

International Business

Competing in the Global Marketplace

12e



**Mc
Graw
Hill**
Education

Charles W.L. Hill
G. Tomas M. Hult

International Business

Competing in the Global Marketplace



International Business

Competing in the Global Marketplace

12e

Charles W. L. Hill

UNIVERSITY OF WASHINGTON

G. Tomas M. Hult

MICHIGAN STATE UNIVERSITY



Mc
Graw
Hill
Education



INTERNATIONAL BUSINESS: COMPETING IN THE GLOBAL MARKETPLACE, TWELFTH EDITION

Published by McGraw-Hill Education, 2 Penn Plaza, New York, NY 10121. Copyright © 2019 by McGraw-Hill Education. All rights reserved. Printed in the United States of America. Previous editions © 2017, 2015, and 2013. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written consent of McGraw-Hill Education, including, but not limited to, in any network or other electronic storage or transmission, or broadcast for distance learning.

Some ancillaries, including electronic and print components, may not be available to customers outside the United States.

This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 0 LWI 21 20 19 18

ISBN 978-1-259-92944-1 (bound edition)

MHID 1-259-92944-2 (bound edition)

ISBN 978-1-260-39007-0 (loose-leaf edition)

MHID 1-260-39007-1 (loose-leaf edition)

Portfolio Director: *Michael Ablassmeir*

Product Developer: *Katie Benson Eddy*

Marketing Manager: *Debbie Clare*

Content Project Managers: *Harvey Yep (Core), Danielle Clement (Assessment)*

Buyer: *Susan K. Culbertson*

Design: *Egzon Shaqiri*

Content Licensing Specialist: *Carrie Burger (text and image)*

Cover image: *McGraw-Hill Education*

Compositor: *Aptara[®], Inc.*

All credits appearing on page or at the end of the book are considered to be an extension of the copyright page.

Library of Congress Control Number: 2017963876

The Internet addresses listed in the text were accurate at the time of publication. The inclusion of a website does not indicate an endorsement by the authors or McGraw-Hill Education, and McGraw-Hill Education does not guarantee the accuracy of the information presented at these sites.



For my mother **June Hill**, and
the memory of my father,
Mike Hill—Charles W. L. Hill

For **Gert & Margareta Hult**,
my parents—**G. Tomas M. Hult**

about the AUTHORS

Charles W. L. Hill

University of Washington

Charles W. L. Hill is the Hughes M. and Katherine Blake Professor of Strategy and International Business at the Foster School of Business, University of Washington. The Foster School has a Center for International Business Education and Research (CIBER), one of only 17 funded by the U.S. Department of Education, and is consistently ranked as a Top-25 business school. Learn more about Professor Hill at foster.uw.edu/faculty-research/directory/charles-hill

A native of the United Kingdom, Professor Hill received his PhD from the University of Manchester, UK. In addition to the University of Washington, he has served on the faculties of the University of Manchester, Texas A&M University, and Michigan State University.

Professor Hill has published over 50 articles in top academic journals, including the *Academy of Management Journal*, *Academy of Management Review*, *Strategic Management Journal*, and *Organization Science*. Professor Hill has also published several textbooks including *International Business* (McGraw-Hill) and *Global Business Today* (McGraw-Hill). His work is among the most widely cited in the world in international business and strategic management. Beginning in 2014, Dr. Hill partnered with Dr. Tomas Hult in a formidable co-authorship of the IB franchise of textbooks (*International Business*, *Global Business Today*). This brought together two of the most cited international business scholars in history.

Professor Hill has taught in the MBA, Executive MBA, Technology Management MBA, Management, and PhD programs at the University of Washington. During his time at the University of Washington he has received over 25 awards for teaching excellence, including the Charles E. Summer Outstanding Teaching Award.

Professor Hill works on a private basis with a number of organizations. His clients have included Microsoft, where he has been teaching in-house executive education courses for two decades. He has also consulted for a variety of other large companies (e.g., AT&T Wireless, Boeing, BF Goodrich, Group Health, Hexcel, Microsoft, Philips Healthcare, Philips Medical Systems, Seattle City Light, Swedish Health Services, Tacoma City Light, Thompson Financial Services, WRQ, and Wizards of the Coast). Professor Hill has also served on the advisory board of several start-up companies.

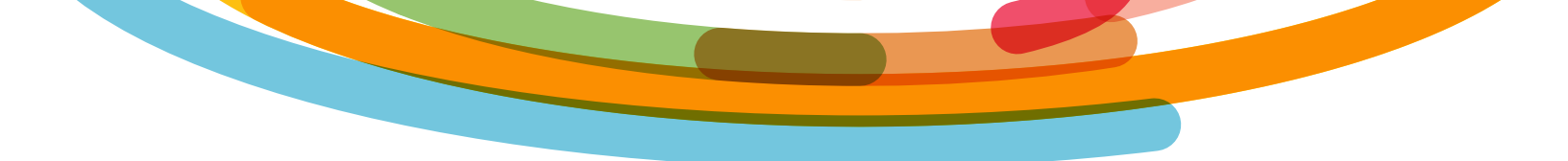
For recreation, Professor Hill enjoys skiing, and competitive sailing!

G. Tomas M. Hult

Michigan State University

G. Tomas M. Hult is the John W. Byington Endowed Chair, professor of marketing and international business, and director of the International Business Center in the Eli Broad College of Business at Michigan State University. The Broad College has a Center for International Business Education and Research (CIBER), one of only 17 funded by the U.S. Department of Education, and is consistently ranked as a Top-25 business school. Learn more about Professor Hult at broad.msu.edu/facultystaff/hult

A native of Sweden, Professor Hult received a mechanical engineer degree in Sweden before obtaining a PhD at The University of Memphis. In addition to Michigan State University, he has served on the faculties of Florida State University



and the University of Arkansas at Little Rock. Dr. Hult holds visiting professorships in the International Business group of his native Uppsala University, Sweden (since 2013) and the International Business division of Leeds University, UK (since 2010). Michigan State, Uppsala, and Leeds are all ranked in the top 10 in the world in international business research.

Several studies have ranked Professor Hult as one of the most cited scholars in the world in business and management. He served as editor of *Journal of the Academy of Marketing Science*, a Financial Times Top-50 business journal, and has published more than 70 articles in premier business journals, including *Journal of International Business Studies*, *Academy of Management Journal*, *Strategic Management Journal*, *Journal of Management*, *Journal of Marketing*, *Journal of the Academy of Marketing Science*, *Journal of Retailing*, *Journal of Operations Management*, *Decision Sciences*, and *IEEE*. He has also published several textbooks including *International Business* (McGraw-Hill) and *Global Business Today* (McGraw-Hill). Dr. Hult's other books include *Second Shift: The Inside Story of the Keep GM Movement*, *Global Supply Chain Management*, *Total Global Strategy*, and *Extending the Supply Chain*. He is a regular contributor of op-ed and articles in the popular press (e.g., *Time*, *Fortune*, *World Economic Forum*, *The Conversation*).

Professor Hult is a well-known keynote speaker on international business, international marketing, global supply chain management, global strategy, and marketing strategy. He teaches in doctoral, master's, and undergraduate programs at Michigan State University. He also teaches frequently in executive development programs and has developed a large clientele of the world's top multinational corporations (e.g., ABB, Albertsons, Avon, BG, Bechtel, Bosch, BP, Defense Logistics Agency, Domino's, FedEx, Ford, FreshDirect, General Motors, GroceryGateway, HSBC, IBM, Michigan Economic Development Corporation, Masco, NASA, Raytheon, Shell, Siemens, State Farm, Steelcase, Tech Data, and Xerox).

Tomas Hult is an elected Fellow of the Academy of International Business (AIB), one of only about 90 scholars worldwide receiving this honor, and serves as the executive director and foundation president of AIB. He also serves on the U.S. District Export Council and holds board member positions on the International Trade Center of Mid-Michigan and the Sheth Foundation.

Tomas enjoys tennis, golf, and traveling as his favorite recreational activities.



brief CONTENTS

part one	Introduction and Overview
	Chapter 1 Globalization 2
part two	National Differences
	Chapter 2 National Differences in Political, Economic, and Legal Systems 38
	Chapter 3 National Differences in Economic Development 62
	Chapter 4 Differences in Culture 90
	Chapter 5 Ethics, Corporate Social Responsibility, and Sustainability 128
part three	The Global Trade and Investment Environment
	Chapter 6 International Trade Theory 158
	Chapter 7 Government Policy and International Trade 192
	Chapter 8 Foreign Direct Investment 222
	Chapter 9 Regional Economic Integration 252
part four	The Global Monetary System
	Chapter 10 The Foreign Exchange Market 286
	Chapter 11 The International Monetary System 312
	Chapter 12 The Global Capital Market 340
part five	The Strategy and Structure of International Business
	Chapter 13 The Strategy of International Business 362
	Chapter 14 The Organization of International Business 392
	Chapter 15 Entry Strategy and Strategic Alliances 430
part six	International Business Functions
	Chapter 16 Exporting, Importing, and Countertrade 460
	Chapter 17 Global Production and Supply Chain Management 486
	Chapter 18 Global Marketing and R&D 516
	Chapter 19 Global Human Resource Management 552
	Chapter 20 Accounting and Finance in the International Business 582

part seven

Integrative Cases

Global Medical Tourism 609
Venezuela under Hugo Chávez and Beyond 611
Political and Economic Reform in Myanmar 612
Will China Continue to Be a Growth Marketplace? 613
Lead in Toys and Drinking Water 614
Creating the World's Biggest Free Trade Zone 616
Sugar Subsidies Drive Candy Makers Abroad 617
Volkswagen in Russia 618
The NAFTA Tomato Wars 619
Subaru's Sales Boom Thanks to the Weaker Yen 620
The IMF and Ukraine's Economic Crisis 621
**The Global Financial Crisis and Its Aftermath: Declining
Cross-Border Capital Flows 622**
Ford's Global Platform Strategy 624
Philips' Global Restructuring 625
General Motors and Chinese Joint Ventures 626
Exporting Desserts by a Hispanic Entrepreneur 627
Apple: The Best Supply Chains in the World? 628
Domino's Global Marketing 630
Siemens and Global Competitiveness 632
Microsoft and Its Foreign Cash Holdings 633

Glossary 635
Organization Index 645
Name Index 650
Subject Index 652

THE PROVEN CHOICE FOR INTERNATIONAL BUSINESS

RELEVANT. PRACTICAL. INTEGRATED.

It is now more than a quarter of a century since work began on the first edition of *International Business: Competing in the Global Marketplace*. By the third edition the book was the most widely used international business text in the world. Since then its market share has only increased. The success of the book can be attributed to a number of unique features. Specifically, for the twelfth edition we have developed a learning program that

- Is comprehensive, state of the art, and timely.
- Is theoretically sound and practically relevant.
- Focuses on applications of international business concepts.
- Tightly integrates the chapter topics throughout.
- Is fully integrated with results-driven technology.
- Takes full and integrative advantage of globalEDGE.msu.edu—the Google-ranked #1 web resource for “international business resources.”

International Business, now in its twelfth edition, co-authored by Charles W. L. Hill and G. Tomas M. Hult, is a comprehensive and case-oriented version of our text that lends itself to the core course in international business for those courses that want a deeper focus on the global monetary system, structure of international business, international accounting, and international finance. We cover more and integrated cases in *International Business 12e* and we provide a deeper treatment of the global capital market, the organization of an international business, international accounting, and international finance—topics that are allocated chapters in *International Business 12e* but are not attended to in the shorter treatment of IB in *Global Business Today 10e*.

Like our shorter text, *Global Business Today 10e* (2017), *International Business 12e*, focuses on being current, relevant, application rich, accessible, and student focused. Our goal has always been to cover macro and micro issues equally and in a relevant, practical, accessible, and student focused approach. We believe that anything short of such a breadth and depth of coverage is a serious deficiency. Many of the students in these international business courses will soon be working in global businesses,

and they will be expected to understand the implications of international business for their organization’s strategy, structure, and functions in the context of the global marketplace. We are proud and delighted to have put together this international business learning experience for the leaders of tomorrow.

Over the years, and through now 12 editions, Dr. Charles Hill has worked hard to adhere to these goals. Since *Global Business Today 9e* (2015), and *International Business 11e* (2017), Charles’s co-author, Dr. Tomas Hult, follows the same approach. As a team, we have been guided not only by our own reading, teaching, and research but also by the invaluable feedback we received from professors and students around the world, from reviewers, and from the editorial staff at McGraw-Hill Education. Our thanks go out to all of them.

RELEVANT AND COMPREHENSIVE

To be relevant and comprehensive, an international business package must

- Explain how and why the world’s cultures, countries, and regions differ.
- Cover economics and politics of international trade and investment.
- Tackle international issues related to ethics, corporate social responsibility, and sustainability.
- Explain the functions and form of the global monetary system.
- Examine the strategies and structures of international businesses.
- Assess the special roles of an international business’s various functions.

This text has always endeavored to be relevant, practical, and integrated. Too many other products have paid insufficient attention to some portion of the topics mentioned, being skewed toward a particular portion of international business.

Relevance and comprehensiveness also require coverage of the major theories. It has always been a goal to incorporate the insights gleaned from recent academic scholarship into the book. Consistent with this goal,

insights from the following research, as a sample of theoretical streams used in the book, have been incorporated:

- 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.”
- Growth theory of economic development championed by Paul Romer and Gene Grossman.
- 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 Nobel Prize-winner Douglass 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.
- Bartlett and 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.
- Insights for international business strategy that can be derived from the resource-based view of the firm and complementary theories.
- Paul Samuelson’s critique of free trade theory.
- Conceptual and empirical work on global supply chain management—logistics, purchasing (sourcing), operations, and marketing channels.

In addition to including leading-edge theory, in light of the fast-changing nature of the international business environment we have made every effort to ensure that this product was as up-to-date as possible when it went to press. A significant amount has happened in the world since we began revisions of this book. By 2018, more than \$4 trillion per day was flowing across national borders and, as we will see in Chapter 1, trade across borders has almost exponentially increased in the last 15 years. The size of such flows fueled concern about the ability of short-term speculative shifts in global capital markets to destabilize the world economy.

What’s New in the Twelfth Edition

The world continued to become more global. Several Asian economies, most notably China and India, continued to grow their economies at a rapid rate. New multinationals continued to emerge from developing nations in addition to the world’s established industrial powers. Increasingly, the globalization of the world economy affected a wide range of firms of all sizes, from the very large to the very small.

And unfortunately, global terrorism and the attendant geopolitical risks keep emerging in various places globally, many new and inconceivable just a decade ago. These represent a threat to global economic integration and activity. Plus, with the avenue of the United Kingdom opting to vote to leave the European Union, the election of President Donald Trump in the United States, and several elections around the world, the globe—in many ways—has paid more attention to nationalistic issues over trade. These topics and much more are integrated into this text for maximum learning opportunities.

The success of the first eleven editions of *International Business* was based in part on the incorporation of leading-edge research into the text, the use of the up-to-date examples and statistics to illustrate global trends and enterprise strategy, and the discussion of current events within the context of the appropriate theory. Building on these strengths, our goals for the twelfth edition have focused on the following:

1. Incorporate new insights from scholarly research.
2. Make sure the content covers all appropriate issues.
3. Make sure the text is up-to-date with events, statistics, and examples.
4. Add new and insightful opening and closing cases.
5. Incorporate value-added globalEDGE features in every chapter.
6. Connect every chapter to a focus on managerial implications.
7. Provide 20 new integrated cases that can be used as additional cases for specific chapters but, more importantly, as learning vehicles across multiple chapters.

As part of the overall revision process, changes have been made to every chapter in the book. All statistics have been updated to incorporate the most recently available data. As before, we are the only text in *International Business* that ensures that all material is up-to-date on virtually a daily basis. The copyright for the book is 2019 but you are likely using the text in 2018, 2019, or 2020—we

keep it updated to each semester you use the text in your course! We are able to do this by integrating globalEDGE features in every chapter. Specifically, the Google number-one-ranked globaledge.msu.edu site (for “international business resources”) is used in each chapter to add value to the chapter material and provide up-to-date data and information. This keeps chapter material constantly and dynamically updated for teachers who want to infuse globalEDGE material into the chapter topics, and it keeps students abreast of current developments in international business.

In addition to updating all statistics, figures, and maps to incorporate the most recently published data, a chapter-by-chapter selection of changes for the eleventh edition include the following:

Chapter 1: Globalization

- New opening case: Globalization of BMW, Rolls-Royce, and the MINI
- New materials on international trade, trade agreements, world production, and world population
- Explanations of differences in cross-border trade and in-country production; the value of trade agreements; and population implications related to resource constraints
- New closing case: Uber: Going Global from Day One

Chapter 2: National Differences in Political, Economic, and Legal Systems

- New opening case: The Decline of Zimbabwe
- Updated section on Pseudo-Democracies
- Updated data and figure on corruption
- New country focus: Corruption in Brazil
- New closing case: Economic Transformation in Vietnam

Chapter 3: National Differences in Economic Development

- New opening case: Economic Development in Bangladesh
- Updated data, maps and discussion on Differences in Economic Development
- Updated data, maps and discussion on the spread of democracy and market-based economic systems.
- New closing case: The Political and Economic Evolution of Indonesia

Chapter 4: Differences in Culture

- New opening case: The Swatch Group and Cultural Uniqueness
- New management focus: China and Its *Guanxi*
- Deeper treatment of culture, values, and norms
- Worked with the foundation that most religions are now pro-business
- Updated the Hofstede culture framework with new research
- New closing case: The Emirates Group and Employee Diversity

Chapter 5: Ethics, Corporate Social Responsibility, and Sustainability

- New opening case: Woolworths Group’s Corporate Responsibility Strategy 2020
- New management focus: “Emissionsgate” at Volkswagen
- Deeper focus on corporate social responsibility and sustainability at the country, company, and customer levels
- New closing case: UNCTAD Sustainable Development Goals

Chapter 6: International Trade Theory

- New opening case: Donald Trump on Trade
- Added discussion of Donald Trump’s views on trade at appropriate points in the chapter.
- Expanded discussion of David Autor’s important research on trade and employment in U.S. counties impacted by trade with China.
- New closing case: The Trans Pacific Partnership (TPP)

Chapter 7: Government Policy and International Trade

- New opening case: Boeing and Airbus Are in a Dogfight over Illegal Subsidies
- New section, The World Trading System under Threat, discussing the possible implications of BREXIT and the election of Donald Trump (who appears to hold mercantilist views on trade).
- New closing case: Is China Dumping Excess Steel Production?

Chapter 8: Foreign Direct Investment

- New opening case: Foreign Direct Investment in Retailing in India
- Updated data and discussion on FDI trends on the world economy.
- New closing case: Burberry Shifts Its Strategy in Japan

Chapter 9: Regional Economic Integration

- New opening case: Renegotiating NAFTA
- New section discussing the implications of BREXIT for Britain and the European Union
- New section on the future of NAFTA in light of Donald Trump's election as president
- New closing case: The Push toward Free Trade in Africa

Chapter 10: The Foreign Exchange Market

- New opening case: The Mexican Peso, the Japanese Yen, and *Pokemon Go*
- New closing case: Apple's Earnings Hit by Strong Dollar

Chapter 11: The International Monetary System

- New opening case: Egypt and the IMF
- Updated discussion of exchange rates since 1973 to reflect recent exchange rate movements.
- New closing case: China's Exchange Rate Regime

Chapter 12: The Global Capital Market

- New opening case: Saudi Aramco
- New closing case: Alibaba's Record-Setting IPO

Chapter 13: The Strategy of International Business

- New opening case: Sony's Global Strategy
- Deeper discussion of the rise of regionalism
- Integration of global strategy thoughts
- New closing case: IKEA's Global Strategy

Chapter 14: The Organization of International Business

- Revised opening case: Unilever's Global Organization

- Revised Management Focus: Walmart International
- Revised Management Focus: Lincoln Electric and Culture
- New closing case: Organizational Architecture at P&G

Chapter 15: Entry Strategy and Strategic Alliances

- New opening case: Gazprom and Global Strategic Alliances
- Deeper treatment of entry modes and global strategic alliances
- Revised closing case: Starbucks' Foreign Entry Strategy

Chapter 16: Exporting, Importing, and Countertrade

- New opening case: Tata Motors and Exporting
- globalEDGE-related material on company readiness to export and company readiness to import material
- Revised management focus: Ambient Technologies and the Panama Canal
- New and revised material on globalEDGE Diagnostic Tools; focusing on CORE-Company Readiness to Export
- New closing case: Embraer and Brazilian Importing

Chapter 17: Global Production and Supply Chain Management

- New opening case: Alibaba and Global Supply Chains
- Revised and new material on global logistics, global purchasing, and global operations.
- Revised sections on Strategic Roles for Production Facilities, Make-or-Buy Decisions, and Global Supply Chain Functions
- New text for the sections on Role of Information Technology, Coordination in Global Supply Chains, and Interorganizational Relationships
- New closing case: Amazon's Global Supply Chains

Chapter 18: Global Marketing and R&D

- New opening case: ACSI and Satisfying Global Customers

- Revised sections on Globalization of Markets and Brands, Configuring the Marketing Mix (with a great summary table and sample measures), and International Market Research
- Revised positioning of the Product Development section
- New closing case: Global Branding, Marvel Studios, and Walt Disney Company

Chapter 19: Global Human Resource Management

- New opening case: Building a Global Diverse Workforce at Sodexo
- New section: Building a Diverse Global Workforce
- New closing case: AstraZeneca

Chapter 20: Accounting and Finance in the International Business

- Revised opening case: Shoprite—Financial Success of a Food Retailer in Africa
- Revised materials on global accounting standards and organizations
- Revised closing case: Tesla, Inc.—Subsidizing Tesla Automobiles Globally

Integrated Cases

All of the 20 integrated cases are new for *International Business 12e*. Many of these cases build on previous opening and closing chapter cases that have been revised, updated, and oftentimes adopted a new angle or focus. A unique feature of the opening and closing cases for the chapters as well as the integrated cases at the back-end of the text is that we cover all continents of the world and we do so with regional or country issues and large, medium, and small company scenarios. This makes the 60 total cases we have included in *International Business 12e* remarkable wealthy as a learning program. As a heads up for teachers (and students), the Domino's case is the lengthiest and most in-depth in the twelfth edition.

- Global Medical Tourism
- Venezuela under Hugo Chávez and Beyond

- Political and Economic Reform in Myanmar
- Will China Continue to be a Growth Marketplace
- Lead in Toys and Drinking Water
- Creating the World's Biggest Free Trade Zone
- Sugar Subsidies Drive Candy Makers Abroad
- Volkswagen in Russia
- The NAFTA Tomato Wars
- Subaru's Sales Boom Thanks to the Weaker Yen
- The IMF and Ukraine's Economic Crisis
- The Global Financial Crisis and Its Aftermath: Declining Cross-Border Capital Flows
- Ford's Global Platform Strategy
- Philips' Global Restructuring
- General Motors and Chinese Joint Ventures
- Exporting Desserts by a Hispanic Entrepreneur
- Apple: The Best Supply Chains in the World?
- Domino's Global Marketing
- Siemens and Global Competitiveness
- Microsoft and Its Foreign Cash Holdings

Beyond Uncritical Presentation and Shallow Explanation

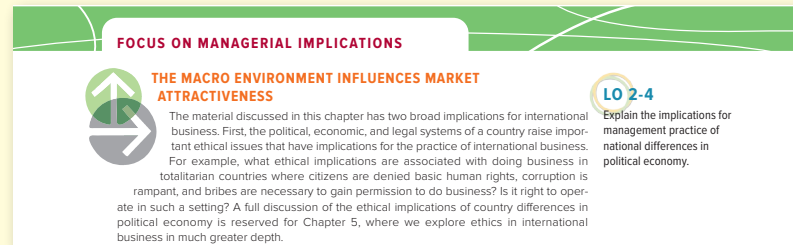
Many issues in international business are complex and thus necessitate considerations of pros and cons. To demonstrate this to students, we have adopted a critical approach that presents the arguments for and against economic theories, government policies, business strategies, organizational structures, 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. We believe that these theories and phenomena are explained in more depth in this work than they are in the competition, which seem to use the rationale that a shallow explanation is little better than no explanation. In international business, a little knowledge is indeed a dangerous thing.

Practical and Rich Applications

We have always believed that it is important to show students how the material covered in the text is relevant to the actual practice

of international business. This is explicit in the later chapters of the book, which focus on the practice of international business, but it is not always obvious in the first half of the book, which considers many macroeconomic and political issues, from international trade theory and foreign direct investment flows to the IMF and the influence of inflation rates on foreign exchange quotations. Accordingly, at the end of each chapter in Parts Two, Three, and Four—where the focus is on the environment of international business, as opposed to particular firms—there is a section titled **Focus on Managerial Implications**. In this section, the managerial implications of the material discussed in the chapter are clearly explained.

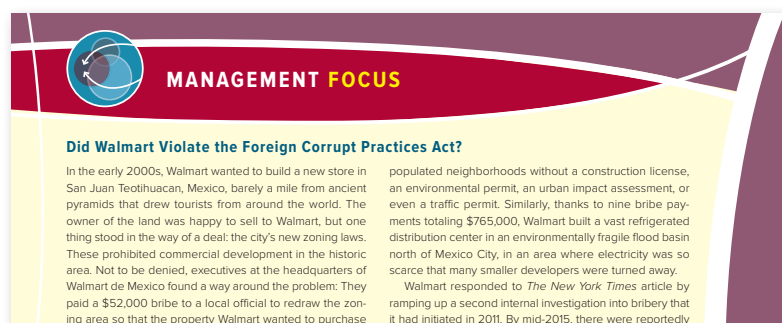


FOCUS ON MANAGERIAL IMPLICATIONS

THE MACRO ENVIRONMENT INFLUENCES MARKET ATTRACTIVENESS

LO 2-4 Explain the implications for management practice of national differences in political economy.

The material discussed in this chapter has two broad implications for international business. First, the political, economic, and legal systems of a country raise important ethical issues that have implications for the practice of international business. For example, what ethical implications are associated with doing business in totalitarian countries where citizens are denied basic human rights, corruption is rampant, and bribes are necessary to gain permission to do business? Is it right to operate in such a setting? A full discussion of the ethical implications of country differences in political economy is reserved for Chapter 5, where we explore ethics in international business in much greater depth.



MANAGEMENT FOCUS

Did Walmart Violate the Foreign Corrupt Practices Act?

In the early 2000s, Walmart wanted to build a new store in San Juan Teotihuacan, Mexico, barely a mile from ancient pyramids that drew tourists from around the world. The owner of the land was happy to sell to Walmart, but one thing stood in the way of a deal: the city's new zoning laws. These prohibited commercial development in the historic area. Not to be denied, executives at the headquarters of Walmart de Mexico found a way around the problem: They paid a \$52,000 bribe to a local official to redraw the zoning area so that the property Walmart wanted to purchase

populated neighborhoods without a construction license, an environmental permit, an urban impact assessment, or even a traffic permit. Similarly, thanks to nine bribe payments totaling \$765,000, Walmart built a vast refrigerated distribution center in an environmentally fragile flood basin north of Mexico City, in an area where electricity was so scarce that many smaller developers were turned away.

Walmart responded to *The New York Times* article by ramping up a second internal investigation into bribery that it had initiated in 2011. By mid-2015, there were reportedly

Another tool that we have used to focus on managerial implications is the **Management Focus** box. Most chapters have at least one Management Focus. Like the opening cases, the purpose of these boxes is

to illustrate the relevance of chapter material for the practice of international business.

part two National Differences

National Differences in Economic Development

3

LEARNING OBJECTIVES

After reading this chapter, you will be able to:

- LO3-1 Explain what determines the level of economic development of a nation.
- LO3-2 Identify the macropolitical and macroeconomic changes occurring worldwide.
- LO3-3 Describe how transition economies are moving toward market-based systems.
- LO3-4 Explain the implications for management practice of national difference in political economy.



A **closing case** to each chapter is designed to illustrate the relevance of chapter material for the practice of international business and provide continued insight into how real companies handle those issues.

The **Part Seven Integrated Cases** are somewhat longer, allowing a more in-depth study of international companies. These cases can be used as stand-alone cases, in conjunction with a specific chapter, and also as integrated cases covering relevant and practical material from several chapters. The introduction to the Part Seven section discusses and lays out topics covered in each case.

In addition, each chapter begins with an **opening case** that sets the stage for the chapter content and familiarizes students with how real international companies conduct business.

CLOSING CASE

Uber: Going Global from Day One

Uber, the controversial San Francisco-based ride-for-hire service, has made a virtue out of disrupting the established taxi business. From a standing start in 2009, the company has spread across the globe like wildfire. Uber's strategy has been to focus on major metropolitan areas around the world. This strategy has so far taken Uber into about 600 cities in more than 80 countries. The privately held company is rumored to be generating annual revenues of around \$10 billion.

At the core of Uber's business is a smartphone app that allows customers to hail a ride from the comfort of their own home, a restaurant, or a bar stool. The app shows cars in the area, notifies the rider when a car is on the way, and tracks the progress of the car on screen using GPS mapping technology. The rider pays via the app using a credit card, so no cash changes hands. The driver takes 80 percent of the fee and Uber 20 percent. The price for the ride is determined by Uber using an algorithm that sets prices in order to match the demand for rides with the supply of cars on the road. Thus, if demand exceeds supply, the price for a ride will rise, inducing drivers to get on the road. Uber does not own any cars. Its drivers are independent contractors with their own vehicles. The company is, in effect, a twenty-first-century version of an old-style radio taxi dispatch company. Interestingly, Uber's founders got their idea for the app-based service one snowy night in Paris when they were unable to find a taxi.

Historically, taxi markets around the globe have been tightly regulated by metropolitan authorities. The stated purpose of these regulations has often included (1) limiting the supply of taxis in order to boost demand for other forms of public transportation, (2) limiting the supply of taxis in order to reduce traffic congestion, (3) ensuring the safety of riders by only allowing licensed taxis to offer rides, (4) ensuring that the prices charged are "fair," and (5) guaranteeing a reasonable rate of return to the owners of taxi licenses.

In practice, widespread restrictions on the supply of taxi licenses have created shortages in many cities, making it difficult to find a taxi, particularly at busy periods. In New York, the number of licenses barely increased from 11,787 in 1945 to 13,587 in 2017, even though the population expanded significantly. In Paris, the number of licenses was 14,000 in 1937 and had only increased to 17,137 by 2017, even though both the population and the number of visitors to the city had surged. The number of taxis in Milan was frozen between 1974 and 2014, despite Milan having a ratio of taxis to inhabitants that was one of the lowest for any major city. Whenever metropolitan authorities have tried to increase the number of taxis in a city, they have often been met by strong resistance from established taxi companies. When the French tried to increase the number of taxis in Paris in 2007, a strike among transportation workers shut down the city and forced the government to back off.

part seven cases

Integrative Cases

For *International Business*, 12e, we have again included a set of 20 cases as value-added materials at the end of the text in addition to the 40 cases—opening and closing cases—that appear in the 20 chapters. We started this practice of including short but integrative cases in the 11th edition to provide instructors and students with a better platform for learning across chapters.

The end-of-the-book cases fill strategically aligned objectives for the core features of *International Business* 12e. Specifically, we are able to build on and enhance the worldwide market leadership of our text and its focus on current, application-rich, relevant, and

To help students go a step further in expanding their application-level understanding of international business, each chapter incorporates two **globalEDGE research tasks** designed and written by Tomas Hult, Tunga Kiyak, and the team at Michigan State University's International Business Center and their globaledge.msu.edu site. The exercises dovetail with the content just covered.

INTEGRATED PROGRESSION OF TOPICS

A weakness of many texts is that they lack a tight, integrated flow of topics from chapter to chapter. This book explains to students in Chapter 1 how the book's topics are related to each other. Integration has been achieved by organizing the material so that each chapter builds on the material of the previous ones in a logical fashion.

Part One

Chapter 1 provides an overview of the key issues to be addressed and explains the plan of the book. Globalization of markets and globalization of production is the core focus.

Part Two

Chapters 2 through 4 focus on country differences in political economy and culture, and Chapter 5 on ethics, corporate social responsibility, and sustainability issues in international business. Most international business textbooks place this material at a later point, 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 functions arise out of national differences in political economy and culture.

Part Three

Chapters 6 through 9 investigate the political economy of global trade and investment. The purpose of this part is to describe and explain the trade and investment environment in which international business occurs.

Part Four

Chapters 10 through 12 describe and explain the global monetary system, laying out in detail the monetary framework in which international business transactions are conducted.

Part Five

In Chapters 13 through 15 attention shifts from the environment to the firm. In other words, we move from a

macro focus to a micro focus at this stage of the book. We examine strategies and structures that firms adopt to compete effectively in the international business environment.

Part Six

In Chapters 16 through 20 the focus narrows further to investigate business functions and related operations. These chapters explain how firms can perform their key functions—exporting, importing, and countertrade; global production; global supply chain management; global marketing; global research and development (R&D); human resource management; accounting; and finance—to compete and succeed in the international business environment.

Throughout the book, the relationship of new material to topics discussed in earlier chapters is pointed out to the students to reinforce their understanding of how the material comprises an integrated whole. We deliberately bring a management focus to the macro chapters (Chapters 1 through 12). We also integrate macro themes in covering the micro chapters (Chapters 13 through 20). Part Seven with its integrated cases also provides a great learning vehicle to better understand macro and micro issues.

ACCESSIBLE AND INTERESTING

The international business arena is fascinating and exciting, and we have tried to communicate our enthusiasm for it to the student. Learning is easier and better if the subject matter is communicated in an interesting, informative, and accessible manner. One technique we have used to achieve this is weaving interesting anecdotes into the narrative of the text, that is, stories that illustrate theory.

Most chapters also have a **Country Focus** box that provides background on the political, economic, social, or cultural aspects of countries grappling with an international business issue.

McGRAW-HILL CONNECT INTERNATIONAL BUSINESS

Applied

Application Exercises

A variety of interactive assignments within Connect require students to apply what they have learned in a real-world scenario. These online exercises help students assess their understanding of the concepts at a higher level. Exercises include video cases, decision-making scenarios/cases from real-world companies, case analysis exercises, business models, processes, and problem-solving cases.

TEACHING SUPPORT

Within the *Connect International Business*' Instructor Resources you can find a complete package to prepare you for your course.

- **Instructor's Manual.** The Instructor's Manual is a comprehensive resource designed to support you in effectively teaching your course. It includes course outlines; chapter overviews and outlines, teaching suggestions, chapter objectives, teaching suggestions for opening cases, lecture outlines, answers to critical discussion questions, teaching suggestions for the closing case, and two student activities; and video notes with discussion questions for each video. The answers to globalEDGE research tasks are included.
- **Test Bank.** Approximately 100 true-false, multiple-choice, and essay questions per chapter are included in the test bank. We've aligned our test bank questions with Bloom's Taxonomy and AACSB guidelines, tagging each question according to its knowledge and skill areas. Each test bank question also maps to a specific chapter learning objective listed in the text.
- **PowerPoint Presentations.** The PowerPoint program consists of one set of slides for every chapter, which include key text figures, tables, and maps. Quiz questions to keep students on their toes during classroom presentations are also included, along with instructor notes.
- **International Business Video Program.** McGraw-Hill offers the most comprehensive, diverse, and current video support for the *International Business* classroom. Updated monthly, our video program is the most current on the market. Additionally, video-based application exercises are assignable within *Connect*.

COURSE DESIGN AND DELIVERY

cesim GlobalChallenge Simulation



cesim is an international business simulation designed to develop student understanding of the interaction and complexity of various business disciplines and concepts in a rapidly evolving, competitive business environment. The simulation has a particular focus on creating long-term, sustainable, and profitable growth of a global technology company. Student teams make decisions about technology-based product roadmaps and global market and production strategies involving economics, finance, human resources, accounting, procurement, production, logistics, research and innovation, and marketing. *cesim* improves

the knowledge retention, business decision making, and teamwork skills of students.

CREATE

Instructors can now tailor their teaching resources to match the way they teach!



create™

With McGraw-Hill Create, www.mcgrawhillcreate.com, instructors can easily rearrange chapters, combine material from other content sources, and quickly upload and integrate their own content, such as course syllabi or teaching notes. Find the right content in Create by searching through thousands of leading McGraw-Hill textbooks. Arrange the material to fit your teaching style. Order a Create book and receive a complimentary print review copy in three to five business days or a complimentary electronic review copy via e-mail within one hour. Go to www.mcgrawhillcreate.com today and register.

TEGRITY CAMPUS

Tegrity makes class time available 24/7 by automatically capturing every lecture



tegrity®

in a searchable format for students to review when they study and complete assignments. With a simple one-click start-and-stop process, you capture all computer screens and corresponding audio. Students can replay any part of any class with easy-to-use browser-based viewing on a PC or Mac. Educators know that the more students can see, hear, and experience class resources, the better they learn. In fact, studies prove it. With patented Tegrity "search anything" technology, students instantly recall key class moments for replay online or on iPods and mobile devices. Instructors can help turn all their students' study time into learning moments immediately supported by their lecture. To learn more about Tegrity, watch a two-minute Flash demo at <http://tegritycampus.mhhe.com>.

BLACKBOARD® PARTNERSHIP

McGraw-Hill Education and Blackboard have teamed up to simplify your life. Now you and your students can access *Connect* and Create right from within your Blackboard course—all with one single sign-on. The grade books are seamless, so when a student completes an integrated *Connect* assignment, the grade for that assignment automatically (and instantly) feeds your Blackboard grade center. Learn more at <http://www.mheducation.com/highered/services/mhcampus.html>.



The Best of Both Worlds

McGraw-Hill Campus™



McGraw-Hill Campus is a new one-stop teaching and learning experience available to users of any learning management system. This institutional service allows faculty and students to enjoy single sign-on (SSO) access to all McGraw-Hill Higher Education materials, including the award-winning McGraw-Hill *Connect* platform, from directly within the institution's website. With McGraw-Hill Campus, faculty receive instant access to teaching materials (e.g., eTextbooks, test

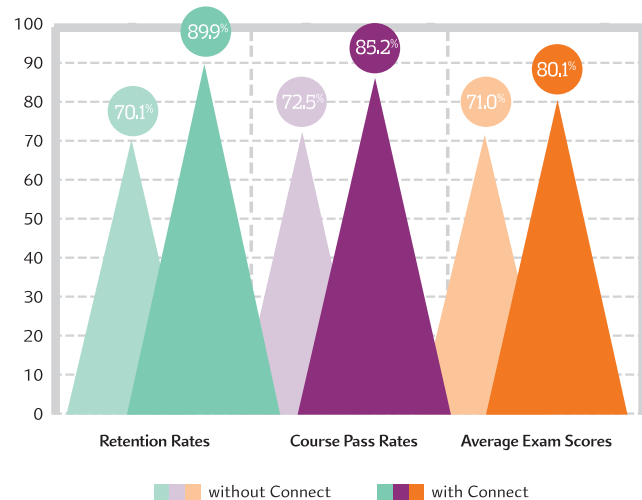
banks, PowerPoint slides, animations, learning objectives, etc.), allowing them to browse, search, and use any instructor ancillary content in our vast library at no additional cost to instructor or students. In addition, students enjoy SSO access to a variety of free content (e.g., quizzes, flash cards, narrated presentations, etc.) and subscription-based products (e.g., McGraw-Hill *Connect*). With McGraw-Hill Campus enabled, faculty and students will never need to create another account to access McGraw-Hill products and services. Learn more at www.mhcampus.com.

McGraw-Hill Connect® is a highly reliable, easy-to-use homework and learning management solution that utilizes learning science and award-winning adaptive tools to improve student results.

Homework and Adaptive Learning

- Connect's assignments help students contextualize what they've learned through application, so they can better understand the material and think critically.
- Connect will create a personalized study path customized to individual student needs through SmartBook®.
- SmartBook helps students study more efficiently by delivering an interactive reading experience through adaptive highlighting and review.

Connect's Impact on Retention Rates, Pass Rates, and Average Exam Scores



Using **Connect** improves retention rates by **19.8%**, passing rates by **12.7%**, and exam scores by **9.1%**.

Over **7 billion questions** have been answered, making McGraw-Hill Education products more intelligent, reliable, and precise.

73% of instructors who use **Connect** require it; instructor satisfaction **increases** by 28% when **Connect** is required.

Quality Content and Learning Resources

- Connect content is authored by the world's best subject matter experts, and is available to your class through a simple and intuitive interface.
- The Connect eBook makes it easy for students to access their reading material on smartphones and tablets. They can study on the go and don't need internet access to use the eBook as a reference, with full functionality.
- Multimedia content such as videos, simulations, and games drive student engagement and critical thinking skills.

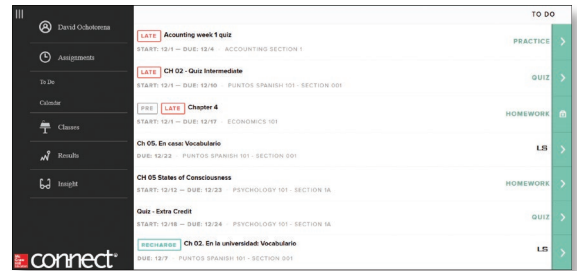


Robust Analytics and Reporting

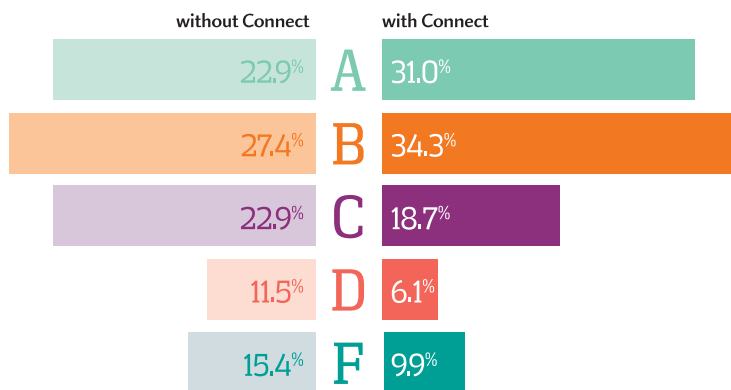
- Connect Insight® generates easy-to-read reports on individual students, the class as a whole, and on specific assignments.
- The Connect Insight dashboard delivers data on performance, study behavior, and effort. Instructors can quickly identify students who struggle and focus on material that the class has yet to master.
- Connect automatically grades assignments and quizzes, providing easy-to-read reports on individual and class performance.



©Hero Images/Getty Images



Impact on Final Course Grade Distribution



More students earn
As and **Bs** when they
use **Connect**.

Trusted Service and Support

- Connect integrates with your LMS to provide single sign-on and automatic syncing of grades. Integration with Blackboard®, D2L®, and Canvas also provides automatic syncing of the course calendar and assignment-level linking.
- Connect offers comprehensive service, support, and training throughout every phase of your implementation.
- If you're looking for some guidance on how to use Connect, or want to learn tips and tricks from super users, you can find tutorials as you work. Our Digital Faculty Consultants and Student Ambassadors offer insight into how to achieve the results you want with Connect.

CONTENTS



part one

Introduction and Overview

CHAPTER 1

Globalization 2

Opening Case

Globalization of BMW, Rolls-Royce, and the MINI 3

Introduction 4

What Is Globalization? 6

The Globalization of Markets 6

The Globalization of Production 8

Management Focus

Boeing's Global Production System 9

The Emergence of Global Institutions 10

Drivers of Globalization 11

Declining Trade and Investment Barriers 11

Role of Technological Change 15

The Changing Demographics of the Global Economy 17

The Changing World Output and World Trade

Picture 17

The Changing Foreign Direct Investment Picture 18

Country Focus

India's Software Sector 19

The Changing Nature of the Multinational

Enterprise 20

Management Focus

Wanda Group 22

The Changing World Order 22

Global Economy of the Twenty-First Century 23

The Globalization Debate 24

Antiglobalization Protests 24

Globalization, Jobs, and Income 25

Country Focus

Protesting Globalization in France 26

Globalization, Labor Policies, and the Environment 28

Globalization and National Sovereignty 29

Globalization and the World's Poor 30

Managing in the Global Marketplace 31

Chapter Summary 33

xxii

Critical Thinking and Discussion Questions 34

Research Task 35

Closing Case

Uber: Going Global from Day One 35

Endnotes 36



part two

National Differences

CHAPTER 2

National Differences in Political, Economic, and Legal Systems 38

Opening Case

The Decline of Zimbabwe 39

Introduction 40

Political Systems 41

Collectivism and Individualism 41

Democracy and Totalitarianism 43

Country Focus

Putin's Russia 44

Economic Systems 46

Market Economy 46

Command Economy 47

Mixed Economy 48

Legal Systems 48

Different Legal Systems 49

Differences in Contract Law 50

Property Rights and Corruption 50

Country Focus

Corruption in Brazil 53

Management Focus

Did Walmart Violate the Foreign Corrupt Practices Act? 54

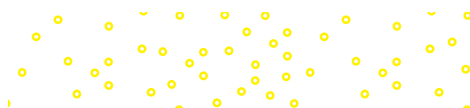
The Protection of Intellectual Property 55

Management Focus

Starbucks Wins Key Trademark Case in China 56

Product Safety and Product Liability 57

Focus on Managerial Implications: The Macro Environment Influences Market Attractiveness 57



Chapter Summary 58
 Critical Thinking and Discussion Questions 59
 Research Task 59

Closing Case

Economic Transformation in Vietnam 59

Endnotes 61

CHAPTER 3

National Differences in Economic Development 62

Opening Case

Economic Development in Bangladesh 63

Introduction 64

Differences in Economic Development 64

Map 3.1 GNI per capita, 2016 65

Map 3.2 GNI PPP per capita, 2016 66

Map 3.3 Average annual growth rate in GDP (%), 2007–2016 67

Broader Conceptions of Development:

Amartya Sen 68

Map 3.4 Human Development Index, 2015 69

Political Economy and Economic Progress 69

Innovation and Entrepreneurship Are the Engines of Growth 69

Innovation and Entrepreneurship Require a Market Economy 70

Innovation and Entrepreneurship Require Strong Property Rights 70

The Required Political System 71

Country Focus

Emerging Property Rights in China 72

Economic Progress Begets Democracy 72

Geography, Education, and Economic Development 72

States in Transition 73

The Spread of Democracy 73

Map 3.5 Freedom in the world, 2017 74

The New World Order and Global Terrorism 76

The Spread of Market-Based Systems 77

Map 3.6 Index of economic freedom, 2017 78

The Nature of Economic Transformation 78

Deregulation 78

Privatization 79

Country Focus

India's Economic Transformation 80

Legal Systems 81

Implications of Changing Political Economy 81

Focus on Managerial Implications: Benefits, Costs, Risks, and Overall Attractiveness of Doing Business Internationally 82

Chapter Summary 86

Critical Thinking and Discussion Questions 86

Research Task 87

Closing Case

The Political and Economic Evolution of Indonesia 87

Endnotes 89

CHAPTER 4

Differences in Culture 90

Opening Case

The Swatch Group and Cultural Uniqueness 91

Introduction 92

What Is Culture? 93

Values and Norms 93

Culture, Society, and the Nation-State 95

Determinants of Culture 96

Social Structure 96

Individuals and Groups 97

Social Stratification 99

Country Focus

India and Its Caste System 100

Religious and Ethical Systems 102

Map 4.1 World Religions 103

Christianity 103

Islam 104

Country Focus

Secularism in Turkey 107

Hinduism 108

Buddhism 109

Confucianism 110

Management Focus

China and Its *Guanxi* 111

Language 112

Spoken Language 112

Unspoken Language 113

Education 113

Culture and Business 114

Cultural Change 117

Focus on Managerial Implications: Cultural Literacy and Competitive Advantage 119

Chapter Summary 121

Critical Thinking and Discussion Questions 122

Research Task 123

Closing Case

The Emirates Group and Employee Diversity 123

Endnotes 124

CHAPTER 5

Ethics, Corporate Social Responsibility, and Sustainability 128

Opening Case

Woolworths Group's Corporate Responsibility Strategy 2020 129

Introduction 130

Ethics and International Business 131

Employment Practices 131

Management Focus

"Emissionsgate" at Volkswagen 132

Human Rights 133

Environmental Pollution 134

Corruption 135

Ethical Dilemmas 136

Roots of Unethical Behavior 137

Personal Ethics 137

Decision-Making Processes 138

Organizational Culture 139

Unrealistic Performance Goals 139

Leadership 139

Societal Culture 140

Philosophical Approaches to Ethics 140

Straw Men 140

Utilitarian and Kantian Ethics 142

Rights Theories 143

Justice Theories 144

Focus on Managerial Implications: Making Ethical Decisions Internationally 145

Management Focus

Corporate Social Responsibility at Stora Enso 150

Chapter Summary 152

Critical Thinking and Discussion Questions 153

Research Task 154

Closing Case

UNCTAD Sustainable Development Goals 154

Endnotes 155

xxiv



part three

The Global Trade and Investment Environment

CHAPTER 6

International Trade Theory 158

Opening Case

Donald Trump on Trade 159

Introduction 160

An Overview of Trade Theory 160

The Benefits of Trade 161

The Pattern of International Trade 162

Trade Theory and Government Policy 162

Mercantilism 163

Country Focus

Is China Manipulating Its Currency in Pursuit of a Neo-Mercantilist Policy? 164

Absolute Advantage 164

Comparative Advantage 166

The Gains from Trade 167

Qualifications and Assumptions 168

Extensions of the Ricardian Model 169

Country Focus

Moving U.S. White-Collar Jobs Offshore 173

Heckscher–Ohlin Theory 174

The Leontief Paradox 175

The Product Life-Cycle Theory 176

Product Life-Cycle Theory in the Twenty-First Century 176

New Trade Theory 177

Increasing Product Variety and Reducing Costs 177

Economies of Scale, First-Mover Advantages, and the Pattern of Trade 178

Implications of New Trade Theory 179

National Competitive Advantage: Porter's Diamond 180

Factor Endowments 181

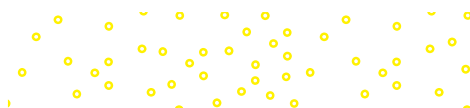
Demand Conditions 181

Related and Supporting Industries 181

Firm Strategy, Structure, and Rivalry 182

Evaluating Porter's Theory 182

Focus on Managerial Implications: Location, First-Mover Advantages, and Government Policy 183



Chapter Summary	184
Critical Thinking and Discussion Questions	185
Research Task	186

Closing Case

The Trans Pacific Partnership (TPP) 186

Appendix

International Trade and the Balance of Payments 188

Endnotes 190

CHAPTER 7

Government Policy and International Trade 192

Opening Case

Boeing and Airbus Are in a Dogfight over Illegal Subsidies 193

Introduction 194

Instruments of Trade Policy 194

Tariffs 195

Subsidies 195

Country Focus

Are the Chinese Illegally Subsidizing Auto Exports? 196

Import Quotas and Voluntary Export

Restraints 197

Export Tariffs and Bans 198

Local Content Requirements 198

Administrative Policies 199

Antidumping Policies 199

The Case for Government Intervention 199

Management Focus

Protecting U.S. Magnesium 200

Political Arguments for Intervention 201

Economic Arguments for Intervention 203

The Revised Case for Free Trade 205

Retaliation and Trade War 205

Domestic Policies 206

Development of the World Trading System 206

From Smith to the Great Depression 207

1947–1979: GATT, Trade Liberalization, and Economic Growth 207

1980–1993: Protectionist Trends 207

The Uruguay Round and the World Trade Organization 208

WTO: Experience to Date 209

The Future of the WTO: Unresolved Issues and the Doha Round 210

Country Focus

Estimating the Gains from Trade for America 213

Multilateral and Bilateral Trade Agreements 214

The World Trading System under Threat 214

Focus on Managerial Implications: Trade Barriers, Firm Strategy, and Policy Implications 215

Chapter Summary 217

Critical Thinking and Discussion Questions 218

Research Task 218

Closing Case

Is China Dumping Excess Steel Production? 219

Endnotes 220

CHAPTER 8

Foreign Direct Investment 222

Opening Case

Foreign Direct Investment in Retailing in India 223

Introduction 224

Foreign Direct Investment in the World Economy 224

Trends in FDI 224

The Direction of FDI 225

The Source of FDI 226

Country Focus

Foreign Direct Investment in China 227

The Form of FDI: Acquisitions versus Greenfield Investments 228

Theories of Foreign Direct Investment 228

Why Foreign Direct Investment? 228

Management Focus

Foreign Direct Investment by Cemex 230

The Pattern of Foreign Direct Investment 232

The Eclectic Paradigm 233

Political Ideology and Foreign Direct Investment 234

The Radical View 234

The Free Market View 235

Pragmatic Nationalism 235

Shifting Ideology 236

Benefits and Costs of FDI 237

Host-Country Benefits 237

Host-Country Costs 239

Home-Country Benefits 240

Home-Country Costs 241
International Trade Theory and FDI 241

Government Policy Instruments and FDI 242
Home-Country Policies 242
Host-Country Policies 243
International Institutions and the Liberalization of FDI 244

Focus on Managerial Implications: FDI and Government Policy 244

Chapter Summary 247

Critical Thinking and Discussion Questions 247

Research Task 248

Closing Case
Burberry Shifts Its Strategy in Japan 248

Endnotes 249

CHAPTER 9 Regional Economic Integration 252

Opening Case
Renegotiating NAFTA 253

Introduction 254

Levels of Economic Integration 255

The Case for Regional Integration 257
The Economic Case for Integration 257
The Political Case for Integration 257
Impediments to Integration 258

The Case against Regional Integration 258

Regional Economic Integration in Europe 259
Evolution of the European Union 259
Map 9.1 Member states of the European Union in 2017 260
Political Structure of the European Union 260

Management Focus
The European Commission and Intel 261
The Single European Act 262
The Establishment of the Euro 263

Country Focus
The Greek Sovereign Debt Crisis 266
Enlargement of the European Union 268
British Exit from the European Union (BREXIT) 269

Regional Economic Integration in the Americas 270
Map 9.2 Economic integration in the Americas 270

The North American Free Trade Agreement 271
The Andean Community 273
Mercosur 274
Central American Common Market, CAFTA, and CARICOM 275

Regional Economic Integration Elsewhere 275
Association of Southeast Asian Nations 275
Map 9.3 ASEAN countries 276
Regional Trade Blocs in Africa 277
Other Trade Agreements 277

Focus on Managerial Implications: Regional Economic Integration Threats 278

Chapter Summary 280

Critical Thinking and Discussion Questions 280

Research Task 281

Closing Case
The Push toward Free Trade in Africa 281

Endnotes 283



part four

The Global Monetary System

CHAPTER 10 The Foreign Exchange Market 286

Opening Case
The Mexican Peso, the Japanese Yen, and Pokemon Go 287

Introduction 288

The Functions of the Foreign Exchange Market 289
Currency Conversion 289
Insuring against Foreign Exchange Risk 291

Management Focus
Embraer and the Gyration of the Brazilian Real 293

The Nature of the Foreign Exchange Market 293

Economic Theories of Exchange Rate Determination 294
Prices and Exchange Rates 295

Country Focus
Quantitative Easing, Inflation, and the Value of the U.S. Dollar 299
Interest Rates and Exchange Rates 300
Investor Psychology and Bandwagon Effects 301
Summary of Exchange Rate Theories 301

Exchange Rate Forecasting	302
<i>The Efficient Market School</i>	302
<i>The Inefficient Market School</i>	302
<i>Approaches to Forecasting</i>	302
Currency Convertibility	303
Focus on Managerial Implications: Foreign Exchange Rate Risk	304
Chapter Summary	307
Critical Thinking and Discussion Questions	308
Research Task	309
Closing Case	
Apple's Earnings Hit by Strong Dollar	309
Endnotes	310

CHAPTER 11

The International Monetary System 312

Opening Case

Egypt and the IMF 313

Introduction 314

The Gold Standard 315

Mechanics of the Gold Standard 315

Strength of the Gold Standard 315

The Period between the Wars: 1918–1939 316

The Bretton Woods System 317

The Role of the IMF 317

The Role of the World Bank 318

The Collapse of the Fixed Exchange Rate System 319

The Floating Exchange Rate Regime 320

The Jamaica Agreement 320

Exchange Rates since 1973 320

Country Focus

The U.S. Dollar, Oil Prices, and Recycling Petrodollars 323

Fixed versus Floating Exchange Rates 324

The Case for Floating Exchange Rates 324

The Case for Fixed Exchange Rates 325

Who Is Right? 326

Exchange Rate Regimes in Practice 326

Pegged Exchange Rates 327

Currency Boards 327

Crisis Management by the IMF 328

Financial Crises in the Post-Bretton Woods Era 329

Country Focus

The IMF and Iceland's Economic Recovery 330

Evaluating the IMF's Policy Prescriptions 331

**Focus on Managerial Implications: Currency Management,
Business Strategy, and Government Relations 333**

Management Focus

Airbus and the Euro 335

Chapter Summary 336

Critical Thinking and Discussion Questions 337

Research Task 337

Closing Case

China's Exchange Rate Regime 338

Endnotes 339

CHAPTER 12

The Global Capital Market 340

Opening Case

Saudi Aramco 341

Introduction 342

Benefits of the Global Capital Market 342

Functions of a Generic Capital Market 342

Attractions of the Global Capital Market 343

Management Focus

The Industrial and Commercial Bank of China Taps the
Global Capital Market 345

Growth of the Global Capital Market 347

Global Capital Market Risks 349

Country Focus

Did the Global Capital Markets Fail Mexico? 350

The Eurocurrency Market 351

Genesis and Growth of the Market 351

Attractions of the Eurocurrency Market 351

Drawbacks of the Eurocurrency Market 353

The Global Bond Market 353

Attractions of the Eurobond Market 354

The Global Equity Market 354

Foreign Exchange Risk and the Cost of Capital 356

**Focus on Managerial Implications: Growth of the Global
Capital Market 356**

Chapter Summary 357

Critical Thinking and Discussion Questions 358

Research Task 358

Closing Case

Alibaba's Record-Setting IPO 359

Endnotes 360



part five

The Strategy and Structure of International Business

CHAPTER 13

The Strategy of International Business 362

Opening Case

Sony's Global Strategy 363

Introduction 364

Strategy and the Firm 364

Value Creation 365

Strategic Positioning 366

The Firm as a Value Chain 368

Global Expansion, Profitability, and Profit Growth 370

Expanding the Market: Leveraging Products and Competencies 371

Location Economies 371

Experience Effects 373

Leveraging Subsidiary Skills 375

Profitability and Profit Growth Summary 376

Management Focus

Leveraging Skills Worldwide at ArcelorMittal 377

Cost Pressures and Pressures for Local Responsiveness 377

Pressures for Cost Reductions 378

Pressures for Local Responsiveness 379

Management Focus

Viacom International Media Networks 380

Choosing a Strategy 382

Global Standardization Strategy 383

Localization Strategy 384

Transnational Strategy 384

International Strategy 385

Management Focus

Evolution of Strategy at Procter & Gamble 386

The Evolution of Strategy 387

Chapter Summary 388

Critical Thinking and Discussion Questions 388

Research Task 388

Closing Case

IKEA's Global Strategy 389

Endnotes 390

CHAPTER 14

The Organization of International Business 392

Opening Case

Unilever's Global Organization 393

Introduction 394

Organizational Architecture 395

Organizational Structure 396

Vertical Differentiation: Centralization and Decentralization 396

Management Focus

Walmart International 398

Horizontal Differentiation: The Design of Structure 399

Integrating Mechanisms 405

Management Focus

Dow—(Failed) Early Global Matrix Adopter 406

Control Systems and Incentives 410

Types of Control Systems 410

Incentive Systems 412

Control Systems, Incentives, and Strategy in the International Business 413

Processes 415

Organizational Culture 415

Creating and Maintaining Organizational Culture 416

Organizational Culture and Performance in the International Business 417

Management Focus

Lincoln Electric and Culture 419

Synthesis: Strategy and Architecture 420

Localization Strategy 420

International Strategy 420

Global Standardization Strategy 421

Transnational Strategy 421

Environment, Strategy, Architecture, and Performance 421

Organizational Change 422

Organizational Inertia 422

Implementing Organizational Change 423

Chapter Summary 425

Critical Thinking and Discussion Questions 425

Research Task 426

Closing Case

Organizational Architecture at P&G 426

Endnotes 427

CHAPTER 15

Entry Strategy and Strategic Alliances 430

Opening Case

Gazprom and Global Strategic Alliances 431

Introduction 432

Basic Entry Decisions 433

Which Foreign Markets? 433

Management Focus

Tesco's International Growth Strategy 434

Timing of Entry 434

Scale of Entry and Strategic Commitments 436

Market Entry Summary 437

Management Focus

The Jollibee Phenomenon 438

Entry Modes 438

Exporting 439

Turnkey Projects 439

Licensing 440

Franchising 441

Joint Ventures 442

Wholly Owned Subsidiaries 444

Selecting an Entry Mode 444

Core Competencies and Entry Mode 445

Pressures for Cost Reductions and Entry Mode 446

Greenfield Venture or Acquisition? 446

Pros and Cons of Acquisitions 447

Pros and Cons of Greenfield Ventures 449

Which Choice? 450

Strategic Alliances 450

Advantages of Strategic Alliances 450

Disadvantages of Strategic Alliances 451

Making Alliances Work 451

Chapter Summary 454

Critical Thinking and Discussion Questions 455

Research Task 455

Closing Case

Starbucks' Foreign Entry Strategy 456

Endnotes 457

Opening Case

Tata Motors and Exporting 461

Introduction 462

The Promise and Pitfalls of Exporting 463

Management Focus

Ambient Technologies and the Panama Canal 465

Improving Export Performance 466

International Comparisons 466

Information Sources 466

Management Focus

Exporting with Government Assistance 468

Service Providers 468

Export Strategy 469

Management Focus

3M's Export Strategy 470

The globalEDGE™ Exporting Tool 471

Export and Import Financing 472

Lack of Trust 473

Letter of Credit 474

Draft 475

Bill of Lading 475

A Typical International Trade Transaction 476

Export Assistance 477

Export-Import Bank 477

Export Credit Insurance 478

Countertrade 478

The Popularity of Countertrade 479

Types of Countertrade 479

Pros and Cons of Countertrade 480

Chapter Summary 481

Critical Thinking and Discussion Questions 482

Research Task 482

Closing Case

Embraer and Brazilian Importing 483

Endnotes 484

CHAPTER 17

Global Production and Supply Chain Management 486

Opening Case

Alibaba and Global Supply Chains 487

Introduction 488

Strategy, Production, and Supply Chain Management 488

Where to Produce 491

Country Factors 491



part six

International Business Functions

CHAPTER 16

Exporting, Importing, and Countertrade 460

Management Focus

- IKEA Production in China 492
 - Technological Factors* 493
 - Production Factors* 496
 - The Hidden Costs of Foreign Locations* 499

Management Focus

- H&M and Its Order Timing 500
- Make-or-Buy Decisions 501
- Global Supply Chain Functions 504
 - Global Logistics* 504
 - Global Purchasing* 506
- Managing a Global Supply Chain 507
 - Role of Just-in-Time Inventory* 508
 - Role of Information Technology* 508
 - Coordination in Global Supply Chains* 509
 - Interorganizational Relationships* 510
- Chapter Summary 511

- Critical Thinking and Discussion Questions 512

- Research Task 513

Closing Case

- Amazon's Global Supply Chains 513**

- Endnotes 514

CHAPTER 18

- Global Marketing and R&D 516

Opening Case

- ACSI and Satisfying Global Customers 517**

- Introduction 518

- Globalization of Markets and Brands 519

- Market Segmentation 521

Management Focus

- Marketing to Afro-Brazilians 522
- Product Attributes 523
 - Cultural Differences* 523
 - Economic Development* 523
 - Product and Technical Standards* 524

- Distribution Strategy 524
 - Differences between Countries* 524
 - Choosing a Distribution Strategy* 527

- Communication Strategy 528
 - Barriers to International Communication* 528
 - Push versus Pull Strategies* 529

Management Focus

- Unilever among India's Poor 530
 - Global Advertising* 531
- Pricing Strategy 533
 - Price Discrimination* 533
 - Strategic Pricing* 534
 - Regulatory Influences on Prices* 535
- Configuring the Marketing Mix 536
- International Market Research 538
- Product Development 541
 - The Location of R&D* 542
 - Integrating R&D, Marketing, and Production* 543
 - Cross-Functional Teams* 544
 - Building Global R&D Capabilities* 544
- Chapter Summary 546
- Critical Thinking and Discussion Questions 547
- Research Task 548

Closing Case

- Global Branding, Marvel Studios, and Walt Disney Company 548**

- Endnotes 549

CHAPTER 19

- Global Human Resource Management 552

Opening Case

- Building a Global Diverse Workforce at Sodexo 553**

- Introduction 554

- Strategic Role of Global HRM: Managing a Global Workforce 555

- Staffing Policy 556
 - Types of Staffing Policies* 556
 - Expatriate Managers* 560

Management Focus

- Expatriates at Royal Dutch Shell 562
 - Global Mindset* 563
- Training and Management Development 565
 - Training for Expatriate Managers* 565
 - Repatriation of Expatriates* 566

Management Focus

- Monsanto's Repatriation Program 567
 - Management Development and Strategy* 567

Performance Appraisal 568
Performance Appraisal Problems 568
Guidelines for Performance Appraisal 569

Compensation 569
National Differences in Compensation 569

Management Focus

McDonald's Global Compensation Practices 570
Expatriate Pay 570

Building a Diverse Global Workforce 572

International Labor Relations 573
The Concerns of Organized Labor 574
The Strategy of Organized Labor 574
Approaches to Labor Relations 575

Chapter Summary 576

Critical Thinking and Discussion Questions 577

Research Task 577

Closing Case
AstraZeneca 578

Endnotes 579

CHAPTER 20

Accounting and Finance in the International Business 582

Opening Case

Shoprite—Financial Success of a Food Retailer in Africa 583

Introduction 584

National Differences in Accounting Standards 585

International Accounting Standards 586

Management Focus

Chinese Accounting 587

Accounting Aspects of Control Systems 588
Exchange Rate Changes and Control Systems 589
Transfer Pricing and Control Systems 590
Separation of Subsidiary and Manager Performance 591

Financial Management: The Investment Decision 591
Capital Budgeting 592
Project and Parent Cash Flows 592

Management Focus

Black Sea Oil and Gas Ltd. 593
Adjusting for Political and Economic Risk 593
Risk and Capital Budgeting 594

Financial Management: The Financing Decision 595

Financial Management: Global Money Management 595
Minimizing Cash Balances 596
Reducing Transaction Costs 597
Managing the Tax Burden 598
Moving Money across Borders 599

Chapter Summary 603

Critical Thinking and Discussion Questions 604

Research Task 605

Closing Case

Tesla, Inc.—Subsidizing Tesla Automobiles Globally 605

Endnotes 606



part seven

Integrative Cases

Global Medical Tourism 609

Venezuela under Hugo Chávez and Beyond 611

Political and Economic Reform in Myanmar 612

Will China Continue to Be a Growth Marketplace? 613

Lead in Toys and Drinking Water 614

Creating the World's Biggest Free Trade Zone 616

Sugar Subsidies Drive Candy Makers Abroad 617

Volkswagen in Russia 618

The NAFTA Tomato Wars 619

Subaru's Sales Boom Thanks to the Weaker Yen 620

The IMF and Ukraine's Economic Crisis 621

The Global Financial Crisis and Its Aftermath: Declining Cross-Border Capital Flows 622

Ford's Global Platform Strategy 624

Philips' Global Restructuring 625

General Motors and Chinese Joint Ventures 626

Exporting Desserts by a Hispanic Entrepreneur 627

Apple: The Best Supply Chains in the World? 628

Domino's Global Marketing 630

Siemens and Global Competitiveness 632

Microsoft and Its Foreign Cash Holdings 633

Glossary 635

Organization Index 645

Name Index 650

Subject Index 652

ACKNOWLEDGMENTS

Numerous people deserve to be thanked for their assistance in preparing this book. First, thank you to all the people at McGraw-Hill Education who have worked with us on this project:

Susan Gouijnstook, Managing Director	Bruce Gin, Content Project Manager (Assessment)
Michael Ablassmeir, Director	Jennifer Pickel, Senior Buyer
Anke Braun Weekes, Executive Portfolio Manager	Egzon Shaqiri, Designer
Katie Benson Eddy, Product Developer	Carrie Burger, Content Licensing Specialist
Harvey Yep, Content Project Manager (Core)	

Second, our thanks go to the reviewers who provided good feedback that helped shape this book through the last few editions:

Yeqing Bao, University of Alabama, Huntsville	Anthony C. Koh, University of Toledo
Jacobus F. Boers, Georgia State University	Laura Kozloski Hart, Barry University
Peter Buckley, Leeds University	Katarina Lagerstrom, Uppsala University
Ken Chinen, California State University, Sacramento	Steve Lawton, Oregon State University
Macgorine A. Cassell, Fairmont State University	Ruby Lee, Florida State University
David Closs, Michigan State University	Joseph W. Leonard, Miami University
Ping Deng, Maryville University of St. Louis	Vishakha Maskey, West Liberty University
Betty J. Diener, Barry University	David N. McArthur, Utah Valley University
Abiola O. Fanimokun, Pennsylvania State University, Fayette	Shelly McCallum, Saint Mary's University of Minnesota
John Finley, Columbus State University	Emily A. Morad, Reading Area Community College
Pat Fox, Marion Technical College	Tim Muth, Florida Institute of Technology
David Frayer, Michigan State University	Sunder Narayanan, New York University
Connie Golden, Lakeland Community College	Eydis Olsen, Drexel University
Martin Grossman, Bridgewater State University	Daria Panina, Texas A&M University
Sanjay Gupta, Michigan State University	Hoon Park, University of Central Florida
Michael Harris, East Carolina University	Dr. Mahesh Raisinghani, Texas Women's University
Kathy Hastings, Greenville Technical College	Brian Satterlee, Liberty University
Chip Izard, Richland College	Dwight Shook, Catawba Valley Community College
Jan Johanson, Uppsala University	Brenda Sternquist, Michigan State University
Candida Johnson, Holyoke Community College	Michael Volpe, University of Maryland
Sara B. Kimmel, Mississippi College	James Whelan, Manhattan College
Tunga Kiyak, Michigan State University	Man Zhang, Bowling Green State University

A special thanks to David Closs and David Frayer for allowing us to borrow elements of the sections titled Strategic Roles for Production Facilities; Make-or-Buy Decisions; Global Supply Chain Functions; Coordination in Global Supply Chains; and Interorganizational Relationships for Chapter 17 of this text from Tomas Hult, David Closs, and David Frayer, *Global Supply Chain Management*, New York: McGraw Hill (2014).

International Business

Competing in the Global Marketplace



part one Introduction and Overview

Globalization

1

LEARNING OBJECTIVES

After reading this chapter, you will be able to:

- L01-1** Understand what is meant by the term *globalization*.
- L01-2** Recognize the main drivers of globalization.
- L01-3** Describe the changing nature of the global economy.
- L01-4** Explain the main arguments in the debate over the impact of globalization.
- L01-5** Understand how the process of globalization is creating opportunities and challenges for management practice.



Globalization of BMW, Rolls-Royce, and the MINI

OPENING CASE

Bayerische Motoren Werke, which is German for Bavarian Motor Works, is better known globally for its acronym BMW (bmwgroup.com). BMW was created as a combination of three German manufacturing companies: Rapp Motorenwerke and Bayerische Flugzeugwerke in Bavaria and Fahrzeugfabrik Eisenach in Thuringia. Aircraft engine manufacturer Rapp Motorenwerke became Bayerische Motorenwerke in 1916, and the company added motorcycles to its product repertoire in 1923. BMW expanded to automobiles in 1929 when it purchased Fahrzeugfabrik Eisenach, which built Austin 7 cars under a license from Dixi. Fittingly, the first BMW car was called the BMW Dixi.

Globally, BMW is known for streamlined design, incredible luxury, and top-notch performance. The company has more than 125,000 employees, delivers about 2.4 million vehicles annually, and has a revenue of €95 billion (about \$103 billion in U.S. dollars). Its leadership spans products in automobiles, motorcycles, and aircraft engines. Innovation is one of the main success factors for the BMW Group, and innovation is infused into all of BMW's product lines. The company claims that focusing on the future is an important part of BMW's identity, day-to-day work, and the reason for its global success. In addition to the well-known BMW brand, BMW also owns the iconic Rolls-Royce brand and the distinctive MINI automobiles.

BMW and "driving pleasure" are synonymous, even by people not owning a BMW! BMW creates driving pleasure from the perfect combination of dynamic, sporty performance; ground-breaking innovations; and breath-taking design. With a range of car models, a unique feature of BMW is its "M" designation models that takes the "driving pleasure" to another level. BMW "M" (for Motorsport) was initially created to facilitate BMW's racing program but has since become a supplement to BMW's vehicles portfolio with specially modified higher trim features. BMW M is part of an outstanding motorsports heritage and stands for high performance out of passion, with the latest addition to the line being the BMW M760. It's the evolutionary link that connects BMW and Rolls-Royce, bridging the gap between the 7 Series and the entry-level Rolls-Royce Ghost.

Rolls-Royce is considered the most exclusive luxury automobile brand in the world. This reputation is rooted in the brand's long history and rich tradition. Rolls-Royce

delivers the promise of effortless power, luxury, quality, and perfect sanctuary. The entry-level Rolls Royce Ghost carries a price tag around \$250,000, and the models escalate from that price point. Rolls-Royce has, from its early days of daring experimentation, created a vision for luxury that is rooted in constantly chasing perfection. This perfection drives the supreme quality, exquisite hand craftsmanship, and attention to the finest detail to maintain its global position as the pinnacle luxury automobile manufacturer in the world. Like Rolls-Royce, the MINI also traces its roots to the United Kingdom.

MINI is a car brand that is owned by BMW that specializes in small cars. The full platform of MINI cars is small, with the idea of maximizing the experience and concentrating on the essential. A long-standing attention to clever solutions with distinctive designs unlocks urban driving and caters to customers' individual needs. The most iconic is the MINI Cooper, named after British racing legend John Cooper. The MINI Cooper product line has a uniquely sporting blend of classic British mini-car heritage and appeal with precise German engineering and construction. According to the MINI team, they are targeting affluent urban dwellers in their 20s and 30s who enjoy the fun, freedom, and individuality that the MINI cars offer—or perhaps we should just say they target newly graduated college students living in cities!

To help with its targeting of affluent urban dwellers for the MINI or the even more affluent clientele for the BMW or Rolls-Royce, the BMW Group's leaders have studied brands outside of the automobile industry to create the company's future retail strategy. Enter the "product genius." BMW's product genius is a noncommissioned car expert who will spend whatever time it takes or is needed to educate customers about their car choices, options, and any issue that the customer wants to get more information on. This shifts the "performance" from closing the sale of a car to making the customer satisfied, which lessens the typical pressure most customers feel when walking in to a car dealership (and likewise lessens the pressure of the salesperson to sell a car to get commission).

Sources: Jonathan M. Gitlin, "The 2017 BMW M760i Is a Hell of a Car, but Is It an M?" *ARS Technica*, February 8, 2017; "BMW at 100: Bavarian Rhapsody," *The Economist*, March 12, 2016; Carmine Gallo, "BMW Radically Rethinks the Car Buying Experience," *Forbes*, April 18, 2014; "How German Cars Beat British Motors—and Kept Going," *BBC News*, August 2, 2013; Hannah Elliott, "The Best Luxury Sedan Is Still a BMW," *Bloomberg BusinessWeek*, June 6, 2016.



Introduction

Over the past five decades, a fundamental shift has been occurring in the world economy. We have been 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, as we will see later on in this chapter as well as throughout the text, international trade across country borders has become the norm, with an almost exponential increase in trade during the last decade.

We are moving toward a world in which barriers to cross-border trade and investment are declining; 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, integrated global economic system. The process by which this transformation is occurring is commonly referred to as *globalization*. At the same time, recent political world events (e.g., increase of terrorism, United Kingdom voting to leave the European Union, and the elections around the globe of nationalistic politicians) create tension and uncertainty regarding the future of global trade activities.

Interestingly, as the opening case outlines, BMW's focus on the future is an important part of the company's identity, its day-to-day work, and the reason for its global success. The futuristic perspective of BMW manifests itself in innovation, striving for improvement, positive change, and improved performance at all times to make customers satisfied and feel that they receive value for the money they spend on BMW products. Innovation is one of the main success factors for the BMW Group, and innovation is infused into all of BMW's product lines. Likewise, proponents of increased trade argue that cross-cultural engagement and trade across country borders is the future and that returning back to a nationalistic perspective is the past. Meanwhile, the nationalistic argument rests in citizens wanting their country to be sovereign, self-sufficient as much as possible, and basically in charge of their own economy and country environment. As with any debate, both arguments and sides have merit. We will explore all aspects of today's global marketplace in this text through 20 integrated and topical chapters.

Focusing on the increase in globalization, the rise of Uber, which we discuss in the closing case in this chapter, is an illustration of the trend toward the unique opportunities that globalization can present to a company. From a standing start in 2009, Uber has built a global ride-for-hire taxi service that by 2018 could be found in more than 600 cities in more than 70 countries. Uber customers visiting London, New York, Athens, Paris, or Hong Kong can now quickly find rides by using the Uber app on their smartphone. Uber has rapidly built a global brand. Its strategy was to be "born global" virtually from day one of the company's founding. In doing so, it is similar to many other modern technology businesses such as Facebook, Google, and Amazon that have also rapidly built a global presence.

At the same time, it has not always been smooth sailing for Uber. Local authorities have banned or placed tight restrictions on Uber's service in many cities around the world. Uber's brash American ways have not always endeared them to local regulators, drivers, and customers. It is perhaps true, as critics have noted, that Uber might have done even better internationally if it had adapted its entry strategy to take local differences in regulations, culture, and political realities into account. With the rise in nationalism in many countries, companies like Uber face potential barriers to entry and operations that were hard to foresee just a few years ago.

That said, globalization now does have an impact on almost everything we do. For example, the average American—let's call the person Isabelle—might drive to work in a car that was designed in Germany and assembled in Mexico by Ford from components made in the United States and Japan, which were fabricated from Korean steel and

Malaysian rubber. Isabelle may have filled the car with gasoline at a Shell service station owned by a British-Dutch multinational company. The gasoline could have been made from oil pumped out of a well off the coast of Africa by a French oil company that transported it to the United States in a ship owned by a Greek shipping line. While driving to work, Isabelle might talk to her stockbroker (using a hands-free, in-car speaker) on an Apple iPhone that was designed in California and assembled in China using chip sets produced in Japan and Europe, glass made by Corning in Kentucky, and memory chips from South Korea. She could tell the stockbroker to purchase shares in Lenovo, a multinational Chinese PC manufacturer whose operational headquarters is in North Carolina and whose shares are listed on the New York Stock Exchange.

This is the world in which we live. And, interestingly, in many cases we simply do not know or perhaps even care to know where the product was designed and where it was made. This is a change in attitude and interest. Just a couple of decades ago, “Made in the USA” or “Made in Germany” had strong meaning and referred to something (e.g., U.S. often stood for quality and Germany often stood for sophisticated engineering). The country of origin for a product has now given way to “Made by BMW,” and the company is the quality assurance platform, not the country. In many cases, it goes even beyond the company to the personal relationships a customer has developed with a representative of a company—here we focus on what has become known as CRM (customer relationship management).

Whether it is still quality associated with the country of a product’s origin or the assurance given by a specific company regardless of where they manufacture the product, we live in a world where the volume of goods, services, and investments crossing national borders has expanded faster than world output for more than half a century. It is a world where more than \$5 trillion in foreign exchange transactions are made every day, where \$19 trillion of goods and \$5 trillion of services are sold across national borders every year.¹ 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 continue to work 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 Starbucks to Sony PlayStations, Facebook, Netflix video streaming service, IKEA stores, and Apple iPads and iPhones. 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 Westernization or Americanization of local culture. These protesters now come from environmental groups, which have been around for some time, and more recently also from nationalistic groups focused on countries being more sovereign.

For businesses, the globalization process has produced many opportunities. Firms can expand their revenues by selling around the world and/or reduce their costs by producing in nations where key inputs, including labor, are cheap. The global expansion of enterprises has been facilitated by generally favorable political and economic trends. Since the collapse of communism over a quarter of a century ago, the pendulum of public policy in many nations has swung toward the free market end of the economic spectrum. Regulatory and administrative barriers to doing business in foreign nations have been reduced, 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.

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. Today, many individual U.S. tax returns are compiled in India. Indian accountants, trained in U.S. tax rules, perform work for U.S. accounting firms.² They access individual tax returns stored on computers in the United States, perform routine calculations, and save their work so that it can be inspected by a U.S. accountant, who then bills clients. As the best-selling author Thomas Friedman has argued, the world is becoming flat.³ People living in developed nations no longer have the playing field tilted in their favor. Increasingly, enterprising individuals based in India, China, or Brazil have the same opportunities to better themselves as those living in western Europe, the United States, or Canada.

In this text, 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.

LO 1-1

Understand what is meant by the term *globalization*.



What Is Globalization?

As used in this text, **globalization** refers to the shift toward a more integrated and interdependent world economy. Globalization has several facets, including the globalization of markets and the globalization of production.

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 and investment 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 create a global market.⁴ Consumer products such as Citigroup credit cards, Coca-Cola soft drinks, video games, McDonald's hamburgers, Starbucks coffee, IKEA furniture, and Apple iPhones are frequently held up as prototypical examples of this trend. The firms that produce these products are more than just benefactors of this trend; they are also facilitators of it. By offering the same basic product worldwide, they help create a global market.

A company does not have to be the size of these multinational giants to facilitate, and benefit from, the globalization of markets. In the United States, for example, according to the International Trade Administration, more than 300,000 small and medium-size firms with fewer than 500 employees exported in 2017, accounting for 98 percent of the companies that exported that year. More generally, exports from small and medium-sized companies accounted for 33 percent of the value of U.S. exports of manufactured goods.⁵ Typical of these is B&S Aircraft Alloys, a New York company whose exports account for 40 percent of its \$8 million annual revenues.⁶ The situation is similar in several other nations. For example, in Germany, a staggering 98 percent of small and midsize companies have exposure to international markets, via either exports or international production. Since 2009, China has been the world's largest exporter, sending more than \$2 trillion worth of products and services last year from its country to the rest of the world.



globalEDGE™ has been the world's go-to site online for global business knowledge since 2001. Google ranks the site number 1 in the world for "international business resources." Created by a 30-member team in the International Business Center in the Eli Broad College of Business at Michigan State University under the supervision of Dr. Tomas Hult, Dr. Tunga Kiyak, and Dr. Sarah Singer, globalEDGE is a knowledge resource that connects international business professionals worldwide to a wealth of information, insights, and learning resources on global business activities.

The site offers the latest and most comprehensive international business and trade content for a wide range of topics. Whether conducting extensive market research, looking to improve your international knowledge, or simply browsing, you're sure to find what you need to sharpen your competitive edge in today's rapidly changing global marketplace. The easy, convenient, and free globalEDGE website's tagline is "Your Source for Global Business Knowledge." Take a look at the site at globaledge.msu.edu. We will use globalEDGE throughout this text for exercises, information, data, and to keep every facet of the text up-to-date on a daily basis!

Despite the global prevalence of Citigroup credit cards, McDonald's hamburgers, Starbucks coffee, and IKEA stores, for example, it is important not to push too far the view that national markets are giving way to the global market. As we shall see in later chapters, significant differences still exist among national markets along many relevant dimensions, including consumer tastes and preferences, distribution channels, culturally embedded value systems, business systems, and legal regulations. Uber, for example, the fast-growing ride-for-hire service, is finding that it needs to refine its entry strategy in many foreign cities in order to take differences in the regulatory regime into account. These differences frequently require companies to customize marketing strategies, product features, and operating practices to best match conditions in a particular country.

The most global of markets are not typically markets for consumer products—where national differences in tastes and preferences can still be important enough to act as a brake on globalization—but markets for industrial goods and materials that serve universal needs the world over. These include the markets for commodities such as aluminum, oil, and wheat; for industrial products such as microprocessors, DRAMs (computer memory chips), and commercial jet aircraft; for computer software; and for financial assets from U.S. Treasury bills to Eurobonds and futures on the Nikkei index or the euro. That being said, it is increasingly evident that many newer high-technology consumer products, such as Apple's iPhone, are being successfully sold the same way the world over.

In many global markets, the same firms frequently confront each other as competitors in nation after nation. Coca-Cola's rivalry with PepsiCo is a global one, as are the rivalries between Ford and Toyota; Boeing and Airbus; Caterpillar and Komatsu in earthmoving equipment; General Electric and Rolls-Royce in aero engines; Sony, Nintendo, and Microsoft in video-game consoles; and Samsung and Apple in smartphones. If a firm moves into a nation not currently served by its rivals, many of those rivals are sure to follow to prevent their competitor from gaining an advantage.⁷ As firms follow each other around the world, they bring with them many of the assets that served them well in other national markets—their products, operating strategies, marketing strategies, and brand names—creating some homogeneity across markets. Thus, greater uniformity replaces diversity. 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 Japanese market"; for many firms, there is only the global market.



THE GLOBALIZATION OF PRODUCTION

The **globalization of production** refers to the sourcing of 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 labor, energy, land, and capital). By doing this, companies hope to lower their overall cost structure or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively. For example, Boeing has made extensive use of outsourcing to foreign suppliers. Consider Boeing's 777: eight Japanese suppliers make parts for the fuselage, doors, and wings; a supplier in Singapore makes the doors for the nose landing gear; three suppliers in Italy manufacture wing flaps; and so on.⁸ In total, some 30 percent of the 777, by value, is built by foreign companies. And, for its most recent jet airliner, the 787, Boeing has pushed this trend even further; some 65 percent of the total value of the aircraft is outsourced to foreign companies, 35 percent of which goes to three major Japanese companies.

Part of Boeing's rationale for outsourcing so much production to foreign suppliers is that these suppliers are the best in the world at their particular activity. A global web of suppliers yields a better final product, which enhances the chances of Boeing winning a greater share of total orders for aircraft than its global rival, Airbus. Boeing also outsources some production to foreign countries to increase the chance that it will win significant orders from airlines based in that country. For a more detailed look at the globalization of production at Boeing, see the accompanying Management Focus.

Early outsourcing efforts were primarily confined to manufacturing activities, such as those undertaken by Boeing and Apple. Increasingly, however, companies are taking advantage of modern communications technology, particularly the Internet, to outsource service activities to low-cost producers in other nations. The Internet has allowed hospitals to outsource some radiology work to India, where images from MRI scans and the like are read at night while U.S. physicians sleep; the results are ready for them in the morning. Many software companies, including Microsoft, now use Indian engineers to perform test functions on software designed in the United States. The time difference allows Indian engineers to run debugging tests on software written in the United States when U.S. engineers sleep, transmitting the corrected code back to the United States over secure Internet connections so it is ready for U.S. engineers to work on the following day. Dispersing value-creation activities in this way can compress the time and lower the costs required to develop new software programs. Other companies, from computer makers to banks, are outsourcing customer service functions, such as customer call centers, to developing nations where labor is cheaper. In another example from health care, workers in the Philippines transcribe American medical files (such as audio files from doctors seeking approval from insurance companies for performing a procedure). Some estimates suggest the outsourcing of many administrative procedures in health care, such as customer service and claims processing, could reduce health care costs in America by more than \$100 billion.

The economist Robert Reich has argued that as a consequence of the trend exemplified by companies such as Boeing, Apple, and Microsoft, in many cases it is becoming irrelevant to talk about American products, Japanese products, German products, or Korean products. Increasingly, according to Reich, the outsourcing of productive activities to different suppliers results in the creation of products that are global in nature, that is, "global products."⁹ But as with the globalization of markets, companies 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, issues associated with economic and political risk, and the sheer managerial challenge of coordinating a globally dispersed supply chain (an issue for Boeing with the 787 Dreamliner, as discussed in the Management Focus). For example, government regulations ultimately limit the ability of hospitals to outsource the process of interpreting MRI scans to developing nations where radiologists are cheaper.

Did You Know?

Did you know why your iPhone was assembled in China? It's not what you might think.

Visit your instructor's Connect® course and click on your eBook or SmartBook® to view a short video explanation from the authors.

TEST PREP

Use SmartBook to help retain what you have learned. Access your instructor's Connect course to check out SmartBook or go to learnsmartadvantage.com for help.



Boeing's Global Production System

Executives at the Boeing Corporation, America's largest exporter, say that building a large commercial jet aircraft like the 787 Dreamliner involves bringing together more than a million parts in flying formation. Forty-five years ago, when the early models of Boeing's venerable 737 and 747 jets were rolling off the company's Seattle-area production lines, foreign suppliers accounted for only 5 percent of those parts on average. Boeing was vertically integrated and manufactured many of the major components that went into the planes. The largest parts produced by outside suppliers were the jet engines, where two of the three suppliers were American companies. The lone foreign engine manufacturer was the British company Rolls-Royce.

Fast-forward to the modern era, and things look very different. In the case of its latest aircraft, the super-efficient 787 Dreamliner, 50 outside suppliers spread around the world account for 65 percent of the value of the aircraft. Italian firm Alenia Aeronautica makes the center fuselage and horizontal stabilizer. Kawasaki of Japan makes part of the forward fuselage and the fixed trailing edge of the wing. French firm Messier-Dowty makes the aircraft's landing gear. German firm Diehl Luftfahrt Elektronik supplies the main cabin lighting. Sweden's Saab Aerostructures makes the access doors. Japanese company Jamco makes parts for the lavatories, flight deck interiors, and galleys. Mitsubishi Heavy Industries of Japan makes the wings. KAA of Korea makes the wing tips. And so on.

Why the change? One reason is that 80 percent of Boeing's customers are foreign airlines, and to sell into those nations, it often helps to be giving business to those nations. The trend started in 1974 when Mitsubishi of Japan was given contracts to produce inboard wing flaps for the 747. The Japanese reciprocated by placing big orders for Boeing jets. A second rationale was to disperse component part production to those suppliers who are the best in the world at their particular activity. Over the years, for example, Mitsubishi has acquired considerable expertise in the manufacture of wings, so it was logical for Boeing to use Mitsubishi to make the wings for the 787. Similarly, the 787 is the first commercial jet aircraft to be made almost entirely out of carbon fiber, so Boeing tapped Japan's Toray Industries, a world-class expert in sturdy but light carbon-fiber composites, to supply materials for the fuselage. A third reason for the extensive outsourcing on the 787 was that Boeing wanted to unburden itself of some of the risks and costs associated with developing production facilities for the 787. By outsourcing, it pushed some of those risks

and costs onto suppliers, who had to undertake major investments in capacity to ramp up to produce for the 787.

So what did Boeing retain for itself? Engineering design, marketing and sales, and final assembly are done at its Everett plant north of Seattle, all activities where Boeing maintains it is the best in the world. Of major component parts, Boeing made only the tail fin and wing to body fairing (which attaches the wings to the fuselage of the plane). Everything else was outsourced.

As the 787 moved through development, it became clear that Boeing had pushed the outsourcing paradigm too far. Coordinating a globally dispersed production system this extensive turned out to be very challenging. Parts turned up late, some parts didn't "snap together" the way Boeing had envisioned, and several suppliers ran into engineering problems that slowed down the entire production process. As a consequence, the date for delivery of the first jet was pushed back more than four years, and Boeing had to take millions of dollars in penalties for late deliveries. The problems at one supplier, Vought Aircraft in North Carolina, were so severe that Boeing ultimately agreed to acquire the company and bring its production in-house. Vought was co-owned by Alenia of Italy and made parts of the main fuselage.

There are now signs that Boeing is rethinking some of its global outsourcing policy. For its next jet, a new version of its popular wide-bodied 777 jet, the 777X, which will use the same carbon-fiber technology as the 787, Boeing will bring wing production back in-house. Mitsubishi and Kawasaki of Japan produce much of the wing structure for the 787 and for the original version of the 777. However, recently Japan's airlines have been placing large orders with Airbus, breaking with their traditional allegiance to Boeing. This seems to have given Boeing an opening to bring wing production back in-house. Boeing executives also note that Boeing has lost much of its expertise in wing production over the last 20 years due to outsourcing, and bringing it back in-house for new carbon-fiber wings might enable Boeing to regain these important core skills and strengthen the company's competitive position.

Sources: M. Ehrenfreund, "The Economic Reality Behind the Boeing Plane Trump Showed Off," *The Washington Post*, February 17, 2017; K. Epstein and J. Crown, "Globalization Bites Boeing," *Bloomberg Businessweek*, March 12, 2008; H. Mallick, "Out of Control Outsourcing Ruined Boeing's Beautiful Dreamliner," *The Star*, February 25, 2013; P. Kavilanz, "Dreamliner: Where in the World Its Parts Come From," *CNN Money*, January 18, 2013; S. Dubois, "Boeing's Dreamliner Mess: Simply Inevitable?" *CNN Money*, January 22, 2013; A. Scott and T. Kelly, "Boeing's Loss of a \$9.5 Billion Deal Could Bring Jobs Back to the U.S.," *Business Insider*, October 14, 2013.