf](http://www.adidas-group.com/media/1162_public/2013/07/3/English_workplace_standards_en.pdf); <http://www.adidas-group.com/en/sustainability/Supply-chain/monitoring/#/verifying-compliance>.



# **GLOBAL BUSINESS TODAY**

Fourth Canadian Edition



# 1

## PART ONE



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## GLOBALIZATION

### Who Makes the Apple iPhone?

**IN ITS EARLY DAYS, APPLE** usually didn't look beyond its own backyard to manufacture its devices. A few years after Apple started to make the Macintosh computer back in 1983, Steve Jobs bragged that it was "a machine that was made in America." As late as the early 2000s, Apple still manufactured many of its computers at the company's iMac plant in Elk Grove, California. Jobs often said that he was as proud of the Apple's manufacturing plants as he was of the devices themselves.

By 2004, however, Apple had largely turned to foreign manufacturing. The shift to offshore manufacturing reached its peak with the iconic iPhone, which Apple first introduced in 2007. All iPhones contain hundreds of parts, an estimated 90 percent of which are manufactured abroad. Advanced semiconductors come from Germany and Taiwan, memory from Korea and Japan, display panels and circuitry from Korea and Taiwan, chipsets from Europe, and rare metals from Africa and Asia. Apple's major subcontractor, the Taiwanese multinational firm Foxconn, performs final assembly in China.

Apple still employs some 43 000 people in the United States, and it has kept important activities at home, including product design, software engineering, and marketing. In Canada, the company employs about 100 people in Markham, north of Toronto, who predominantly support Apple's 22 retail stores in this county.

Apple claims that its business supports another 254 000 jobs in the United States in engineering, manufacturing, and transportation. For example, the glass for the iPhone is manufactured at Corning's U.S. plants in Kentucky and New York. But an additional 700 000 people are involved in the engineering, building, and final assembly of its products outside of the United States, and most of them work at subcontractors like Foxconn.

# Globalization

## CHAPTER 1

When explaining its decision to assemble the iPhone in China, Apple cites a number of factors. While it is true that labour costs are much lower in China, Apple executives point out that labour costs only account for a very small proportion of the total value of its products and are not the main driver of location decisions. Far more important, according to Apple, is the ability of its Chinese subcontractors to respond very quickly to requests from Apple to scale production up and down. In a famous illustration of this capability, back in 2007 Steve Jobs demanded that a glass screen replace the plastic screen on his prototype iPhone. Jobs didn't like the look and feel of plastic screens, which at the time were standard in the industry, nor did he like the way they scratched easily. This last-minute change in the design of the iPhone put Apple's market introduction date at risk. Apple had selected Corning to manufacture large panes of strengthened glass, but finding a manufacturer that could cut those panes into millions of iPhone screens wasn't easy. Then a bid arrived from a Chinese factory. When the Apple team visited the factory, they found that the plant's owners were already constructing a new wing to cut the glass and installing equipment. "This is in case you give us the contract," the manager said. The plant also had a warehouse full of glass samples for Apple, and a team of engineers available to work with Apple. They had built on-site dormitories, so that the factory could run three shifts seven days a week in order to meet Apple's demanding production schedule. The Chinese company got the bid.

Another critical advantage of China for Apple was that it was much easier to hire engineers there. Apple calculated that about 8700 industrial engineers were needed to oversee and guide the 200 000 assembly-line workers involved in manufacturing the iPhone. The company had estimated that it would take

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## LEARNING OBJECTIVES

By the end of this chapter you should be able to:

1. Define the term *globalization*.
2. Examine the rise of global institutions.
3. Explain why globalization and innovation are now proceeding at a rapid rate.
4. Illustrate the changing demographics of the global economy.
5. Summarize the main arguments in the debate over the impact of globalization on job security, income levels, labour and environmental policies, and national sovereignty.
6. Show how the process of globalization is giving rise to numerous opportunities and challenges that business managers must confront in Canada and beyond.

as long as nine months to find that many engineers in the United States. In China it took 15 days.

Also important is how factories cluster together in China. Many of the factories providing components for the iPhone are located close to Foxconn's assembly plant. As one executive noted, "The entire supply chain is in China. You need a thousand rubber gaskets? That's the factory next door. You need a million screws? That factory is a block away. You need a screw made a little bit different? That will take three hours."

All this being said, there are drawbacks to outsourcing to China. Several of Apple's subcontractors have been targeted for their poor working conditions. Criticisms include low pay of line workers, long hours, mandatory overtime for little or no additional pay, and poor safety records. Some former Apple executives say that there is an unresolved tension within the company; executives want to improve working conditions within the factories of subcontractors such as Foxconn, but that dedication falters when it conflicts with crucial supplier relationships or the fast delivery of new products.

**Sources:** G. Huini, "Human Costs Are Built into iPad in China," *New York Times*, January 26, 2012; C. Duhigg and K. Bradsher, "How U.S. Lost Out on iPhone Work," *New York Times*, January 22, 2012; J. Kahn, "Apple Takes Credit for Over Half a Million U.S. Jobs," 9to5Mac, March 2, 2012, <http://9to5mac.com/2012/03/02/apple-takes-credit-for-514000-u-s-jobs/#more-142766>; "Apple Canada Inc", The Encyclopedia of Music in Canada, <http://www.thecanadianencyclopedia.ca/en/article/apple-canada-inc/>

## INTRODUCTION

A fundamental shift is occurring in the world economy. We are moving away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones, and language; and by national differences in government regulation, culture, and business systems. And we are moving toward a world in which barriers to cross-border trade and investment are tumbling; perceived distance is shrinking due to advances in transportation and telecommunications technology; material culture is starting to look similar



the world over; and national economies are merging into an interdependent global economic system. The process by which this is occurring is commonly referred to as globalization.

In this interdependent global economy, a Canadian might drive to work in a car designed in Germany that was assembled in Canada by Ford, from components made in the United Kingdom and Japan, and that were fabricated from Korean steel and Malaysian rubber. She may have filled the car with gasoline at a service centre owned by a Dutch multinational company that changed its name to Shell Canada to obscure its national origins. The gasoline could have been made from oil pumped out of a well in the Hibernia fields off the coast of Newfoundland “and shipped by a shipping line registered in Monaco.”<sup>1</sup>

While driving to work, the Canadian might talk to her investment adviser on a Finnish-manufactured, but Texas-assembled Nokia cellphone that is linked through a Nortel PBX system in Toronto. Afterwards, she might turn on her car radio, which was made in Malaysia by a Japanese firm, to hear a popular song composed by an Italian and sung by a group of Quebecois residing in France. The driver might pull into a drive-through Starbucks coffee shop managed by a Korean immigrant and order a “single, tall, nonfat latte” and chocolate-covered biscotti. The coffee beans came from Costa Rica and the chocolate from Peru, while the biscotti was made locally using an old Italian recipe. After the song ends, a news announcer might inform the Canadian listener that financial crisis that started in the U.S. banking sector may trigger a global recession and is sending stock markets down all over the world.

This is the world we live in. It is a world where the volume of goods, services, and investment crossing national borders expanded faster than world output every year during the last two decades of the twentieth century. According to a March 2014 Reuters press release, daily volumes in the foreign exchange market averaged \$5.15 trillion.<sup>2</sup>

It is a world in which international institutions such as the World Trade Organization and gatherings of leaders from the world’s most powerful economies have called for even lower barriers to cross-border trade and investment. It is a world where the symbols of material and popular culture are increasingly global: from Coca-Cola and McDonald’s to Sony PlayStations, Samsung smartphones, MTV shows, and Disney films. It is a world in which products are made from inputs that come from all over the world. It is a world in which a financial crisis in America can trigger a global economic recession, which is exactly what occurred beginning in 2008. It is also a world in which vigorous and vocal groups protest against globalization, which they blame for a list of ills, from unemployment in developed nations to environmental degradation and the Americanization of popular culture.

For businesses, despite the current economic slowdown, this is in many ways the best of times. Globalization has increased the opportunities for a firm to



The United Nations has the important goal of improving the well-being of people around the world. *Purestock/Getty Images*

expand its revenues by selling around the world and reduce its costs by producing in nations where key inputs are cheap. Since the collapse of communism at the end of the 1980s, the pendulum of public policy in nation after nation has swung toward the free-market end of the economic spectrum. Regulatory and administrative barriers to doing business in foreign nations have come down, while those nations have often transformed their economies, privatizing state-owned enterprises, deregulating markets, increasing competition, and welcoming investment by foreign businesses. This has allowed businesses both large and small, from both advanced nations and developing nations, to expand internationally.

The history of Starbucks exemplifies the opportunities that a global economy offers businesses. The original idea for Starbucks came from Italian coffeehouses. After refining the concept in the United States, in 1995 the company started to expand globally. As a result, a company that had only a handful of stores 25 years ago is now one of the world's best-known brands with more than 17 000 stores in almost 60 countries. Starbucks has had an impact on consumer behaviour around the world, changing the way people consume coffee and profiting in the process. The company is also changing the way coffee is produced. By committing itself to purchasing only Fair Trade Certified coffee beans, Starbucks is promoting nonexploitive and environmentally sound growing policies in developing nations, and finding that doing good is also good business, because it reinforces the value of the Starbucks brand.

As globalization unfolds, it is transforming industries and creating anxiety among those who believed their jobs were protected from foreign competition. Historically, while many workers in manufacturing industries worried about the impact foreign competition might have on their jobs, workers in service industries felt more secure. Now, this too is changing. Advances in technology, lower transportation costs, and the rise of skilled workers in developing countries imply that many services no longer need to be performed where they are delivered. The same is true of some accounting services. Today, many individual Canadian and U.S. tax returns are compiled in India. Indian accountants, trained in Canadian and U.S. tax rules, perform work for North American accounting firms.<sup>3</sup> They access individual tax returns, perform routine calculations, and save their work so that it can be inspected by a Canadian or U.S. accountant, who then bills clients. As the best-selling author Thomas Friedman has argued, the world is becoming flat.<sup>4</sup> People living in developed nations no longer have the playing field tilted in their favour. Increasingly, enterprising individuals based in India, China, or Brazil have the same opportunities to better themselves as those living in western Europe, Canada, or the United States.

In this book we will take a close look at the issues introduced here and many more. We will explore how changes in regulations governing international trade and investment, when coupled with changes in political systems and technology, have dramatically altered the competitive playing field confronting many businesses. We will discuss the resulting opportunities and threats, and review the strategies that managers can pursue to exploit the opportunities and counter the threats. We will consider whether globalization benefits or harms national economies. We will look at what economic theory has to say about the outsourcing of manufacturing and service jobs to places such as India and China and look at the benefits and costs of outsourcing, not just to business

firms and their employees, but also to entire economies. First, though, we need to get a better overview of the nature and process of globalization, and that is the function of this first chapter.

## L01 WHAT IS GLOBALIZATION?

As used in this book, **globalization** refers to the shift toward a more integrated and interdependent world economy. Globalization has several different facets, including the globalization of markets, the globalization of production, and the globalization of consumers. The developments in communications technology and a homogenization of economies have resulted in the concept of a worldwide consumer.

### THE GLOBALIZATION OF MARKETS

The **globalization of markets** refers to the merging of historically distinct and separate national markets into one huge global marketplace. Falling barriers to cross-border trade have made it easier to sell internationally. It has been argued for some time that the tastes and preferences of consumers in different nations are beginning to converge on some global norm, thereby helping to create a global market.<sup>5</sup> Consumer products such as Citicorp credit cards, Coca-Cola soft drinks, Apple iPods, and McDonald's hamburgers are frequently held up as prototypical examples of this trend. Firms such as Citicorp, Coca-Cola, McDonald's, and Apple are more than just benefactors of this trend; they are also facilitators of it. By offering a standardized product worldwide, they help to create a global market.

There are also many examples closer to home. Eventscape Inc. is a Toronto-based company that builds structures for designers and architects worldwide. Several years ago, Eventscape Inc. was recruited to create a 3-D logo structure for New York's Rockefeller Center. Since then, business took off internationally. Projects included framing for a casino stage in Macau, a chandelier for a royal wedding in Abu Dhabi, and most recently the Allen Theatre in Cleveland Ohio.

Despite the global prevalence of Apple's products and McDonald's hamburgers, the view that national markets are giving way to the global markets should not be pushed too far. As we shall see in later chapters, very significant differences still exist between national markets along many relevant dimensions, including consumer tastes and preferences, distribution channels, culturally embedded value systems, business systems, and legal regulations. These differences frequently require that marketing strategies, product features, and operating practices be customized to best match conditions in a country. For example, automobile companies will promote different car models depending on a range of factors such as local fuel costs, income levels, traffic congestion, and cultural values.

Currently most global markets are not markets for consumer products—where national differences in tastes and preferences are still often important enough to act as a brake on globalization—but are markets for industrial goods and materials that serve a universal need the world over. These include the markets for commodities such as aluminum, oil, and wheat; the markets for industrial

#### GLOBALIZATION

Trend away from distinct national economic units and toward one huge global market.

#### GLOBALIZATION OF MARKETS

Moving away from an economic system in which national markets are distinct entities, isolated by trade barriers and barriers of distance, time, and culture, and toward a system in which national markets are merging into one global market.

**GLOBALIZATION OF PRODUCTION**

The trend by individual firms to disperse parts of their productive processes to different locations around the globe to take advantage of differences in cost and quality of factors of production.

products such as microprocessors, DRAMs (computer memory chips), and commercial jet aircraft; the markets for computer software; and the markets for financial assets, from Canadian Treasury bills to eurobonds to futures on the Nikkei index or the Mexican peso.

In many global markets, the same firms frequently confront each other as competitors in nation after nation. Coca-Cola's rivalry with Pepsi is a global one, as are the rivalries between Ford and Toyota, Bombardier and Embraer, Caterpillar and Komatsu, and Sony, Nintendo, and Microsoft in video-game consoles. If one firm moves into a nation that is not currently served by its rivals, those rivals are sure to follow to prevent their competitor from gaining an advantage.<sup>6</sup> As firms follow each other around the world, they bring with them many of the assets that served them well in other national markets—including their products, operating strategies, marketing strategies, and brand names—creating some homogeneity across markets. Thus, greater uniformity replaces diversity. Due to such developments, in an increasing number of industries it is no longer meaningful to talk about “the German market,” “the American market,” “the Brazilian market,” or “the Canadian market”; for many firms there is only the global market.

**THE GLOBALIZATION OF PRODUCTION**

The **globalization of production** refers to sourcing goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as labour, energy, land, and capital). By doing this, companies hope to lower their overall cost structure and/or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively. Consider Bombardier's ongoing global expansion in manufacturing its CRJ series regional jet aircraft. Sales have been made all over the world, including Lufthansa CityLine, Scandinavian Airlines, Air Canada Jazz, and Air India Regional.

The global dispersal of productive activities is not limited to giants such as Bombardier. Smaller firms are also tapping into the global marketplace. Matrikon, based in Edmonton, Alberta, was founded in 1988, and was bought by Honeywell International in 2010 in a deal valued at about \$145 million (\$Cdn). Matrikon specializes in performance monitoring solutions with clients in different industry sectors. Foreign direct investment, along with diversification of its manufacturing, design, and distributor channels, enable Matrikon to build a global competitive advantage for process-improvement software.<sup>7</sup>

As a consequence of the trend exemplified by Bombardier and Matrikon, in many industries it is becoming irrelevant to talk about Canadian products, Japanese products, German products, or Korean products. Given the growth of international outsourcing, manufactured goods are increasingly being described as global products. But as with the globalization of markets, one must be careful not to push the globalization of production too far. As we will see in later chapters, substantial impediments still make it difficult for firms to achieve the optimal dispersion of their productive activities to locations around the globe. These impediments include formal and informal barriers to trade between countries, barriers to foreign direct investment, transportation costs, and issues associated with economic and political risk.