

GLOBAL
EDITION



INTERNATIONAL BUSINESS

The Challenges of Globalization

TENTH EDITION



John J. Wild • Kenneth L. Wild

International Business

TENTH EDITION

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The Challenges
of Globalization

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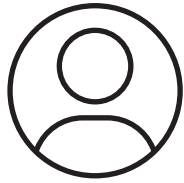
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Dear Friends and Colleagues,

As we roll out the new edition of *International Business*, we thank each of you who provided suggestions to enhance our text. This new edition reflects the advice and wisdom of many dedicated reviewers and instructors. Together, we created the most readable, concise, and innovative international business text available today.

As teachers, we know how important it is to select the right materials for our course. Instructors say this text's clear and lively writing style helps students learn and appreciate international business. Our approach also includes a concise and clutter-free style. This is a competitive advantage that will never be sacrificed.

International Business is now available in Revel®, a powerful interactive learning platform. Fully digital, Revel blends our author-created narrative, media, and assessment. Revel is mobile so students can learn anytime, anywhere, on any device. Even if you assign *International Business* as an eBook or printed rental, students will benefit from this text's learning platform.

We owe the success of this text to you, our colleagues, and our students who keep us focused on evolving educational needs. In this era of rapid global change, we continue to instill in our students a passion for international business and to equip them with the skills and knowledge needed to compete. Please accept our heartfelt thanks and know that your input is reflected in everything we write.

John J. Wild

Kenneth L. Wild

Preface

Welcome to the tenth edition of *International Business: The Challenges of Globalization*. As in previous editions, this text evolved from extensive market surveys, chapter reviews, and correspondence with scores of instructors and students. We are delighted that an overwhelming number of instructors and students agree with our approach to international business. The reception of this text in the United States and across the world has exceeded all expectations.

This text is the most reliable travel companion available to accompany students on their journey through international business. It motivates the reader by making international business thought-provoking and accessible. It embraces the central role of culture and other environmental factors in international business. Each chapter is infused with real-world discussion, while underlying theory appears in the background where it belongs. Terminology is used consistently, and theories are explained in direct and concise terms. This text's visual style is innovative yet subtle, and carefully balances the use of photos, illustrations, and features. The result is an easy-to-read and clutter-free design.

New to This Edition

- **NEW Chapter 2: Ethics, Social Responsibility, and Sustainability.** This new chapter explains the moral foundations of ethical business in clear, accessible terms. It describes how international managers contend with ethical dilemmas and manage businesses in a socially responsible manner for all stakeholders. It also presents the drive toward sustainability and a more circular economy. The chapter closes by addressing diversity, equity, and inclusion in a global context.
- **Reduced complexity of foreign exchange in Chapter 10: International Financial Markets.** Students sometimes struggle with foreign exchange, so we removed topics not central to the core chapter lessons. Gone are explanations of quoted and base currencies, direct and indirect quotes, calculating cross rates, and the chapter's appendix of calculations. Also removed is the lengthy currency table easily found online today.
- **Revised and simplified economic theories in Chapter 11: International Monetary System.** Feedback tells us that students struggle with the complexity of the law of one price and purchasing power parity theories. Coverage of these theories is highly condensed and now focuses on the essential, need-to-know aspects. Each theory is presented in our trademark straightforward style and explained with uncomplicated examples.
- **NEW and significantly revised opening vignettes and case studies of high-interest companies.** Each brief company profile previews topics covered in the chapter. Examples include Apple, Netflix, Spotify, TikTok, Tesla, Vans, Paytm of India, and Tony's Chocolonely of the Netherlands. Many chapters close with cases that feature these same companies to illustrate topics presented in the chapter.
- **Employability skills emphasized in the pedagogy.** The text, group projects, debates, shared writing exercises, and case studies help students to enhance skills that will increase their value in a digital economy. This edition expands student opportunities to develop key skills, including knowledge application and analysis, reflective (critical) thinking, communication, and ethical understanding and social responsibility, among others.
- **NEW art and media program.** New maps, figures, graphs, tables, photos, and videos help bring international business to life.

Chapter-by-Chapter Changes in this Edition

All Chapters	<ul style="list-style-type: none"> New and updated company profiles begin every chapter New and updated cases end every chapter New and interesting examples illustrate concepts New maps, figures, graphs, tables, and photos throughout All chapters after Chapter 1 are renumbered (Old Chapter 2 is now Chapter 3, etc.)
Chapter 1	<ul style="list-style-type: none"> Updated opening vignette: Apple's Global iMPact New material on e-commerce, the Internet of Things, and digital transformation New coverage of the pandemic's impact on business and society New graphs on world trade and new map on nations' extent of globalization Condensed globalization debate to one learning objective from three Updated employability skills (workplace skills) New case: Apple's Global Strategy
Chapter 2	<ul style="list-style-type: none"> ALL NEW chapter on Ethics, Social Responsibility, and Sustainability Opening vignette: Tony's Chocolonely Ethics theories explained in straightforward terms Covers ethical dilemmas, stakeholder theory, climate change, DEI efforts Figures show carbon emissions and demonstrate a circular economy New case: Big Chocolate's Big Problem
Chapter 3	<ul style="list-style-type: none"> New opening vignette: Vans: Off The Wall Additional coverage of cross-cultural literacy and new graphics New map and expanded content reveal nations' social mobility scores New maps show religious affiliations globally Updated Hofstede tables to include African and Arab countries New case: Off The Wall with Vans and VF Corporation
Chapter 4	<ul style="list-style-type: none"> New opening vignette: TikTok Rocks Streamlined coverage of the three types of economic systems New map shows nations' levels of economic freedom Updated intellectual property and other topics in legal systems New case: TikTok and the Big-Tech Crackdown
Chapter 5	<ul style="list-style-type: none"> New opening vignette: Paytm in India Updated shadow economies in gross domestic product coverage New map shows national rankings on the Human Development Index Condensed coverage of political risk and how it can be managed New case: Paytm Pays Off for India
Chapter 6	<ul style="list-style-type: none"> New opening vignette: Tesla Charges Ahead New map and coverage of the economic importance of trade New graphic shows relation between world trade and world output New diagram shows Porter's national competitive advantage diamond New case: Tesla Drives EV Market Growth
Chapter 7	<ul style="list-style-type: none"> New opening vignette: Netflix Reinvents TV Updated examples of motives for trade intervention New examples on geopolitics, carbon pricing, and intellectual property Updated recent performance of the World Trade Organization New case: Netflix and Trade in Digital Services
Chapter 8	<ul style="list-style-type: none"> New opening vignette: Spotify for Every Mood Updated figure shows global flows of foreign direct investment (FDI) New graphs of FDI inflows and outflows for developed vs. developing nations Significant revision of government FDI intervention and policy instruments Simplified balance of payments explanation New case: Taking Local Sounds Global

- Chapter 9 Updated opening vignette: Nestlé’s Global Recipe
Improved clarity in figure of regional integration types
Updated and revised European Union content
New coverage of integration in Africa, Asia-Pacific, and North America
Condensed or removed several small trade agreements
New case: Nestlé Adapts to Regional Integration
- Chapter 10 New opening vignette: Samsung’s Number Won
Condensed introduction to capital markets
New section on transaction, translation, and economic exposure
Removed quoted and base currencies, and direct and indirect quotes
Removed currency tables, cross rates, and calculations appendix
New case: Samsung’s Earnings and the Won
- Chapter 11 Updated opening vignette: The Euro
Updated currency values in figures and examples
Simplified coverage of law of one price and purchasing power parity
Removed coverage of the defunct European monetary system
New case: Argentina Survives a Crisis—Again
- Chapter 12 Updated opening vignette: Ryanair Soars Above
Revised value chain coverage and added glossary terms
New box on researching business environments
Revised low-cost leadership strategy for clarity and brevity
Updated examples using technology products and popular brands
New case: Flying High with Low Fares
- Chapter 13 Updated opening vignette: Starbucks’ Global Expansion
New examples and anecdotes of market and site selection
Condensed national business environment screening process
New map showing number of mobile phone subscribers per nation
Updated secondary research sources for use in country analysis
Updated case: Vietnam’s Robust Economic Growth
- Chapter 14 Updated opening vignette: Marvel Entertains
Expanded table of top US trade partners
New examples illustrating countertrade
Absorbed last section on partnership issues throughout the chapter
New case: Marvel’s Cinematic Universe
- Chapter 15 Updated opening vignette: Wings for Life
Removed discussion of national image
Revised section on counterfeit goods
New, updated, and revised marketing examples
New case: Red Bull’s Marketing Energy
- Chapter 16 Updated opening vignette: Toyota Races Ahead
Added coverage of pandemic’s effect on supply chains
Revised reinvestment vs. divestment section for brevity
Updated exercises and writing assignments
Updated case: Just-in-Time Plus Just-in-Case
- Chapter 17 New opening vignette: IKEA Togetherness
Revised cultural training methods and added glossary terms
Updated sources used to compile a cultural profile
Condensed compensation and labor issues into one section from two
New case: IKEA’s HR Leadership

Solving Teaching and Learning Challenges

International business is a dynamic and exciting subject that deserves an enjoyable and well-written text. This is an easy-to-read and timely text written in a concise and straightforward manner. This *International Business* text helps solve several teaching and learning challenges.

Motivating Students of International Business

Students need to be motivated to read course materials. This text uses students' inherent curiosity of other cultures to pique their interest. We introduce culture in Chapter 3 and return to it often to encourage students to engage with the text. We illustrate concepts with thought-provoking, real-world examples at the intersection of international business and culture.

Culture Insights boxes illustrate how culture is related to key chapter topics. For example, one chapter presents the debate about whether or not globalization harms local cultures. Another box shows how entrepreneurs use knowledge of local cultures to succeed in business. The use of culture in this way keeps the subject lively and accessible for students.

Making International Business Relevant

Students search for the relevance of certain international business concepts to their future careers. This text enlivens topics such as trade and investment theories, political and economic systems, foreign exchange, and the international monetary system. We present complex or abstract material in straightforward terms with vivid illustrations to make international business interesting and relevant.

Global Manager boxes reveal how some seemingly abstract issues are relevant to entrepreneurs, small businesses, and the world's largest companies. Topics include obtaining capital to finance international expansion and how to be mindful of personal security while abroad on business. Students are more eager to study course materials when they see the managerial implications of topics and their real-world applications.

CULTURE INSIGHTS A Globetrotter's Guide to Meetings

Here are some helpful tips for a manager meeting colleagues in or from other cultures:

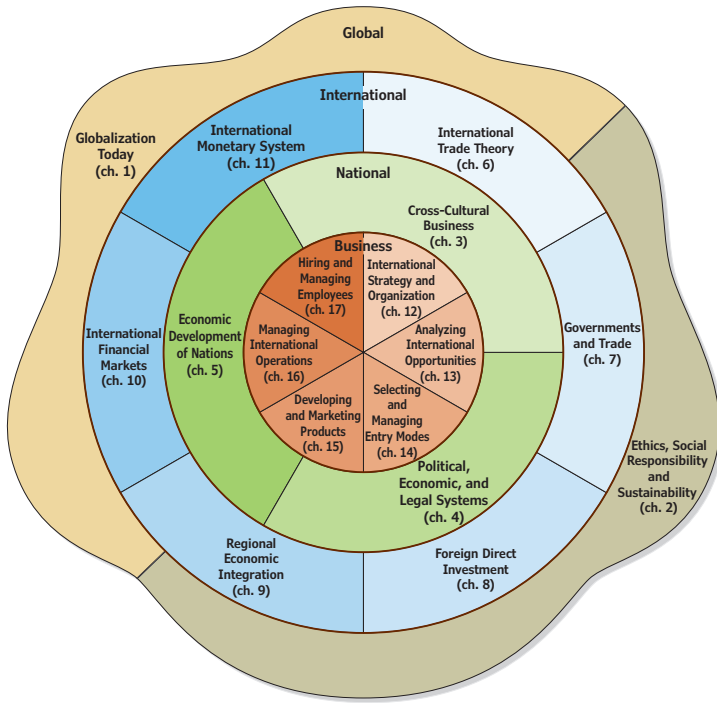
- **Familiarity.** Avoid the temptation to get too familiar too quickly. Use titles such as "doctor" and "Mr./Mrs./Miss/Ms." Switch to a first-name basis only when invited to do so, and do not shorten people's names from, say, Catherine to Cathy.
- **Personal Space.** Culture dictates what is considered the appropriate distance between two people. In Latin America, people close the gap significantly and a man-to-man embrace is not uncommon in business.
- **Business Cards.** In Asia, business cards are considered an extension of the individual. Business cards in Japan are typically exchanged after a bow, with two hands extended, and the wording facing the recipient. To show respect, leave the card on the table for the entire meeting.
- **Comedy.** Use humor cautiously because it often does not translate well. Avoid jokes that rely on wordplay and puns or events in your country, about which local people might have little or no knowledge.

GLOBAL MANAGER Social Flexibility

Here are some tips for adjusting to the social structures of other countries:

- **Leadership.** Western management ideas can differ from those in Eastern cultures. Whereas US management principles are often accepted at face value in businesses throughout the world, US business customs are not. Western managers working in Asia might try implementing "collective leadership" practices that are more in line with Asian management styles and culture.
- **Multicultural.** Managers may need to alter their style when working with groups of people from other cultures. After first learning about an unfamiliar culture's social structure, a manager can then alter behavior to suit cultural expectations. This can help them evaluate others in an unbiased way and empower them to motivate and lead multicultural teams.

- **Global Mindset.** Companies can apply personality-testing techniques to measure the global aptitude of managers. A global-mindset test evaluates an individual's openness and flexibility, understanding of global principles, and strategic implementation abilities. It also can identify areas in which training is needed.
- **Flexibility.** The more behavioral the issue, the greater the influence of local culture. US managers are less likely than their Japanese and Korean counterparts to consult peers about decisions. Western managers in the Middle East usually must work within a rigid hierarchy. And although showing respect for others is universally valued, respect is defined differently from country to country.
- **Want to Know More?** Visit the Center for Creative Leadership (www.ccl.org), The Globalist (www.theglobalist.com), and Transnational Management Associated (www.tnaworld.com).



Providing Context for International Business

Students try to visualize how the many diverse elements of international business come together. International business covers a range of subjects, including culture, politics, law, economics, globalization, trade, marketing, human resources, and supply chain management, to name a few. Students benefit when material is presented with a structured framework that illustrates how all these parts fit together.

The **Global Business Environment** model shown here and detailed in Chapter 1 is a unique organizing framework that illustrates how the elements of international business are related. It depicts a dynamic, integrated system that weaves together national and international business environments and international business management within the context of the global business environment.

Tools for Active Learning

Instructors need a comprehensive set of tools to evaluate students' understanding of concepts. Carefully chosen assignment materials in this text span the full range of complexity to test students' knowledge and ability to apply key principles. Assessment materials are often experiential in nature to help students develop decision-making skills. These tools for active learning help instructors to evaluate student progress.

- **Quick Study** concept checks at the end of each learning objective verify that students have learned key terms and concepts before moving on. In the Revel text, students obtain immediate feedback on answers they provide.
- **Teaming Up** projects go beyond the text and require students to collaborate in teams to conduct interviews, research other countries, hold in-class debates, or come together in breakout sessions.
- **Talk About It** questions raise important issues confronting entrepreneurs, international managers, policy makers, consumers, and others. Questions can be assigned as homework or for in-class discussion.

Talk About It

- 2-1. The actions taken by companies and their employees are seemingly always in the spotlight because of the ubiquity of social media. One ethical misstep can cause a company tremendous reputational damage. What steps can a multinational company take to avoid potential ethical lapses? How important are codes of ethics in maintaining corporate integrity?
- 2-2. Companies are increasingly pressured to conduct their activities in a way that benefits *all* stakeholders. This can be a daunting task, especially for small businesses. Should a company prioritize its stakeholders and focus most of its efforts on satisfying the most important ones? Do you think benefit corporations are the way of the future in global business?
- 2-3. Proponents of the circular economy say that it is the only responsible way forward for the global economy. Describe the advantages of a circular economy. Do you think the world can move toward greater circularity? Select a company that you think can reduce its carbon footprint. What specific things might the company do to improve its circularity?

- **Ethical Challenge** exercises ask students to assume the role of a manager, government official, or other individual and consider how they would react to an ethical dilemma based on facts presented.
- **Practicing International Management** cases ask students to analyze and respond to real-world companies' issues, problems, and opportunities that are presented in each chapter.

Teaming Up

You are the production director of a manufacturing company. In a highly competitive market, you carry out all of the major manufacturing tasks in a neighboring country that are 40 percent lower than in your own country. The near-finish parts will be completed in your domestic factories, allowing you to compete in your own country.

- 2-4. How would you get around the ethical implications that this arrangement creates?
- 2-5. How might you explain your decision to carry out manufacturing in your own country as being fair and respecting the rights of the workforce in the other country?

Ethical Challenge

You are the CEO of a major clothing manufacturer based just outside a major city. 80 percent of your output goes to operating as a third-party manufacturer for major brands. All of these clients are keen to promote their green credentials and Gen Z consumers. Clients are beginning to demand you follow ethical practices.

- 2-6. Clients are asking you to show that you are sustainable, eco-friendly, and ethical. How do you think your company's response has been described as green-washing. What are the implications of this?
- 2-7. Although there is demand from clients to be more sustainable, competitors seem to be able to continue with unsustainable practices. How do you think they are ethical or eco-friendly. How could they be doing better?
- 2-8. You decide to announce that all your products are 100-percent cruelty-free. You hope this will satisfy your client base. What are the implications of this?
- 2-9. Your clients remain largely unconvinced; the largest, which accounts for a quarter of all your output, has reiterated the point in an email: "focus on supply chain partners with a holistic approach to sustainability." What does this mean and what are the implications for you?

Writing Assignments

- 2-10. Globalization and increased cross-cultural business bring more competition to the front and center today. Why is it important for a company to take a position on social issues and build a business based on integrity?
- 2-11. Many companies get involved in environmental, or "green," initiatives as part of their social responsibility. How might a company align its social responsibility with its strategy? Provide specific examples.

PRACTICING INTERNATIONAL MANAGEMENT CASE

Just-in-Time Plus Just-in-Case

Toyota Motor Corporation is one of the world's most respected companies. It thrives by overcoming every obstacle it faces, whether it is an economic downturn, slack demand, natural disaster, or global pandemic. Toyota's production system is key to its success, and many companies have implemented a similar approach in their own operations.

Toyota first began producing cars in 1937. In the mid-1950s, a Toyota machinist named Taiichi Ohno began questioning the way that car companies managed production. Concerned about quality and efficiency, Ohno noted how supermarkets, unlike carmakers, did not maintain large inventories of all their products. Instead, they ordered specific merchandise from suppliers as inventories dipped. Ohno then introduced just-in-time inventory practices to automobile production. This approach became known as the Toyota Production System (TPS).

Toyota's just-in-time approach eliminates inventory buildup by identifying parts that are in short supply during the assembly process. Suppliers of those parts are then notified to make a delivery to the facility. Toyota's system also relies on groups of workers to suggest ways to improve the work process and make better cars. The entire TPS is based on *jidoka*, which literally means "automation." But at Toyota the word expresses management's faith in the worker as a human being and a thinker.

The year 2021 was tough for automobile producers, including Toyota. Vehicles today require a large number of semiconductors (computer chips), and a chip shortage hampered worldwide auto production. The shortage arose from pandemic-induced lockdowns and labor shortages as well as other factors. An unusual snowstorm in Texas in February 2021 disrupted the chip fabrication facilities of Infineon and other companies. A fire in March at Japanese chip supplier Renesas destroyed \$156 million of inventory and slowed production for months. And a drought in Taiwan slowed chip output because semiconductor production requires large amounts of water to wash away chemicals.

Decades after Toyota laid the groundwork for its TPS system, the results speak for themselves. Toyota prevailed despite a global pandemic and low semiconductor supplies. In 2021, Toyota sold more cars than GM in the United States for the first time ever. Every year since 1931, when GM overtook Ford in sales, GM sold more cars in the US market than any other automaker. Also in 2021, Toyota dethroned Volkswagen as the world's top producer of automobiles. To understand how Toyota overcame a global semiconductor shortage to outpace its rivals, we need to explore Toyota's response to an event one decade earlier.

An earthquake-caused tsunami in 2011 devastated the coastline region of Japan's Fukushima prefecture and caused an accident at a nuclear energy facility. In addition to the human tragedy, the devastation disrupted industrial activity for many Japanese companies, including Toyota. So Toyota examined the 25,000 to 30,000 parts that go into one of its autos. It discovered that around 1,400 of those parts are crucial components for which there is no easy substitute, such as brakes, motor parts, and computer chips.

To help safeguard its auto production in future emergencies, Toyota demanded that suppliers maintain higher inventories for its must-have components. For example, chip suppliers now maintain an inventory equal to six months' worth of Toyota's needs. Toyota also sources components from multiple companies so that it can switch suppliers quickly if one supplier experiences problems.

Toyota then created a database of its suppliers and its suppliers' suppliers, which it calls its RESCUE (REinforce Supply Chain Under Emergency) system. In case of an emergency, Toyota's supply chain managers use RESCUE to identify at-risk components and suppliers and adapt quickly to unfolding events. The changes Toyota made in its inventory management after the 2011 Fukushima disaster led directly to its reserve of semiconductors and other crucial components. Toyota was able to continue production when many other companies needed to shut down operations.

Today, Toyota's inventory system is based on just-in-time principles plus a dose of just-in-case readiness. Companies using just-in-time practices might want to once again follow Toyota's lead and re-examine their inventory systems to ensure their own preparedness for unexpected events.

Thinking Globally

- 16-11. Why do you think Toyota itself does not produce more of the crucial parts that go into their automobiles and electric vehicles? Which reasons to buy do you think outweigh reasons to make?
- 16-12. Why do you think Toyota is investing near its assembly operations in the US market and elsewhere? Identify as many motives as you can in its home country, Japan, and target markets.
- 16-13. Scientists warn that climate change will increase weather-related difficulties for companies. Can you think of precautions that companies could take to protect their operations? Explain.
- 16-14. For a product you are relatively familiar with and that is composed of several or more parts, which ones do you think are "must-have" components? How many of those parts does the producer itself make?

Developing Employability Skills

Some students enrolled in this course are majoring in international business or a related area. Other students are not business majors and are taking this course to gain insight into how businesses operate in the global economy today. Regardless of the chosen field of study, this course helps students develop useful capabilities we call *employability skills*.

- **Knowledge application and analysis** refers to one's ability to learn a concept and appropriately apply that knowledge in another setting to achieve a higher level of understanding. Business innovation is an underlying theme of this text. Students will discover that application of knowledge is key to innovation—experimenting, learning, applying knowledge, and evaluating. They will learn how innovation, or a lack of it, influences a company's success or failure. Students apply these skills in many assignments, projects, cases, and the market entry strategy project that is included with the Revel digital version of this text.
- **Reflective (critical) thinking** involves purposeful and goal-directed thinking used to define and solve problems, make decisions, or form judgments related to a set of circumstances. For example, this text asks students to use critical thinking skills to examine how a country develops its political, economic, and legal systems into a complex arrangement to achieve its goals. Students also use their reflective or critical thinking skills to formulate answers to many exercises in this text. The text also asks students to develop their *analytical thinking* skills, which involves drawing a conclusion from a pattern of facts.
- **Communication skills** involve the use of oral, written, and nonverbal language, along with technology, to communicate ideas effectively and to listen intently. This text teaches that articulating one's thoughts and ideas in another language and culture should be done carefully

to not offend the values and beliefs of others. Journaling prompts and other exercises ask students to craft appropriate responses to specific situations in which they place themselves. Other assessments require students to communicate effectively with others in shared writing exercises, team exercises, and debates.

- **Ethical understanding and social responsibility** are sets of guiding principles that influence the way individuals and organizations behave within society. Students will encounter scenarios of personal ethics and reasoning throughout this text. They will read how managers made ethical decisions under specific circumstances and how they fared. And ethics exercises ask students to put themselves in a manager's position and decide how to handle an ethical dilemma.

Instructor Teaching Resources

For more information and resources, visit <http://www.pearson.com/>

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John J. Wild and Kenneth L. Wild provide a blend of skills uniquely suited to writing an international business text. They combine award-winning teaching and research with a global view of business gained through years of living and working in cultures around the world. Their writing makes the topic of international business practical, accessible, and interesting.

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Dr. Wild's research covers a range of international business topics, including marketing strategy, entry modes, risk in emerging markets, culture's influence on business, and corporate social responsibility.



Chapter One

Globalization Today

Learning Objectives

After studying this chapter, you should be able to

- 1.1** Identify the types of companies active in international business.
- 1.2** Explain globalization and the significance of global markets and production.
- 1.3** Detail the forces that drive globalization.
- 1.4** Summarize the main arguments in the debate about globalization.
- 1.5** Identify the skills this course will help you develop for your career.

A Look at This Chapter

This chapter defines the scope of international business and introduces us to some of its most important topics. We begin by identifying the key players in international business today. We then present globalization, describing its influence on markets and production, and the forces behind its growth. Next, we analyze each main argument in the debate about globalization. This chapter

closes by describing how this course can help develop your employability skills and by presenting a model of an integrated global business environment.

A Look Ahead

Chapter 2 introduces us to ethics and key ethical situations companies confront in international business. We present the importance of corporate social responsibility and managing for all stakeholders in international business. We also discuss the drive toward sustainability and a circular economy. Finally, we address the additional key issues of corruption, human rights, and efforts toward diversity, equity, and inclusion.

Apple's Global iMpa^ct

CUPERTINO, California—The Apple iPhone was the world's first-ever smartphone and gave people mobile computing power they never had before. The business models of Uber and Lyft are entirely based on smartphone technology. Companies like TikTok and applications like WhatsApp owe their success to the popularity of smartphones. Steve Jobs once explained that the “i” in iPhone refers mainly to the internet but also stands for *individual, instruct, inform, and inspire*.

Apple earns around 80 percent of its revenue outside the United States. Globalization benefits Apple enormously and is at the core of its global strategy. Globalized production allows Apple to source parts and components worldwide and to assemble its devices wherever it is most cost effective. Apple's hundreds of suppliers are based in as many as 50 countries depending on the device produced. And globalized markets means that Apple can sell its products worldwide with little or no modification.

Despite the opportunities that globalization provides Apple and other companies, there are challenges too. Cultural, political, and economic tensions can trigger rising nationalism. A US–China trade war caused a backlash against US imports to China and hurt Apple's iPhone sales there. Lower-priced Chinese competitors improved their smartphones and took market share from Apple. As you read this chapter, consider how the many aspects of globalization impact the activities of international companies everywhere.¹



David Grossman/Alamy Stock Photo

Every day, each of us experiences the fruits of international business transactions as we go about our routines. Picture the following: You awaken and turn off the alarm coming from your Apple iPhone, which was designed in the *United States* and assembled in *China* with parts from *Japan*, *South Korea*, *Taiwan*, and several other places. You pop in your AirPods and over a quick breakfast listen to a podcast that was produced by *Britain's* BBC radio. You slip on your Calvin Klein T-shirt and jeans made in *India* and jump into your Vans shoes that were made in *Vietnam*. You head out the door and hop into your *Korean* Hyundai that was made in *Alabama*. You hit the drive-through at the Starbucks along your route to campus for a latte brewed from beans harvested in *Colombia* and *Ethiopia*. Your day is just one hour old, but in a way, you've already taken a virtual trip around the world. A quick glance at the "Made in" tags on your jacket, backpack, wallet, or other items you have with you right now will demonstrate the pervasiveness of international business transactions. How each of these products was designed and made and how each became available for you to purchase is a result of international business transactions.

International business is any commercial transaction that crosses the borders of two or more nations. You don't have to set foot outside a small town to find evidence of international business. It reaches into each of our lives in ways we don't often realize. No matter where you live, you'll be surrounded by **imports**—goods and services purchased abroad and brought into a country. Your counterparts around the world will undoubtedly spend some part of their day using your nation's **exports**—goods and services sold abroad and sent out of a country. Every year, all the nations of the world export goods worth around \$19 trillion and export services worth nearly \$6 trillion. To put it in perspective, this figure for merchandise exports is around 40 times the annual global revenue of Amazon.²

This book describes the work and responsibilities of managers in an international business. It covers an extraordinarily wide range of topics that influence international business activities. We begin this chapter with an overview of the subject and an introduction to the key players in international business. Then, we describe globalization's powerful influence on markets and production and explain the forces behind its expansion. Next, we cover each main point in the debate about globalization, including jobs, wages, income inequality, culture, and more. Then, we explain how this course will help you develop employability skills, such as application of knowledge, reflective thinking, communication, and ethics. Finally, we explain why international business is special by presenting an integrated model of the global business environment.

1.1 Introduction and Key Players

International business is rooted in the cultural, political, economic, and legal moorings of nations. The study of international business involves learning about government policies, company activities, the work of managers, the work and social lives of ordinary people, and a host of social issues. People are at the center of each of these topics and are what makes international business a dynamic and thrilling journey of discovery.

There are periods of international cooperation among nations and periods of pullback. Sometimes nations quarrel over international trade and foreign direct investment policies and other times find themselves working closely together. This geopolitical tension or cooperation then has ripple effects for international companies, managers, workers, and consumers. The ebb and flow of international political and economic cooperation is a hallmark of international business. Each generation faces its own issues, and international business today presents new challenges and opportunities within a new set of realities.

Relations between China and the United States are going through a difficult period. Much of this has to do with fundamental differences between these countries' cultures and systems of politics and economics. The US government barred US companies from doing business with China-based telecom company Huawei without government approval primarily because it feared China's leaders could use Huawei to commit espionage. This followed revelations that Super Micro Computer of San Jose, California, sold computer servers to US businesses containing hidden computer code in chips as well as extra chips that sent information to Chinese intelligence services. These types of events reinforce calls for tighter control over global supply chains to reduce geopolitical risk.³

The vulnerability of companies' supply chains has become apparent. Rather than maintain large inventories of component parts, many industries depend on suppliers to deliver parts to the

international business

Commercial transaction that crosses the borders of two or more nations.

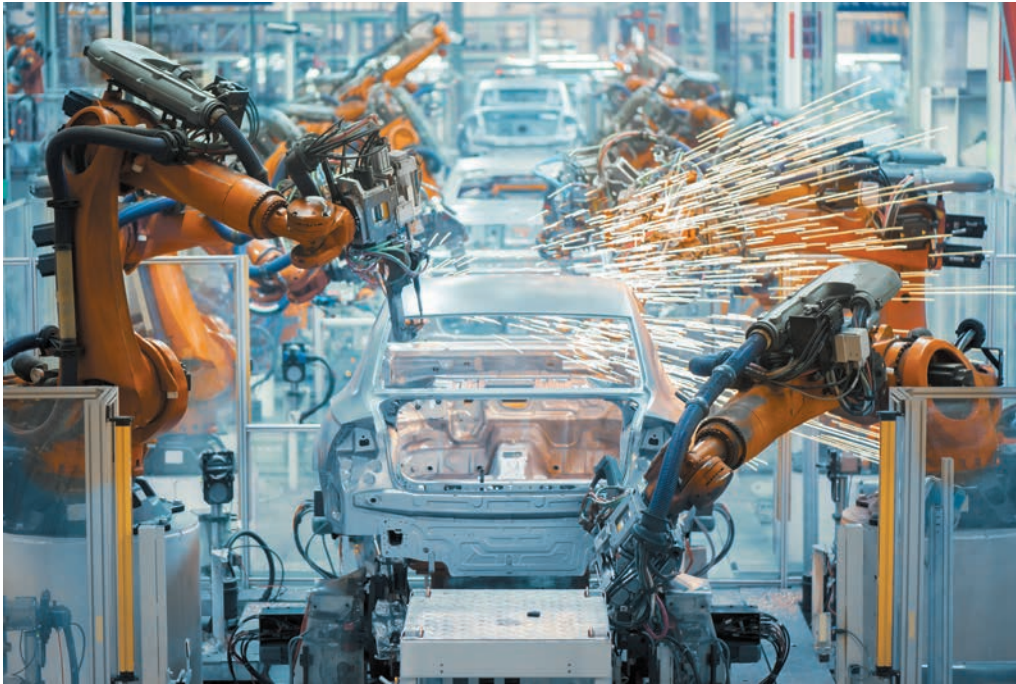
imports

Goods and services purchased abroad and brought into a country.

exports

Goods and services sold abroad and sent out of a country.

1.1 Identify the types of companies active in international business.



The first Industrial Revolution was driven by steam power, the second by electricity, and the third by digital technologies. This fourth Industrial Revolution is driven by artificial intelligence, biotechnology, quantum computing, and more. It is blending our digital, physical, and biological worlds and creating vehicles that drive themselves, robot arms used in smart factories, and other innovations. How might the fourth Industrial Revolution alter the production, marketing, and other management activities of companies?

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production process as they are needed. A global shortage of semiconductors arose from high demand for consumer electronics and electric vehicles starting in 2020. This caused a shortage of computer chips for braking systems and dashboard displays that forced General Motors, Volkswagen, and other carmakers to close factories temporarily. The chip shortage caused the global auto industry to produce at least 1.5 million fewer cars in 2021.⁴ Shipment delays and shortages struck supplies of all sorts of products. Companies began to shelter needed parts from negative surprises by diversifying supply chains and returning some of them to domestic markets.

Across the world, the Covid-19 pandemic caused many businesses to fail while entrepreneurs and other firms sprang into action to satisfy the needs of businesses, hospitals, schools, and individuals in dire straits. The pandemic changed how we studied, worked, dined, socialized, and entertained ourselves. Almost overnight, “going to school” and “going to work” meant finding a quiet place in the home to use a laptop or phone plus video software to log in to online classes and meetings. Demand shot up for video-meeting software such as Cisco’s Webex meetings, Zoom meetings, Microsoft Teams, Google Meet, and more.

A person’s job is a key component of their identity and helps determine their standard of living and certain aspects of their lifestyle. The pandemic allowed many white-collar employees to work from home. After the pandemic subsided, some of them adopted a hybrid arrangement where they spend a portion of the week working from home and a portion in the office. Blue-collar workers and front-line employees, however, still needed to show up for work during the pandemic. Some companies rewarded their employees with bonuses for their efforts in keeping essential goods and services available for the rest of society.⁵

International business is also about the work of executives and managers. The ways they lead their teams of employees are distinctive across cultures. There are similarities, certainly, but culture helps determine how leaders motivate others and accomplish business objectives. Leadership everywhere is as much an art as a science. Managers in other cultures need to know what it takes to motivate team members to dedicate themselves to their work. And an expatriate manager posted abroad who has a grasp of local beliefs and desires can increase their probability of success.

Now the 21st century digital economy is transforming the nature of the skills that businesses require of their employees. As companies undertake digitalization to make productive use of data, work in all sorts of occupations and industries is becoming more complex. In turn, employees are being encouraged to hone a range of technical and social skills and engage in lifelong learning.

We touch on these and other topics in this first chapter and throughout this book. So, let’s begin our journey by exploring the kinds of companies that engage in international business.

1.1.1 Key Players in International Business

Companies of all types and sizes and in all sorts of industries become involved in international business although they vary in the extent of their involvement. A small shop owner might only import supplies from abroad, whereas a large company might have dozens of factories and retail stores located worldwide. Large companies from the highest-income nations still dominate international business. But firms from emerging markets (such as Brazil, China, and India) now vigorously compete for global market share. Small and medium-sized companies are also increasingly active in international business, largely because of advances in technology.

A **multinational corporation (MNC)** is a business that has direct investments (in the form of marketing or manufacturing subsidiaries) abroad in multiple countries. A company that invests directly in operations abroad engages in **foreign direct investment**—the purchase of physical assets or a significant amount of the ownership of a company in another country to gain a measure of management control. In addition to importing and exporting, it is the third main way companies engage in international business activity.

Multinationals generate significant jobs, investment, and tax revenue for the regions and nations they enter. Likewise, they can leave thousands of people out of work when they close or scale back operations. Mergers and acquisitions between multinationals are commonly worth billions of dollars and increasingly involve companies based in emerging markets.

Some companies have more employees than the number of people living in some small countries and island nations. Walmart, for example, has 2.3 million employees. We see the enormous economic clout of multinational corporations when we compare the revenues of the Global 500 ranking of companies with the value of goods and services that countries generate. Figure 1.1 shows

multinational corporation (MNC)
Business that has direct investments abroad in multiple countries.

foreign direct investment
Purchase of physical assets or a significant amount of the ownership of a company in another country to gain a measure of management control.

Figure 1.1
Comparing the World’s Largest Companies with Selected Countries

Source: Based on data obtained from “Fortune Global 500: The 500 Largest Corporations in the World” (www.fortune.com/global500), August/September 2021; World Bank data set (www.data.worldbank.org).

