

NINTH  
EDITION



# INTERNATIONAL **BUSINESS**

**A Managerial Perspective**

Ricky W. Griffin | Michael W. Pustay



# Develop Employability Skills, Engage, Assess, and Apply with MyLab Management

**MyLab™ Management** is an online homework, tutorial, and assessment program constructed to work with this text to engage students and improve results. It was designed to help students develop and assess the skills and applicable knowledge that they will need to succeed in their courses and their future careers.

86% 

of students said MyLab Management helped them earn higher grades on homework, exams, or the course

\*Source: 2017 Student Survey, n 2559

See what more than 25,000 students had to say about MyLab Management:

*"What I liked most about MyLab Management was that it helped with understanding real world applications to the information that we were learning in class."*

— Student, Penn State University  
– Brandywine

## Engaging Videos

explore a variety of business topics related to the theory students are learning in class.

## Exercise Quizzes

assess students' comprehension of the concepts in each video.



Homework: Chapter 1 Video\_Toms Shoes\_5.19 mins Show completed problem Done

Score: 0 of 1 pt 1 of 5 (0 complete) HW Score: 0%, 0 of 5 pts

Video1.5.1 Question Help Settings

[Chapter 1 Video\\_Toms Shoes\\_5.19 mins](#)

Which best describes the type of goods Tom's Shoes sells?

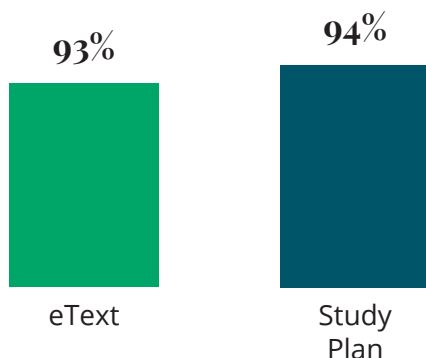
- ☐ A. C2C goods
- ☐ B. Non-profit goods
- ☐ C. Industrial goods
- ☐ D. B2B goods
- ☐ E. Consumer goods

**Mini Sims** put students in professional roles and give them the opportunity to apply course concepts and develop **decision-making skills** through real-world business challenges.



*"MyLab Management's primary benefit was that it helped me better understand my weaknesses and strengths. Allowing me to work on bettering my weaknesses to boost my overall grade in the class."*

— Crystal Miranda, Student, New Mexico State University



**Pearson eText** enhances student learning with engaging and interactive lecture and example videos that bring learning to life.

**% of students who found learning aid helpful**

The **Gradebook** offers an easy way for you and your students to see their performance in your course.

**86%** 

**of students would tell their instructor to keep using MyLab Management**

For additional details visit: [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management)

NINTH EDITION

# International Business

## A Managerial Perspective

**Ricky W. Griffin**

*Texas A&M University*

**Michael W. Pustay**

*Texas A&M University*



**Vice President, Business, Economics, and UK****Courseware:** Donna Battista**Director of Portfolio Management:** Stephanie Wall**Director, Courseware Portfolio Management:** Ashley Dodge**Senior Sponsoring Editor:** Neeraj Bhalla**Editorial Assistant:** Linda Albelli**Vice President, Product Marketing:** Roxanne McCarley**Senior Product Marketer:** Carlie Marvel**Product Marketing Assistant:** Marianela Silvestri**Manager of Field Marketing, Business Publishing:**

Adam Goldstein

**Field Marketing Manager:** Nicole Price**Vice President, Production and Digital Studio, Arts****and Business:** Etain O'Dea**Director, Production and Digital Studio, Business and****Economics:** Ashley Santora**Managing Producer, Business:** Melissa Feimer**Senior Content Producer:** Sugandh Juneja**Content Producer:** Shweta Jain**Operations Specialist:** Carol Melville**Design Lead:** Kathryn Foot**Manager, Learning Tools:** Brian Surette**Learning Tools Strategist:** Michael Trinchetto**Managing Producer, Digital Studio and GLP:** James Bateman**Managing Producer, Digital Studio:** Diane Lombardo**Digital Studio Producer:** Regina DaSilva**Digital Studio Producer:** Alana Coles**Full Service Project Management:** Venkat Perla

Ramesh and Bhanuprakash Sherla, Pearson CSC

**Interior Design:** Pearson CSC**Cover Design:** Pearson CSC**Cover Art:** Songquan Deng/Alamy Stock Photo**Printer/Binder:** LSC Communications, Inc., Kendallville**Cover Printer:** Phoenix Color/Hagerstown

Microsoft and/or its respective suppliers make no representations about the suitability of the information contained in the documents and related graphics published as part of the services for any purpose. All such documents and related graphics are provided "as is" without warranty of any kind. Microsoft and/or its respective suppliers hereby disclaim all warranties and conditions with regard to this information, including all warranties and conditions of merchantability, whether express, implied or statutory, fitness for a particular purpose, title and non-infringement. In no event shall Microsoft and/or its respective suppliers be liable for any special, indirect, or consequential damages or any damages whatsoever resulting from loss of use, data, or profits, whether in an action of contract, negligence, or other tortious action, arising out of or in connection with the use or performance of information available from the services.

The documents and related graphics contained herein could include technical inaccuracies or typographical errors. Changes are periodically added to the information herein. Microsoft and/or its respective suppliers may make improvements and/or changes in the product(s) and/or the program(s) described herein at any time. Partial screen shots may be viewed in full within the software version specified.

Microsoft® and Windows® are registered trademarks of the Microsoft Corporation in the U.S.A. and other countries. This book is not sponsored or endorsed by or affiliated with the Microsoft Corporation.

**Copyright © 2020, 2015, 2013 by Pearson Education, Inc. or its affiliates. All Rights Reserved.** Manufactured in the United States of America. This publication is protected by copyright, and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise. For information regarding permissions, request forms, and the appropriate contacts within the Pearson Education Global Rights and Permissions department, please visit [www.pearsoned.com/permissions/](http://www.pearsoned.com/permissions/).

Acknowledgments of third-party content appear on the appropriate page within the text.

PEARSON, ALWAYS LEARNING, and MYLAB are exclusive trademarks owned by Pearson Education, Inc. or its affiliates in the U.S. and/or other countries.

Unless otherwise indicated herein, any third-party trademarks, logos, or icons that may appear in this work are the property of their respective owners, and any references to third-party trademarks, logos, icons, or other trade dress are for demonstrative or descriptive purposes only. Such references are not intended to imply any sponsorship, endorsement, authorization, or promotion of Pearson's products by the owners of such marks, or any relationship between the owner and Pearson Education, Inc., or its affiliates, authors, licensees, or distributors.

**Library of Congress Cataloging-in-Publication Data**

Names: Griffin, Ricky W., author. | Pustay, Michael W., author.

Title: International business : a managerial perspective / Ricky W. Griffin, Texas A&amp;M University, Michael W. Pustay, Texas A&amp;M University.

Description: Ninth edition. | Boston : Pearson Education, [2020] | Includes bibliographical references and index.

Identifiers: LCCN 2018038834 | ISBN 9780134898773 (print) | ISBN 013489877X (print)

Subjects: LCSH: International business enterprises—Management.

Classification: LCC HD62.4 .G74 2020 | DDC 658/.049—dc23 | LC record available at <https://lccn.loc.gov/2018038834>

To the memory of my father, James P. Griffin, who provided  
encouragement and guidance in ways he never imagined.

R. W. G.

To the newest members of our family,  
Quinlan, Zane, and Andrew.

M. W. P.

*This page intentionally left blank*

# Brief Contents

*Maps* xix

*Preface* xxi

*Acknowledgments* xxviii

*About the Authors* xxix

## **PART 1 The World's Marketplaces 2**

- Chapter 1** An Overview of International Business 2
- Chapter 2** Global Marketplaces and Business Centers 24
- Chapter 3** Legal, Technological, and Political Environments 54
- Chapter 4** The Role of Culture 78
- Chapter 5** Ethics and Social Responsibility in International Business 112

## **PART 2 The International Environment 144**

- Chapter 6** International Trade and Investment 144
- Chapter 7** The International Monetary System and the Balance of Payments 174
- Chapter 8** Foreign Exchange and International Financial Markets 202
- Chapter 9** Formulation of National Trade Policies 226
- Chapter 10** International Cooperation Among Nations 254

## **PART 3 Managing International Business 294**

- Chapter 11** International Strategic Management 294
- Chapter 12** Strategies for Analyzing and Entering Foreign Markets 320
- Chapter 13** International Strategic Alliances 352
- Chapter 14** International Organization Design and Control 376
- Chapter 15** Leadership and Employee Behavior in International Business 406

## **PART 4 Managing International Business Operations 436**

- Chapter 16** International Marketing 436
- Chapter 17** International Operations Management 464
- Chapter 18** International Financial Management 490
- Chapter 19** International Human Resource Management and Labor Relations 524

*Glossary* 558

*Name Index* 571

*Company Index* 574

*Subject Index* 578



*This page intentionally left blank*

# Contents

Maps	xix
Preface	xxi
Acknowledgments	xxviii
About the Authors	xxix

## PART 1 The World's Marketplaces 2

### Chapter 1 An Overview of International Business 2

#### The Business of the Olympics 3

#### What Is International Business? 4

##### ■ BRINGING THE WORLD INTO FOCUS: Borders Do Matter 5

#### Why Study International Business? 5

#### International Business Activities 7

##### ■ BRINGING THE WORLD INTO FOCUS: The Early Era of International Business 7

##### Exporting and Importing 8

##### International Investments 8

##### Other Forms of International Business Activity 9

#### The Contemporary Causes of Globalization 10

##### Strategic Imperatives 12

##### The Environmental Causes of Globalization 13

##### Globalization and Emerging Markets 13

##### ■ EMERGING OPPORTUNITIES: Is Globalization Good for Us? 14

#### An Overview of the Contents of This Book 16

#### CHAPTER REVIEW 18 • Summary 18 • Questions for Discussion 18

#### • Building Global Skills 19

##### ■ CLOSING CASE: Demography Is Destiny 19

#### Endnotes 22

### Chapter 2 Global Marketplaces and Business Centers 24

#### The Northwest Passage 25

#### The Marketplaces of North America 26

##### The United States 26

##### ■ EMERGING OPPORTUNITIES: Classifying Countries by Income Levels 28

##### Canada 29

##### Mexico 30

##### Central America and the Caribbean 30

##### ■ BRINGING THE WORLD INTO FOCUS: The Canals of Commerce 30

#### The Marketplaces of Western Europe 31

##### ■ BRINGING THE WORLD INTO FOCUS: The EU's Growth Engine 33

#### The Marketplaces of Eastern Europe and Central Asia 34

#### The Marketplaces of Asia 37

##### Japan 37

##### Australia and New Zealand 37

##### The Four Tigers 39

##### China 41

##### India 43

##### Southeast Asian Countries 43

**The Marketplaces of Africa and the Middle East 43**

Africa 44

Middle East 44

■ **EMERGING OPPORTUNITIES: Location, Location, Location 46****The Marketplaces of South America 47**CHAPTER REVIEW 49 • Summary 49 • Questions for Discussion 50 •  
Building Global Skills 50■ **CLOSING CASE: Fracturing the Energy Market 51**

Endnotes 53

**Chapter 3 Legal, Technological, and Political Environments 54**

Tiny Islands, Big Trouble 55

**The Legal Environment 56**■ **E-WORLD: Cyber Privacy 57**

Differences in Legal Systems 57

■ **VENTURING ABROAD: How Important Is the Rule of Law? 60**

Domestically Oriented Laws 61

Laws Directly Affecting International Business Transactions 61

Laws Directed against Foreign Firms 62

The Impacts of MNCs on Host Countries 63

Dispute Resolution in International Business 64

**The Technological Environment 66**■ **VENTURING ABROAD: Technology Transfer: Does China Play Fair? 67****The Political Environment 70**

Political Risk 70

CHAPTER REVIEW 73 • Summary 73 • Questions for Discussion 73 •  
Building Global Skills 74■ **CLOSING CASE: Sour Oil, Soured Deal 74**

Endnotes 76

**Chapter 4 The Role of Culture 78**

Bollywood, Hollywood, and Nollywood 79

**Characteristics of Culture 80**■ **E-WORLD: The Internet, National Competitiveness, and Culture 81****Elements of Culture 81**■ **BRINGING THE WORLD INTO FOCUS: Japan's Demographic and Cultural Challenges 82**

Social Structure 83

Language 84

Communication 88

Religion 90

■ **BRINGING THE WORLD INTO FOCUS: Islamic Finance 92**

Values and Attitudes 93

**Seeing the Forest, Not the Trees 95**

Hall's Low-Context–High-Context Approach 95

The Cultural Cluster Approach 96

Hofstede's Six Dimensions 98

Social Orientation 98

Power Orientation 100

Uncertainty Orientation 101

Goal Orientation 103

Time Orientation 103

Indulgence–Restraint Orientation 104

**International Management and Cultural Differences 105**

Understanding New Cultures 105

■ **VENTURING ABROAD: McDonald's Fits In** 105**CHAPTER REVIEW** 106 • **Summary** 106 • **Questions for Discussion** 107 • **Building Global Skills** 107■ **CLOSING CASE: Quacking Up a Storm of Business** 108**Endnotes** 109**Chapter 5 Ethics and Social Responsibility in International Business 112****Rebuilding Rwanda, one Cup at a Time** 113**The Nature of Ethics and Social Responsibility in International Business** 114**Ethics in Cross-Cultural and International Contexts** 117

How an Organization Treats Its Employees 117

How Employees Treat the Organization 119

How Employees and the Organization Treat Other Economic Agents 119

**Managing Ethical Behavior across Borders** 120

Guidelines and Codes of Ethics 120

■ **VENTURING ABROAD: Siemens Pays—and Pays and Pays** 121

Ethics Training 121

Organizational Practices and the Corporate Culture 122

**Corporate Social Responsibility in Cross-Cultural and International Contexts** 123

The Economic Mission 123

Sustainability and the Natural Environment 123

■ **PEOPLE, PLANET, AND PROFITS: Lions and Tigers and Bears, Oh My!** 124

General Social Welfare 125

**Managing Social Responsibility across Borders** 127

Approaches to Social Responsibility 127

Managing Compliance 128

■ **PEOPLE, PLANET, AND PROFITS: E-Waste** 129

Informal Dimensions of Social Responsibility 130

Evaluating Social Responsibility 131

**Difficulties of Managing CSR across Borders** 132

The Anglo-Saxon Approach 132

The Asian Approach 132

The Continental European Approach 132

**Regulating International Ethics and Social Responsibility** 133■ **EMERGING OPPORTUNITIES: Conflict Diamonds** 134**CHAPTER REVIEW** 135 • **Summary** 135 • **Questions for Discussion** 135 • **Building Global Skills** 136■ **CLOSING CASE: Rana Plaza** 136**Endnotes** 138■ **PART 1: CLOSING CASES: A Pipeline of Good Intentions** 140

The Oil Curse 142

**PART 2 The International Environment 144****Chapter 6 International Trade and Investment 144****Trade is Blossoming** 145**International Trade and the World Economy** 146

## Classical Country-Based Trade Theories 147

Mercantilism 148

Absolute Advantage 148

Comparative Advantage 149

Comparative Advantage with Money 150

■ **BRINGING THE WORLD INTO FOCUS: The Lincoln Fallacy** 151

Relative Factor Endowments 152

## Modern Firm-Based Trade Theories 155

Product Life Cycle Theory 155

Country Similarity Theory 157

New Trade Theory 157

Porter's Theory of National Competitive Advantage 159

■ **VENTURING ABROAD: Birds of a Feather Flock Together** 161

## An Overview of International Investment 161

Types of International Investments 161

■ **VENTURING ABROAD: The New Player in Global Capital Markets: Sovereign Wealth Funds** 163

The Growth of FDI 164

FDI and the United States 164

## International Investment Theories 165

Ownership Advantages 166

Internalization Theory 166

Dunning's Eclectic Theory 166

## Factors Influencing FDI 167

Supply Factors 167

Demand Factors 168

Political Factors 169

**CHAPTER REVIEW** 169 • **Summary** 169 • **Questions for**

**Discussion** 170 • **Building Global Skills** 170

■ **CLOSING CASE: The Growing Trade in Growing Grapes** 171

**Endnotes** 173

## Chapter 7 The International Monetary System and the Balance of Payments 174

**It ain't Necessarily so** 175

### History of the International Monetary System 176

The Gold Standard 176

The Collapse of the Gold Standard 177

The Bretton Woods Era 179

The End of the Bretton Woods System 182

Performance of the International Monetary System since 1971 183

■ **BRINGING THE WORLD INTO FOCUS: Fixed Versus Flexible Exchange Rates** 185

■ **BRINGING THE WORLD INTO FOCUS: Should Bretton Woods Be Restored?** 187

### The BOP Accounting System 188

The Major Components of the BOP Accounting System 189

■ **BRINGING THE WORLD INTO FOCUS: Ben Franklin, World Traveler** 193

The U.S. BOP in 2017 194

Defining BOP Surpluses and Deficits 196

**CHAPTER REVIEW** 198 • **Summary** 198 • **Questions for**

**Discussion** 198 • **Building Global Skills** 199

■ **CLOSING CASE: Recent U.S. BOP Performance: Is the Sky Falling?** 200

**Endnotes** 201

**Chapter 8 Foreign Exchange and International Financial Markets 202****The Dutch Disease 203****The Economics of Foreign Exchange 204**■ **BRINGING THE WORLD INTO FOCUS: A Brief Hint 206****The Structure of the Foreign-Exchange Market 207**

## The Role of Banks 207

## Spot and Forward Markets 210

## Arbitrage and the Currency Market 212

■ **BRINGING THE WORLD INTO FOCUS: The Big Mac Index 214****The International Capital Market 218**

## Major International Banks 218

■ **VENTURING ABROAD: The Carry Trade 218**

## The Eurocurrency Market 220

## The International Bond Market 220

## Global Equity Markets 221

## Offshore Financial Centers 222

**CHAPTER REVIEW 223 • Summary 223 • Questions for****Discussion 223 • Building Global Skills 224**■ **CLOSING CASE: What Is Next for Chinese Manufacturing? 224****Endnotes 225****Chapter 9 Formulation of National Trade Policies 226****Say Cheese, Please 227****Rationales for Trade Intervention 228**

## Industry-Level Arguments 228

## National Trade Policies 232

**Barriers to International Trade 235**

## Tariffs 235

■ **VENTURING ABROAD: Toyota's Politics Is Local 236**

## Nontariff Barriers 237

■ **BRINGING THE WORLD INTO FOCUS: The Fight Over Rare Earths 241****Promotion of International Trade 243**

## Subsidies 243

## Foreign Trade Zones 244

■ **PEOPLE, PLANET, AND PROFITS: Cotton Subsidies and World Poverty 245**

## Export Financing Programs 246

**Controlling Unfair Trade Practices 246**

## Countervailing Duties 247

## Antidumping Regulations 247

## Should Countries Enforce Their Unfair Trade Practice Laws? 248

## Safeguards 248

**CHAPTER REVIEW 249 • Summary 249 • Questions for****Discussion 249 • Building Global Skills 250**■ **CLOSING CASE: Which Way for Huawei? 250****Endnotes 252****Chapter 10 International Cooperation Among Nations 254****Trade and Prosperity: The Case of Mexico 255****The General Agreements on Tariffs and Trade and the World Trade Organization 256**



The Role of the General Agreement on Tariffs and Trade	256
■ <b>PEOPLE, PLANET, AND PROFITS: Protecting Endangered Species</b>	257
■ <b>BRINGING THE WORLD INTO FOCUS: Most Nations are Favored</b>	258
The World Trade Organization	259
<b>Regional Economic Integration</b>	<b>261</b>
Forms of Economic Integration	261
The Impact of Economic Integration on Firms	262
<b>The European Union</b>	<b>263</b>
■ <b>BRINGING THE WORLD INTO FOCUS: How do you Unscramble an Omelette?</b>	265
Governing the EU	266
The Struggle to Create a Common Market	270
■ <b>VENTURING ABROAD: Lobbying the European Union</b>	271
From Common Market to European Union	271
■ <b>BRINGING THE WORLD INTO FOCUS: Rodrik's Globalization Trilemma</b>	275
<b>Other Regional Trading Blocs</b>	<b>276</b>
The North American Free Trade Agreement	276
Other Free Trade Agreements in the Americas	276
Trade Arrangements in the Asia-Pacific Region	279
■ <b>BRINGING THE WORLD INTO FOCUS: One Belt, One Road</b>	281
African Initiatives	282
<b>CHAPTER REVIEW</b>	<b>283</b>
• Summary	283
• Questions for Discussion	284
• Building Global Skills	284
■ <b>CLOSING CASE: The European Union's Challenges</b>	284
<b>Endnotes</b>	<b>287</b>
■ <b>PART 2: CLOSING CASES: Twenty-First Century Pirates</b>	288
Jumbo Battle over Jumbo Jets	289
Green Energy and Free Trade	290

## **PART 3 Managing International Business 294**

### **Chapter 11 International Strategic Management 294**

Global Mickey	295
The Challenges of International Strategic Management	296
■ <b>EMERGING OPPORTUNITIES: How Does A Japanese Firm Compete In China? . . . Act More American</b>	299
<b>Strategic Alternatives</b>	<b>300</b>
■ <b>VENTURING ABROAD: Master of the Furniture Universe</b>	302
<b>Components of an International Strategy</b>	<b>304</b>
Distinctive Competence	304
Scope of Operations	304
Resource Deployment	305
Synergy	305
<b>Developing International Strategies</b>	<b>306</b>
Mission Statement	306
Environmental Scanning and the SWOT Analysis	306
Strategic Goals	308
Tactics	309
Control Framework	309
■ <b>E-WORLD: Nokia: No Longer King of the Hill</b>	310
<b>Levels of International Strategy</b>	<b>311</b>
Corporate Strategy	311
Business Strategy	313
Functional Strategies	314

<b>CHAPTER REVIEW</b>	<b>315</b>	•	<b>Summary</b>	<b>315</b>	•	<b>Questions for Discussion</b>	<b>316</b>	•	<b>Building Global Skills</b>	<b>316</b>
			■ <b>CLOSING CASE: The House of Tata</b>	<b>317</b>						
<b>Endnotes</b>	<b>319</b>									

## **Chapter 12 Strategies for Analyzing and Entering Foreign Markets 320**

<b>The Business of Luxury</b>	<b>321</b>
<b>Foreign Market Analysis</b>	<b>322</b>
Assessing Alternative Foreign Markets	322
■ <b>EMERGING OPPORTUNITIES: The Bottom of the Pyramid</b>	<b>324</b>
Evaluating Costs, Benefits, and Risks	325
<b>Choosing a Mode of Entry</b>	<b>326</b>
<b>Exporting to Foreign Markets</b>	<b>329</b>
Forms of Exporting	331
Additional Considerations	333
■ <b>EMERGING OPPORTUNITIES: You Need To Know The Territory</b>	<b>334</b>
Export Intermediaries	335
<b>International Licensing</b>	<b>336</b>
Basic Issues in International Licensing	338
Advantages and Disadvantages of International Licensing	339
<b>International Franchising</b>	<b>340</b>
Basic Issues in International Franchising	340
Advantages and Disadvantages of International Franchising	341
<b>Specialized Entry Modes for International Business</b>	<b>342</b>
Contract Manufacturing	342
Management Contract	342
Turnkey Project	342
■ <b>EMERGING OPPORTUNITIES: Business Process Outsourcing</b>	<b>343</b>
<b>Foreign Direct Investment</b>	<b>344</b>
The Greenfield Strategy	344
The Acquisition Strategy	345
Joint Ventures	345
<b>CHAPTER REVIEW</b>	<b>346</b>
• <b>Summary</b>	<b>346</b>
• <b>Questions for Discussion</b>	<b>347</b>
• <b>Building Global Skills</b>	<b>347</b>
■ <b>CLOSING CASE: How High Can Haier Go?</b>	<b>348</b>
<b>Endnotes</b>	<b>350</b>

## **Chapter 13 International Strategic Alliances 352**

<b>The Hanseatic League</b>	<b>353</b>
<b>International Corporate Cooperation</b>	<b>354</b>
<b>Benefits of Strategic Alliances</b>	<b>355</b>
Ease of Market Entry	356
Shared Risk	356
Shared Knowledge and Expertise	357
Synergy and Competitive Advantage	357
<b>Scope of Strategic Alliances</b>	<b>358</b>
Comprehensive Alliances	358
Functional Alliances	358
■ <b>VENTURING ABROAD: Alliances in the Sky</b>	<b>360</b>
<b>Implementation of Strategic Alliances</b>	<b>362</b>
Selection of Partners	362
Form of Ownership	363
■ <b>VENTURING ABROAD: Learning by Doing</b>	<b>363</b>

■ PEOPLE, PLANET, AND PROFITS: Alliances for Good	364
Joint Management Considerations	365
<b>Pitfalls of Strategic Alliances</b>	<b>367</b>
Incompatibility of Partners	367
■ EMERGING OPPORTUNITIES: Xi's in Charge	368
Access to Information	369
Conflicts over Distributing Earnings	369
Loss of Autonomy	369
Changing Circumstances	370
CHAPTER REVIEW	370 • Summary 370 • Questions for Discussion 371 • Building Global Skills 371
■ CLOSING CASE: Look Before You Leap	372
Endnotes	373

## Chapter 14 International Organization Design and Control 376

Alshaya's Matrix Design	377
The Nature of International Organization Design	378
<b>Global Organization Designs</b>	<b>379</b>
Global Product Design	380
Global Area Design	381
Global Functional Design	382
Global Customer Design	382
Global Matrix Design	384
Hybrid Global Designs	385
<b>Related Issues in Global Organization Design</b>	<b>387</b>
Centralization versus Decentralization	387
Role of Subsidiary Boards of Directors	387
■ BRINGING THE WORLD INTO FOCUS: Lenovo Spreads Its Global Wings	388
Coordination in the Global Organization	389
<b>The Control Function in International Business</b>	<b>390</b>
Strategic Control	390
Organizational Control	392
Operations Control	395
<b>Managing the Control Function in International Business</b>	<b>395</b>
Establishing International Control Systems	395
■ PEOPLE, PLANET, AND PROFITS: Toward Zero Waste?	396
Essential Control Techniques	398
Behavioral Aspects of International Control	400
CHAPTER REVIEW	402 • Summary 402 • Questions for Discussion 402 • Building Global Skills 403
■ CLOSING CASE: Mining a New Organization Design	403
Endnotes	404

## Chapter 15 Leadership and Employee Behavior in International Business 406

BP's Dirty Reputation	407
<b>Individual Behavior in International Business</b>	<b>408</b>
Personality Differences across Cultures	408
Attitudes across Cultures	411
Perception across Cultures	412
Stress across Cultures	413
■ BRINGING THE WORLD INTO FOCUS: Stressing Out in the Call Centers	413
<b>Motivation in International Business</b>	<b>414</b>

- Needs and Values across Cultures 414
- Motivational Processes across Cultures 415
- Need-Based Models across Cultures 415
- Process-Based Models across Cultures 416
- The Reinforcement Model across Cultures 417

### **Leadership in International Business 417**

- Contemporary Leadership Theory 417
- The GLOBE Leadership Project 420

### **Decision Making in International Business 421**

- Models of Decision Making 421
- The Normative Model across Cultures 422
- The Descriptive Model across Cultures 423

### **Groups and Teams in International Business 424**

- The Nature of Group Dynamics 424
- **VENTURING ABROAD: Mixing and Matching in a Joint Venture 424**
- Managing Cross-Cultural Teams 425

### **CHAPTER REVIEW 426 • Summary 426 • Questions for Discussion 427 • Building Global Skills 427**

- **CLOSING CASE: Leadership Issues At Toyota 427**

### **Endnotes 429**

- **PART 3: CLOSING CASES: Reinventing Nissan 431**
- Unilever Matches Strategy and Structure 433
- The European Cereal Wars 435

## **PART 4 Managing International Business Operations 436**

### **Chapter 16 International Marketing 436**

#### **Conquering With Stalls 437**

### **International Marketing Management 438**

- International Marketing and Business Strategies 438
- The Marketing Mix 440
- Standardization versus Customization 441

- **EMERGING OPPORTUNITIES: Pretty Garlic 441**

### **Product Policy 444**

- Standardized Products or Customized Products? 445
- Legal Forces 445
- Cultural Influences 445

- **PEOPLE, PLANET, AND PROFITS: Milking Coconuts for Fun and Profit 446**

- Economic Factors 447
- Brand Names 447

### **Pricing Issues and Decisions 448**

- Pricing Policies 448
- Market Pricing 449

### **Promotion Issues and Decisions 451**

- Advertising 451
- **VENTURING ABROAD: Putting the Greek into Yogurt 452**
- Personal Selling 453
- **E-WORLD: ¿Qué Pasa in the Ad Agency? 454**
- Sales Promotion 455
- Public Relations 455

### **Distribution Issues and Decisions 456**

- International Distribution 456
- Channels of Distribution 457

CHAPTER REVIEW	460	• Summary	460	• Questions for Discussion	460	• Building Global Skills	461
■ CLOSING CASE: Novica Opens Doors Across National Boundaries	461						
Endnotes	462						

## Chapter 17 International Operations Management 464

Racing To Market	465
The Nature of International Operations Management	466
The Strategic Context of International Operations Management	467
■ PEOPLE, PLANET, AND PROFITS: Cooking up What's Good for the World	468
Complexities of International Operations Management	468
Production Management	469
Supply Chain Management and Vertical Integration	469
Location Decisions	473
■ BRINGING THE WORLD INTO FOCUS: A Race to the Finish	473
International Logistics and Materials Management	476
■ BRINGING THE WORLD INTO FOCUS: When the Colonel Ran Out of Chicken	477
International Service Operations	479
Characteristics of International Services	479
The Role of Government in International Services Trade	480
Managing Service Operations	480
Managing Productivity in International Business	481
Managing Quality in International Business	482
Managing Information in International Business	484
CHAPTER REVIEW	485
• Summary	485
• Questions for Discussion	486
• Building Global Skills	486
■ CLOSING CASE: Out Supply-Chaining the King of Supply Chainers	487
Endnotes	488

## Chapter 18 International Financial Management 490

Singapore Airlines' Worldwide Financial Management	491
Financial Issues in International Trade	491
Choice of Currency	492
Credit Checking	492
Method of Payment	492
Financing Trade	499
Managing Foreign Exchange Risk	500
Transaction Exposure	500
Translation Exposure	503
Economic Exposure	503
Management of Working Capital	506
Minimizing Working Capital Balances	506
Minimizing Currency Conversion Costs	507
Minimizing Foreign-Exchange Risk	508
International Capital Budgeting	509
Net Present Value	509
Internal Rate of Return	510
Payback Period	510
Sources of International Investment Capital	511
External Sources of Investment Capital	511
Internal Sources of Investment Capital	512
Strategic Use of Transfer Pricing	513
Tax Havens	515
■ EMERGING OPPORTUNITIES: Sun, Sand, and Shells	516

CHAPTER REVIEW	517	•	Summary	517	•	Questions for Discussion	518	•	Building Global Skills	518
■ CLOSING CASE: Tax Wars	519									
Endnotes	521									

## **Chapter 19 International Human Resource Management and Labor Relations 524**

### **An Emerging Voice for Workers 525**

#### **The Nature of International Human Resource Management 526**

Strategic Significance of HRM 526

#### **International Managerial Staffing Needs 528**

Scope of Internationalization 528

Centralization versus Decentralization of Control 529

Staffing Philosophy 529

### **■ EMERGING OPPORTUNITIES: Competing with Local Headhunters 530**

#### **Recruitment and Selection 532**

### **■ BRINGING THE WORLD INTO FOCUS: Schlumberger Profits from Geocentric Staffing 532**

Recruitment of Managers 533

Selection of Managers 534

Expatriation and Repatriation Issues 535

#### **Training and Development 537**

Assessing Training Needs 537

Basic Training Methods and Procedures 537

Developing Younger International Managers 538

#### **Performance Appraisal and Compensation 539**

Assessing Performance in International Business 539

Determining Compensation in International Business 540

### **■ EMERGING OPPORTUNITIES: How about Moving to India? 543**

#### **Retention and Turnover 544**

#### **Human Resource Issues for Nonmanagerial Employees 545**

### **■ VENTURING ABROAD: Who Gets Paid ... and Who Doesn't? 546**

Recruitment and Selection 546

Training and Development 547

Compensation and Performance Appraisal 547

#### **Labor Relations 548**

Comparative Labor Relations 548

Collective Bargaining 548

Union Influence and Codetermination 549

CHAPTER REVIEW	550	•	Summary	550	•	Questions for Discussion	550	•	Building Global Skills	551
----------------	-----	---	---------	-----	---	--------------------------	-----	---	------------------------	-----

### **■ CLOSING CASE: Training for the World 551**

#### **Endnotes 552**

### **■ Part 4: CLOSING CASES: The Aramco Advantage 554**

The Power of Microfinance: The Grameen Bank 555

The Elephant Bikers 555

*Glossary 558*

*Name Index 571*

*Company Index 574*

*Subject Index 578*



*This page intentionally left blank*

# Maps

Map 1.1	China's Regional Challenges	15
Map 2.1	North America	27
Map 2.2	Western Europe	32
Map 2.3	The Former Soviet Union	35
Map 2.4	Asia	38
Map 2.5	Australia and New Zealand	39
Map 2.6	Africa and the Middle East	45
Map 2.7	The Middle East	46
Map 2.8	South America	48
Map 3.1	India	58
Map 4.1	World Languages	85
Map 4.2	Africa's Colonial Heritage	87
Map 4.3	Major World Religions	91
Map 4.4	A Synthesis of Country Clusters	97
Map 5.1	Social Responsibility Hot Spots	126
Map 5.2	Chad Pipeline	140
Map 6.1	Key Industrial Clusters in Western Europe	162
Map 7.1	The British Empire in 1913	178
Map 8.1	A Day of Foreign-Exchange Trading	208
Map 9.1	Argentina	233
Map 9.2	An Effect of the Jones Act	234
Map 9.3	Foreign Trade Zone on Mauritius	244
Map 10.1	The European Union	265
Map 10.2	Free Trade Agreements in Central and South America and the Caribbean	278
Map 10.3	The ASEAN Members	280
Map 10.4	Asia-Pacific Economic Cooperation Initiative (APEC)	280
Map 10.5	Free Trade Agreements in Africa	282
Map 12.1	Turkey: The Gateway to the Central Asian Republics and the Caucasus	328
Map 14.1	A Sampling of Nestlé's Global Holdings, Subsidiaries, and Affiliates	394
Map 14.2	Kenyan Rainfall	399
Map 18.1	Countertrade by Marc Rich	498
Map 18.2	Changes in Currency Values Relative to the U.S. Dollar, August 2018 versus August 2013	505
Map 18.3	The Cayman Islands	516
Map 19.1	Global Cost of Living Survey	541

*This page intentionally left blank*

## New To This Edition

The ninth edition features new cases, boxes, and analyses reflecting the latest challenges and opportunities confronting international businesses. More specifically, the following content is new or revised to reflect the latest global trends:

- The pressures on multinational organizations to consider the impact of their actions on the natural environment and on the general welfare of society continue to increase. The context box, **People, Planet, and Profits**, addresses the challenges that international businesses face in promoting their triple bottom lines.
- The international business course at most colleges and universities encompasses both the external environment and the internal environment of international businesses. We have introduced several new boxes and cases and updated others that focus on changes in the external environment that create opportunities and challenges for firms competing in the international market place. These new and updated cases and boxes include discussions of territorial disputes in the South China Sea, China's One Belt, One Road initiative, technology transfer controversies, upheavals in the world energy market as a result of fracking, the opening up of the fabled Northwest Passage, sustainable global sourcing, expansion of the Panama Canal, and growing concerns about cyber privacy.
- New and updated profiles of the challenges and opportunities provided international firms as they confront and master the complexities of the international marketplace, including new cases and boxes featuring Gulf air carriers, Huawei, Haier, Anglo American PLC, ENI, and McDonald's, and updated treatments of LVMH, Alshaya, Tata, Toyota, Disney, Harley-Davidson, Unilever, and Danone, among others.
- New and updated analyses of the impact of globalization on competition within industries, including the global wine industry, the global flower industry, the coffee industry, the international cinema market, Germany's Mittelstand, and the international airline industry.
- New and updated cases exploring how firms address cultural, legal, and technological differences among countries. Students gain deeper and more nuanced understandings of the politics, culture, and social problems of individual countries through in-depth examination of issues such as Russia and the rule of law, the impact on the European Union of Brexit, Japan and its cultural and demographic challenges, the hidden role of the Communist Party in Chinese businesses, China's controversial technology transfer policies, Islamic finance, the GLOBE leadership project, and the growth of unionization activity in China.
- New and updated examples and cases assessing the ethical and social responsibilities of international businesses and international businesspeople, including direct trade coffee, disposal of e-waste, BP and the Gulf oil spill, green energy and free trade, DuPont's quest for zero waste, Maersk and pollution in Hong Kong harbor, the Chad pipeline, the Siemens bribery scandal, and Grameen Bank.
- New and updated examples of international trade and investment conflicts and the challenges they present international business practitioners, including Huawei's struggles to enter the U.S. market, the global taxation war, rare earths, tax shelters, jumbo jet subsidies, sovereign wealth funds, and trade in counterfeit goods.
- The ninth edition also provides up-to-date coverage of the impact of how recent natural disasters and political upheavals have affected international business. Examples include the earthquake and tsunami that shattered Japan and the resultant impact on global supply chains, Toyota's massive recalls and quality problems, and the political unrest that swept through the Middle East beginning in 2011.
- All data and other statistical information in the book have been thoroughly updated, including international trade statistics, exchange rates, and expatriate costs of living in various global business centers.

## Solving Teaching and Learning Challenges

We've taught International Business courses for 30 years and enjoyed every moment of the experience. From the instructor's perspective, the joy and excitement of the course lies in its importance and dynamism. Its importance cannot be denied. The jobs, careers, and livelihoods of virtually every human being on the planet are affected by international commerce. For some, that commerce represents an opportunity; for others, a threat. Almost a third of the world's economic activity is attributable to international trade, and foreign direct investment has surpassed \$31 trillion. Nor can its dynamism be denied. Think of the changes that have occurred in the years between the publication of the eighth edition and the ninth edition of this text: the United Kingdom voting to withdraw from the European Union, the United States reversing its long-term policies toward free trade, China's "One Belt, One Road" initiative, Russia's meddling in U.S. elections, a complete upheaval in world energy markets as a result of hydraulic fracturing, Nokia's shifting from mobile market leader to dead-in-the-water (at least in Wall Street's view), and the #MeToo movement, to name but a few examples. We have incorporated many of these developments in **Bringing the World into Focus** and as examples in the text in this edition.

From the student's perspective the dynamism of international business—and the sheer breadth of the subject matter—can be intimidating. We discuss every region of the world and draw on every business discipline—accounting, marketing, management, finance, supply chain management, MIS—and numerous liberal arts disciplines—economics, geography, anthropology, sociology, history, international relations, political science, and the law. It's not surprising that students can feel overwhelmed by the magnitude of the course. We have striven to reduce students' fears of not being able to master this extensive material by providing clear, concise discussions of the principle concepts and challenges of international business and by offering numerous examples of these issues in action.

The retained content boxes that highlight coverage of current issues related to technology, entrepreneurship, and conducting business with a global perspective for the students are:

### VENTURING ABROAD



#### THE CARRY TRADE

Although covered-interest arbitrage is an important component of the foreign-exchange market, uncovered-interest arbitrage—the so-called **carry trade**—is a growing phenomenon. The carry trade tries to exploit differences in the interest rates between countries. Because Japan's interest rates have been among the lowest of the major trading nations, the yen is a favorite currency of the carry trade. The strategy is simple: Borrow yen at a low interest rate, and use the borrowed yen to buy bonds, notes, or certificates of deposit denominated in currencies that are paying higher interest rates, such as the Australian dollar or the New Zealand dollar. The strategy is risky: If the yen rises in value relative to the second currency, the carry trader can lose lots of money very quickly. Some experts have

platforms. A cottage industry of investing clubs, books, and online blogs has mushroomed to aid these legions of amateur currency traders. All told, private Japanese investors were estimated to account for 30 percent of the spot trading in the yen, 5 percent of trading in the Australian dollar, and 4 percent in the British pound in a recent year.

Volatile currency markets are poisonous to the carry trade. For instance, as the problems with subprime mortgages became more widely known during the summer of 2007, the currency and capital markets became increasingly skittish. During one week in August 2007, the yen rose 4 percent versus the U.S. dollar, 9 percent against the Australian dollar, and 11 percent relative to the New Zealand dollar. When the yen began to rise, many carry traders tried to cut

■ **VENTURING ABROAD** Exposes students to the opportunities and challenges of conducting business outside their home country.

■ **E-WORLD** Provides insights into the impact of e-commerce on how business is conducted internationally.

### E-WORLD



#### CYBER PRIVACY

The Internet by its very nature transcends national boundaries. Yet national governments have very different policies when it comes to the privacy rights of their citizens. With its tradition of free speech and belief in free markets, the United States has generally adopted a laissez-faire approach to Internet content. Such is not the case in Europe, where the memories of the abuses of the Gestapo in Nazi Germany and the territories it occupied in World War II are still fresh and raw.

In many ways, the European Union has been the pacesetter in establishing and protecting personal cyber privacy. In 2018, the EU's General Data Protection Regulation (GDPR) took effect. The GDPR regulates the collection, storing, and usage of personal data of EU residents by both EU and non-EU companies, regardless of where the data activity took place. The GDPR covers personal information like names and addresses, photos, financial and medical records, social media postings—even computer IP addresses. Failure to comply may expose

neo-Nazi propaganda. The EU has imposed a one-hour time limit on the removal of such content once a law enforcement agency notifies the web provider.

Conversely, in the United States platforms are not legally liable for user content. However, major social media companies like Facebook, Twitter, and YouTube are coming under increasing public pressure to monitor and delete objectionable materials and increase consumers' cyber privacy due to news reports of Russian interference in the 2016 election, the proliferation of "fake news" on the Internet, the growth of "clickbait" sites, and the public backlash from the Cambridge Analytica scandal, in which the profiles and postings of 87 million Facebook members were used without their knowledge to assist a presidential campaign. Facebook alone gets one million user reports of objectionable content per day. Needless to say, the leading social media companies face major challenges in complying with the new EU regulations and in placating the concerns of American

## BRINGING THE WORLD INTO FOCUS



### THE LINCOLN FALLACY

Foreign trade policy has been debated by politicians, pundits, and professors for centuries. Proponents of free trade see little distinction between domestic trade and foreign trade: If the voluntary exchange of goods, services, and assets between two residents of the same country is to be encouraged because it benefits both parties to the transaction, the same logic should hold true for voluntary exchanges between a domestic resident and a foreigner. But other groups argue that government policy should favor domestic producers over foreign producers. In their view, foreign trade builds up the economies of foreign countries while weakening the domestic economy. Abraham Lincoln, for example, endorsed this position with his characteristic clarity: “I know this much. When we

buy goods manufactured abroad, we get the goods and the foreigner gets the money. When we buy goods manufactured at home, we get both the goods and the money.”

Although Lincoln’s statements may seem like common sense to patriots concerned about strengthening their nation’s economy and promoting job opportunities for their fellow citizens, trade experts find his argument misleading and incomplete. Lincoln is correct in asserting that buying goods from foreign producers gives our money to foreigners, whereas buying goods from domestic producers gives our money to fellow citizens. What his argument fails to consider is the resources—the factors of production—needed to create the goods. When we buy goods produced domestically, domestic factors of production, such

■ **BRINGING THE WORLD INTO FOCUS**  
Helps students understand the historical, cultural, and political contexts of international business.

## ■ EMERGING OPPORTUNITIES

Highlights challenges and opportunities in emerging international markets.

## EMERGING OPPORTUNITIES



### LOCATION, LOCATION, LOCATION

Real estate agents are often quoted as saying that the three most important considerations in selling property are “location, location, and location.” Three Middle Eastern airlines have taken that saying to heart and are rapidly transforming themselves into major players in international civil aviation. The oldest and largest of the three, Emirates, was founded in 1985. It is headquartered and owned by the sovereign wealth fund of the government of Dubai. Emirates flew 56 million passengers to 140 cities in 2017, allowing it to claim the title of the fourth largest carrier in the world.

It is the world’s largest operator of the world’s largest commercial airliner, the Airbus A-380, although Boeing aircraft are also part of its fleet. Its home port, Dubai International Airport, is now the third largest airport in the world, serving 88 million passengers in 2017. The second of the three carriers, Qatar Airways, commenced operations in 1994. Based at Doha’s new airport, Hamad International Airport, this state-owned airline operates 196 aircraft. It generated \$10.8 billion in revenues in 2017 while serving more than 150 cities. The youngest of the three, Etihad Airways, which began operations in 2003, is

## PEOPLE, PLANET, AND PROFITS



### LIONS AND TIGERS AND BEARS, OH MY!

Sick of his advisors responding, “on the one hand . . . on the other hand . . .” President Harry S. Truman famously requested that someone should find him a one-armed economist. Truman would no doubt be frustrated by the answers he would receive if he asked whether globalization harms or aids the world’s threatened and endangered wildlife. On the one hand, critical habitat has been destroyed, turned into farm land, or paved over to build new factories to serve global markets. On the other hand, global concerns about greenhouse gas emissions and the rise of ecotourism have induced nations and local citizens to protect critical habitat.

The Nature Conservancy, a leading environmental NGO, defines ecotourism as “Environmentally responsible travel to natural areas, in order to enjoy and appreciate nature . . . have low visitor impact, and provide for beneficially active socio-economic involvement of local peoples . . . [Ecotourism provides] sustainable benefits to local communities.” Successful ecotourist programs develop incentives for local residents, who are often desperately poor, to help protect habitat and the animals themselves. Consider the mountain gorillas of Rwanda, which were made famous by Dian Fossey and her book *Gorillas in the*

*Mist*, later made into a movie of the same name starring Sigourney Weaver. The mountain gorilla population is threatened by loss of habitat by subsistence farmers encroaching on their territory and poachers who killed the animals for their skins, heads, and hands. The rise of ecotourism and the willingness of affluent foreigners to pay hundreds of dollars a day to see the animals in the wild have allowed outfitters to develop profitable business models that promote sustainability. One such effort, the creation of the Iby/Iwacu Cultural Village by a safari outfitter, hires former poachers to serve as guides, wardens, and staff for trips to gorilla habitat. The project has led to a 60 percent decrease in poaching and a 40 percent increase in ecotourist revenues.

In Kenya, safari operators are leasing land from the local Masai tribes and allowing the land to revert to traditional habitat, attracting wildebeest, zebras, lions, and other African wildlife and a flood of foreign tourists eager to observe them. To ensure that the local people benefit from the project, the safari operators then hire the local tribespeople as guides and game wardens at wages higher than they would earn as farmers. The staff of Sandibe, a safari lodge in Botswana, helped nearby villagers cultivate small plots of land and then taught them how to grow

## ■ PEOPLE, PLANET, AND PROFITS

Offers our readers insights into many of the most important social and environmental issues confronting international business practitioners today.

■ **IN PRACTICE** This is an in-chapter feature at the end of each major section of every chapter. This feature consists of two concise major “take-away” points from the preceding section and a thought-provoking question for further consideration.

### In Practice

- Although many African countries have benefitted from rising commodity prices in the past decade, many Africans still engage in subsistence farming. A major task confronting African governments is wisely using the cash generated by commodity sales to improve the lives of their ordinary citizens.
- Many of the so-called petro-states, as well as some of the major Asian trading nations, such as China and Singapore, have constructed impressive state-controlled portfolios of foreign investments known as **sovereign wealth funds**. These sovereign wealth funds have grown so large that they have created significant political concerns.

*For further consideration:* This chapter’s closing case discusses the impact of hydraulic fracking on the world energy market. If you were the advisor to the government of an oil-rich country in Africa or the Middle East, what recommendations would you make as to how to respond to this technological change?



## Applied Learning Opportunities Throughout

To improve student results, we recommend pairing the text content with MyLab Management, which is the teaching and learning platform that empowers you to reach every student. By combining trusted author content with digital tools and a flexible platform, MyLab personalizes the learning experience and will help your students learn and retain key course concepts while developing skills that future employers are seeking in their candidates. From Mini Sims to Assisted Graded Questions, MyLab Management helps you teach your course, your way. Learn more at [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management). Some of the features included in this MyLab Management are:

- **Mini Sims.** *Mini Sims* put students in professional roles and give them the opportunity to apply course concepts and develop decision-making skills through real-world business challenges.

These branching Mini Sims strengthen a student's ability to think critically, help students understand the impact of their decisions, engage students in active learning, and provide students with immediate feedback on their decisions.

Each decision point remediates to the Learning Objective in the eText.

**Tariffs, Subsidies, and Quotas**

**Learning Objectives**

At the end of this exercise, you should be able to:

- LO 6.1: Explain why governments sometimes intervene in trade.
- LO 6.2: Outline the instruments that governments use to promote trade.
- LO 6.3: Describe the instruments that governments use to restrict trade.

**Scenario**

HentonCast is a leading manufacturer of fishing equipment. The company was established in 1975. Fishing is an important part of the life of the people of Genovia and an integral part of the economy. HentonCast maintains a substantial share of the market in Genovia. The company has been facing stiff competition from other manufacturers.

In a recent meeting with the company, the government decided that seeking government intervention for the problem at hand. As the Director of Trade, you must decide on the type of protection HentonCast may be in the form of a tariff on imported products, or an import quota on international goods.

**Q1: Choosing the Type of Protection**

Prior to approaching the government for protection, you must decide on the type of protection you want. Which of the following types of protection will you seek?

- A A subsidy for the domestic industry
- B A tariff on imported goods
- C An import quota on international goods

**Submit**

**Previous Next**

- **Videos Exercises.** *Video Exercises* are available for select chapter topics to help engage students and hold them accountable for their learning.

This is an example of a Video Exercise from Chapter 7. These engaging videos explore a variety of business topics related to the theory students are learning in class. The following Exercise Quizzes assess students' comprehension of the concepts in each video.

**Markets Abroad Rally on Tentative Debt Deal**

**Homework: Chapter 7 Video Exercise: Markets Abroad Rally**

Score: 0 of 1 pt | 1 of 5 (0 complete) | HW Score: 0% of 5 pts

video.7.1

**Markets Abroad Rally on Tentative Debt Deal**

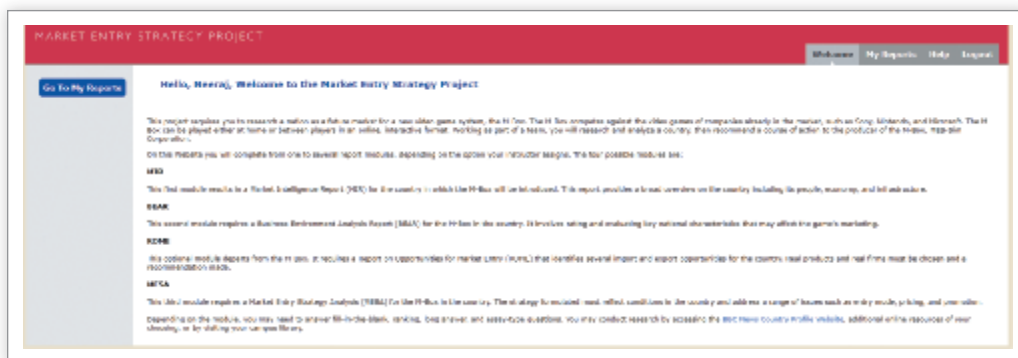
Why did markets rally on the prediction that Congress was going to raise the debt ceiling?

- ☐ A. Raising the debt limit will reduce the money supply for both foreign and domestic borrowers.
- ☐ B. Raising the debt limit will prevent currency speculation.
- ☐ C. Raising the debt limit affects national capital markets, allowing the government to honor its domestic debt obligations.
- ☐ D. Raising the debt limit affects international capital markets, allowing the government to honor domestic and foreign debt obligations.

Click to select your answer and then click CHECK ANSWER.

All parts showing | Clear All | Check Answer

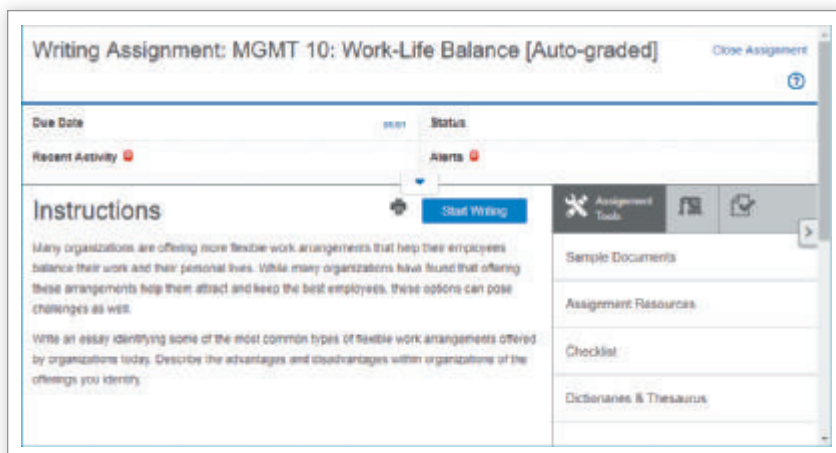
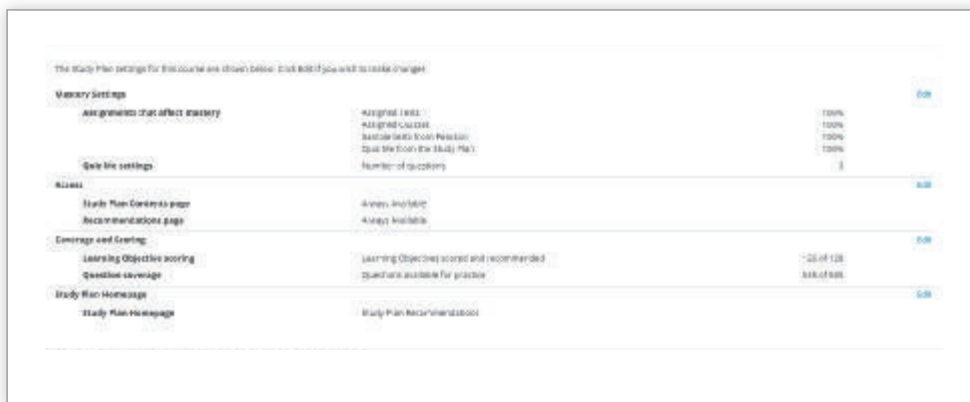
- **Market Entry Strategy Project (MESP).** *MESP* is an interactive simulation that asks students to research a country as a future market for a new video game system.



Students get an opportunity to evaluate the potential of a nation as a future market for a new video game system, ‘The M-Box’. Working as part of a team within a group, the students will select, research and analyze a country, followed by recommending a course of action to the producer of the M-Box, MES-Sim Corporation.

- **Study Plan.** *Study Plan* gives students personalized recommendations, practice opportunities, and learning aids to help them stay on track.

This allows students to focus their study time by pinpointing the precise areas they need to review, and allowing them to use customized practice and learning aids—such as videos, eTexts, tutorials, and more—to help students stay on track.



- **Homework and Test Manager.** A powerful tool that lets you create, import, and manage online homework assignments, quizzes, and tests that are automatically graded.

## Our Book's Vision

Our vision in writing this book is to prepare students to be effective participants in the worldwide marketplace. That was the vision we laid out in the preface of the first edition of this book, and it remains so in the ninth. We noted that many of the existing textbooks are written in needlessly technical terms and seem to be concerned only with students who are specializing in international business. However, all students—even those who will never have an overseas assignment—need to be knowledgeable about the global economy.

That is why we feel so strongly about our vision for this book. We want students to attain “cultural literacy” in international business. We want them, for example, to be able to speak comfortably with a visiting foreign exchange student or to ask insightful questions of a visiting executive from a foreign-headquartered multinational corporation. For many students, this textbook and the course that it accompanies is just the first step in a long journey to being an effective businessperson and an informed citizen in a globalizing world. We hope in writing this textbook that that first step will be made a bit easier, a bit more informed, and a bit more exciting.

## Developing Employability Skills

Understanding and mastering the key concepts of international business is critical to career success in the twenty-first century, given the growing importance of international business activities in the economies of the world's countries. Equally important is acquiring the skills that employer surveys have identified as the ones most vital to career development and success: critical thinking, communication, collaboration, knowledge application and analysis, business ethics and social responsibility, information technology applications and computing skills, and data literacy. To help you simultaneously master these concepts and acquire these critical skills, we've included a variety of exercises, cases, and projects to hone your skills identified by employer surveys as vital for your career development and success. So, in studying, don't ignore the wealth of materials we've included in this book to enrich your understanding of international business and to develop these career skills: cases, boxes, review questions, discussion questions, and building global skills exercises, as well as the text itself.

# Instructor Teaching Resources

Supplements available to instructors at <a href="http://www.pearsonhighered.com/irc">www.pearsonhighered.com/irc</a>	Features of the Supplement
<b>Instructor's Resource Manual</b> authored by John Capela	<ul style="list-style-type: none"> <li>• Lecture outline</li> <li>• Teaching notes</li> <li>• Chapter-by-chapter summaries</li> <li>• Solutions to all questions and problems in the book</li> </ul>
<b>Test Bank</b> authored by John Capela	2,300 multiple-choice, true/false, and short-answer questions with these annotations: <ul style="list-style-type: none"> <li>• Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis)</li> <li>• Skill</li> <li>• Learning Objective</li> <li>• AACSB learning standard (Written and Oral Communication; Ethical Understanding and Reasoning; Analytical Thinking; Information Technology; Interpersonal Relations and Teamwork; Diverse and Multicultural Work; Reflective Thinking; Application of Knowledge)</li> </ul>
<b>Computerized TestGen®</b>	TestGen allows instructors to: <ul style="list-style-type: none"> <li>• Customize, save, and generate classroom tests</li> <li>• Edit, add, or delete questions from the Test Item Files</li> <li>• Analyze test results</li> <li>• Organize a database of tests and student results.</li> </ul>
<b>PowerPoints</b> authored by Ben Mammoun	Slides include graphs and tables in the textbook. PowerPoints meet accessibility standards for students with disabilities. Features include, but not limited to: <ul style="list-style-type: none"> <li>• Keyboard and Screen Reader access</li> <li>• Alternative text for images</li> <li>• High color contrast between background and foreground colors</li> </ul>

## Acknowledgments

The cover of this book identifies two authors by name. In reality, every edition represents a true team effort involving literally dozens of skilled professionals. Although any and all errors of fact, omission, and emphasis are solely our responsibility, we would be remiss if we did not acknowledge those who contributed to this and previous editions of this book.

We gratefully acknowledge the contributions of John Capela who wrote the Instructor's Manual and the Test Bank questions and of Ben Mammoun who prepared the PowerPoint Slides to accompany this book.

Thanks go also to our colleagues at other universities who reviewed the manuscript for this edition and previous ones, contributed suggestions, and helped us make this the best international business textbook for students and teachers. We are grateful for their reviews and truly believe that their feedback was indispensable.

Mohammad Ali	University of Maryland, Eastern Shore
John C. Anderson	University of Tennessee
Madan Annavarjula	Northern Illinois University
Anke Arnaud	University of Central Florida
George Barnes	University of Texas—Dallas
Mack Bean	Franklin Pierce University
Darryl Brown	Indiana University
Dr. Sri Beldona	University of Dallas
Robert Desman	Kennesaw State University
Dante DiGrecio	University of New Mexico
Norb Elbert	Eastern Kentucky University
Allan Ellstrand	California State University—Long Beach
Dan Fogel	Wake Forest University
Tao Gao	Hofstra University
George Gonzales	University of Wisconsin
Basil J. Janavaras	Mankato State University
Sara L. Keck	Pace University
John A. Lehman	University of Alaska—Fairbanks
Lynette Mathur	Southern Illinois University
Roderick J. Matthews	University of Wisconsin—Madison
James McFillen	Bowling Green State University
Claudio Milman	Rollins College
Peter Ping Li	California State University—Stanislaus
Jaime Ortiz	Florida Atlantic University
Christopher J. Robertson	Northeastern University
Carol Sanchez	Grand Valley State University
Michael Shaner	Saint Louis University
Richard M. Steers	University of Oregon
Gregory K. Stephens	Texas Christian University
Precha Thavikulwat	Towson University
William Walker	University of Houston

At Texas A&M University, we have had the good fortune to work with one of the finest groups of professional colleagues anyone could imagine. We also appreciate the support of other colleagues, past and present, whose expertise and insights have been incorporated into this manuscript. In addition, we would also like to express our appreciation to the fine team of professionals at Pearson, especially Sugandh Juneja and Stephanie Wall. Venkat Perla Ramesh and his colleagues at SPi Global were also instrumental in this edition.

Finally, we would also like to acknowledge the contributions made by our families: Glenda, Dustin, and Lura Griffin, Ashley and Mathew Hilgemeier, and Zandy Pustay, Scott Pustay, Sarah Murphy, and Kat and Scott Currie. They didn't write a single word of the book or draw any of the maps or artwork, but their imprint can be found on everything we do. They support us, encourage us, and inspire us. They give our work—and our lives—meaning. It is with all our love and affection that we thank them.

## About the Authors

**Ricky W. Griffin** holds the Blocker Chair in Business and is Distinguished Professor of Management in Mays Business School at Texas A&M University. He has previously served as head of the Department of Management, Executive Associate Dean, and Interim Dean of Mays Business School. After receiving his Ph.D. from the University of Houston in 1978, he joined the faculty at the University of Missouri–Columbia before moving to Texas A&M University in 1981.

Professor Griffin teaches international management, organizational behavior, human resource management, and general management. He has taught both undergraduate and graduate students, participated in numerous executive training programs, and has lectured in London, Paris, Warsaw, Geneva, Berlin, Johannesburg, Tokyo, Hong Kong, and Sydney. A member of the Academy of Management, he has served as division chair of that organization's Organizational Behavior division. He is also a Fellow of the Academy of Management.

Professor Griffin has written several successful textbooks, including *Management, Organizational Behavior* (with Jean Phillips) and *Business Essentials*. He is currently conducting research on talent management and how it is practiced in Canada, Japan, Europe, and the United States, and emergent leadership practices in South Africa.

**Michael W. Pustay** holds the Anderson Clayton Professorship in Business Administration and is Professor of Management at Texas A&M University. He currently serves as associate director of the Center for International Business Studies and as associate director of the Center for International Business Education and Research at Texas A&M. Professor Pustay, who has taught international business for more than three decades, focuses his teaching and research efforts on international business and business–government relations. His work has appeared in professional journals such as the *Journal of Management*, *Southern Economic Journal*, *Land Economics*, and *Transportation Journal*. He is currently researching the role of regional trading blocs on the world economy and the impact of domestic economic policies on international competition.

Professor Pustay is a member of numerous professional organizations, including the Academy of International Business, the American Economic Association, the Association for Canadian Studies in the United States, and the Transportation Research Forum. He has served as a consultant for a variety of public and private organizations, including the U.S. Department of Transportation, the Small Business Administration, the Civil Aeronautics Board, and Reliant Energy.



# 1

## An Overview of International Business



Dpa Picture Alliance/Alamy Stock Photo

### LEARNING OBJECTIVES

- 1.1. Discuss the meaning of international business.
- 1.2. Explain the importance of understanding international business.
- 1.3. Identify and describe the basic forms of international business activities.
- 1.4. Discuss the causes of globalization.

### MyLab Management

★ Improve Your Grade!

More than 10 million students improved their results using the Pearson MyLabs. Visit [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) for simulations, tutorials, and end-of-chapter problems.

## THE BUSINESS OF THE OLYMPICS

Every two years, the world's attention turns to the Olympic Games. Given that international business and the global economy play such a dominant role in the world today, it is not surprising that the Olympics have come to reflect international business at its most intense. The games are governed by the International Olympic Committee (IOC), which is based in Switzerland. The IOC decides where the games will be held and which sports will be represented, and it oversees the selection of judges and referees. Each country that wants to send athletes to compete in the games establishes a national committee to organize its Olympic effort. These committees are supervised by and report to the IOC.

Potential host cities must give elaborate presentations to the IOC and make substantial commitments in terms of facilities, a volunteer workforce, and related organizational support. For example, as part of their winning bids, Japan promised to build a new high-speed rail line between Tokyo and Nagano, the site of the 1998 winter games, while Greece's proposal featured a new ring road, subway system, and airport in Athens for the 2004 Summer Olympics. China invested more than \$38 billion on a variety of projects, including 37 new or refurbished sports facilities, transportation improvements, and communications upgrades, for the 2008 Beijing games. The British government spent £9.3 billion to build Olympic facilities and improve the transportation network serving the 2012 games, while the Russian government laid out \$50 billion for the 2014 Winter Olympics in Sochi.

The infighting among countries to be selected as the games' host can be vicious. French President Jacques Chirac's pique over London's selection instead of Paris as the host for the 2012 Summer Olympics intensified the squabbles between France and the United Kingdom over European Union (EU) policies dealing with agriculture, taxation, and foreign affairs. China threatened a trade war with the United States after the U.S. Senate passed a resolution that hurt Beijing's chances to host the summer games in 2000, a prize eventually seized by Sydney, Australia. (Beijing was later awarded the 2008 games.) After Salt Lake City lost its bid for the 1998 games, the city's local organizing committee launched a massive campaign to procure the 2002 games. Unfortunately, its efforts included widespread gift-giving and the lavish entertaining of IOC delegates, which crossed ethical boundaries. As these facts became public, they triggered a worldwide cry for reform of the IOC.

Why would a city want to host the Olympic Games? Most compete for the privilege because the games would thrust them into the international spotlight and promote economic growth. Further, the tourism benefits are long lived; for example, skiers, skaters, and snowboarders continue to enjoy the

facilities at previous Olympic sites such as Turin, Nagano, Lillehammer, Calgary, Albertville, and Lake Placid, pouring money into the local economies long after the Olympic torch has been extinguished. The games also are frequently a catalyst for improving a city's infrastructure. For instance, the high-speed rail line between Tokyo and Nagano halves the travel time between the two cities—a benefit that continues for local residents and for future visitors, as does Athens's ring road, airport, and subway system. London's Olympic Village was converted to 2,800 apartments after the completion of the 2012 games, providing much-needed housing in one of the world's most expensive real estate markets. Russia viewed the 2014 Winter Olympics as a critical step in its goal to create a mountain resort in Sochi.

Because of the high cost of running the Olympics, both the IOC and national Olympic committees are always alert for ways to generate revenue. Television coverage provides one significant source of revenue. NBC paid \$1.27 billion for the U.S. broadcast rights for the 2000 Sydney summer games and the 2002 Salt Lake City winter games. It then shelled out an additional \$2.3 billion to lock up the U.S. broadcast rights for the 2004, 2006, and 2008 games and paid \$2.2 billion for the 2010 and 2012 games—even though their sites had not yet been determined. The broadcaster followed a similar strategy in 2011, successfully offering \$4.38 billion for rights to broadcast the 2014, 2016, 2018, and 2020 games in the United States. Three years later, NBC upped the ante, paying \$7.75 billion for the American TV rights for games to be held between 2022 and 2032. Broadcast rights for Europe, Australia, Asia, and the rest of the Americas sold for smaller but still breathtaking amounts to local broadcasters. In total, the IOC garnered \$4.2 billion from selling broadcasting rights during its 2013–2016 accounting cycle, reaching 3.2 billion viewers in 220 countries and territories. NBC and these broadcasters, in turn, sold advertising time to companies eager to market their goods to Olympic fans throughout the world.

Another important source of revenue for the IOC and for national committees is corporate sponsors, who wish to capture the prestige and visibility of being associated with the games. The highest-profile level—and, at \$60 to \$80 million, the most expensive—is that of “worldwide partner,” a designation valuable to firms that market their products to consumers throughout the world, such as Coca-Cola, Alibaba, Omega, Procter & Gamble, Toyota, Panasonic, and Samsung. The primary benefit of worldwide partnership is that the partners get priority advertising space during Olympic broadcasts, if they choose to buy it. The worldwide partnership program generated \$1.0 billion during the 2013–2016 Olympic cycle.<sup>1</sup>

The millions of dollars spent on the Olympics by television networks and corporate advertisers reflect the internationalization of business—the result of the desire of firms such as Coca-Cola, Panasonic, and Samsung to market their products to consumers worldwide. The forces that have made the Olympics a growing international business are the same forces that affect firms worldwide as they compete in domestic and foreign markets. Changes in communications, transportation, and information technology not only facilitate domestic firms' foreign expansion but also aid foreign companies in their invasion of the domestic market. These trends have accelerated during the past decade as a result of the explosive growth of e-commerce, the reduction in trade and investment barriers sponsored by organizations such as the World Trade Organization and the EU, and the growing importance of emerging markets such as China and India.

The global economy profoundly affects your daily life, from the products you buy, to the prices you pay, to the interest rates you are charged, to the kind of job you hold. By writing this book, we hope to help you become more comfortable and effective in this burgeoning international business environment. To operate comfortably in this environment, you need to learn the basic ideas and concepts—the common body of knowledge—of international business. Further, you must understand how these ideas and concepts affect managers as they make decisions, develop strategies, and direct the efforts of others. You also need to be conversant with the fundamental mechanics and ingredients of the global economy and how they affect people, businesses, and industries. You need to understand the evolution of the global economy and the complex commercial and political relationships among Asia, Europe, North America, and the rest of the world.

To help ensure your future effectiveness in the international business world, we plan to equip you with the knowledge, insights, and skills that are critical to your functioning in a global economy. To that end, we have included hundreds of examples to help demonstrate how international businesses succeed—and how they sometimes fail. You also will read tips and extended examples about global companies in special features called “Bringing the World into Focus,” “E-World,” “Emerging Opportunities,” “People, Planet, and Profits,” and “Venturing Abroad,” and you will have the chance to practice your growing skills with end-of-chapter exercises titled “Building Global Skills.”

## What Is International Business?

**1.1.** Discuss the meaning of international business.

**International business** consists of business transactions between parties from more than one country. Examples of international business transactions include buying materials in one country and shipping them to another for processing or assembly, shipping finished products from one country to another for retail sale, building a plant in a foreign country to capitalize on lower labor costs, or borrowing money from a bank in one country to finance operations in another. The parties involved in such transactions may include private individuals, individual companies, groups of companies, or governmental agencies.

How does international business differ from domestic business? Simply put, domestic business involves transactions occurring within the boundaries of a single country, whereas international business transactions cross national boundaries. International business can differ from domestic business for a number of other reasons, including the following:

- The countries involved may use different currencies, forcing at least one party to convert its currency into another.
- The legal systems of the countries may differ, forcing one or more parties to adjust their practices to comply with local law. Occasionally, the mandates of the legal systems may be incompatible, creating major headaches for international managers.
- The cultures of the countries may differ, forcing each party to adjust its behavior to meet the expectations of the other.
- The availability of resources differs by country. One country may be rich in natural resources but poor in skilled labor, whereas another may enjoy a productive, well-trained workforce but lack natural resources. Thus, the way products are produced and the types of products that are produced vary among countries. (“Bringing the World into Focus” provides additional insights into these issues.)

In most cases, the basic skills and knowledge needed to be successful are conceptually similar whether one is conducting business domestically or internationally. For example, the need for marketing managers to analyze the wants and desires of target audiences is the same regardless of whether the managers are engaged in international business or domestic business. However,

## BRINGING THE WORLD INTO FOCUS



## BORDERS DO MATTER

A decade ago, many self-proclaimed business gurus announced the coming of the boundaryless global economy—one in which national borders were superfluous and irrelevant. It would be hard to find a concept more naïve or oblivious to the realities of doing business internationally. The simple truth is that boundaries and national borders do matter. Nations, defined by those boundaries, have different legal systems and different laws. They have different political systems and social structures. Cultural values differ among the citizens of different nations. Taxes, the price of labor, land, and other resources, and the requirements for establishing a business vary across nations. If we did not have borders, the need for a separate international business course would disappear. We could just study business.

The CAGE model developed by Pankaj Ghemawat, of IESE Business School in Barcelona, is a useful framework for understanding the operating challenges facing international businesses because of these national differences:

- *Cultural distance* (the “C” in CAGE) refers to differences in cultural, linguistic, religious, and social values that can affect the way firms do business within a country. Chapter 4 focuses on important elements of these cultural differences.
- *Administrative distance* refers to differences in the public administration of countries. It can be affected by past colonial ties, common legal heritages, use of a common currency, political alliances, or attitudes toward the proper balancing between the role of the private sector and the role of the public sector. Chapter 3 focuses on many of these differences.

- *Geographic distance* refers to the physical, communications, and transportation links between countries and how the geographic connectedness of countries affects their economic integration. Chapter 2 focuses on the economic geography of the world marketplace.
- *Economic distance* refers to the differences in the economic resource bases of countries. Although natural resources are a component of economic distance, human resources, infrastructure, creation of new knowledge, and promotion of technological innovation are in fact much more important causes of economic distance. Chapter 6 analyzes how these economic differences affect the nature and level of countries’ participation in the global marketplace.

One of the primary challenges facing international business practitioners is formulating and implementing strategies that recognize and then use these differences to create competitive advantages for their firms. This may be as simple as purchasing labor-intensive inputs from countries where wages are low to reduce the costs of necessary components. It may be as complex as restructuring how the firm is organized or how it does business to benefit from global efficiencies while respecting and responding to local culture, laws, and social norms.

*Sources:* Based on Pankaj Ghemawat, “Distance Still Matters,” *Harvard Business Review*, September 2001; Pankaj Ghemawat, “Managing Differences: The Central Challenge of Global Strategy,” *Harvard Business Review*, March 2007.

although the concepts may be the same, there is little doubt that the complexity of skills and knowledge needed for success is far greater for international business than for domestic business. International businesspeople must be knowledgeable about cultural, legal, political, and social differences among countries. They must choose the countries in which to sell their goods and from which to buy inputs. International businesses also must coordinate the activities of their foreign subsidiaries, while dealing with the taxing and regulatory authorities of their home country and all the other countries in which they do business.

## In Practice

- When doing business internationally, business persons must be aware of the differences between their home market and the host market.
- The CAGE model provides a useful framework for classifying these differences, or “distances,” as Ghemawat calls them.

*For further consideration:* Which element of “distance” is most important—cultural, administrative, geographic, or economic? Or does “importance” vary according to the issue at hand?

**1.2.** Explain the importance of understanding international business.

## Why Study International Business?

There are many different reasons why today’s students need to learn more about international business. They all lead to the same conclusion: understanding and mastering the key concepts of international business is critical to career success in the twenty-first century. In addition to helping you master these concepts, we’ve also included a variety of exercises, cases, and projects to hone your skills identified by employer surveys as vital for your career development and success: critical thinking, communication, collaboration, knowledge application and analysis, business ethics and social responsibility, information technology applications and computing skills, and data literacy. In studying, don’t ignore the wealth of materials we’ve included in this textbook to enrich your



understanding of international business and to develop these career skills: cases, boxes, review questions, discussion questions, and building global skills exercises, as well as the text itself.

So, why study international business? Consider that almost any large organization you work for will have international operations or be affected by the global economy. You need to understand this increasingly important area to better assess career opportunities and to interact effectively with other managers. For example, in your first job assignment, you could be part of a project team that includes members from Mexico, Uruguay, Canada, and the United States. A basic grasp of international business would help you understand more fully why the team was formed, what the company expects it to accomplish, and how you might most effectively interact with your colleagues. You also need to study international business because you may eventually work for a firm that is owned by a corporation headquartered in another country. For instance, 7.4 million U.S. citizens work for U.S. affiliates of foreign-owned corporations, and foreign subsidiaries of U.S. corporations employ 14.1 million Europeans, Asians, Africans, Australians, Canadians, and Latin Americans.<sup>2</sup>

Small businesses also are becoming more involved in international business. If one day you start your own business, you may find yourself using foreign-made materials or equipment, competing with foreign firms, and perhaps even selling in foreign markets. The growth of e-commerce has also opened up new opportunities for small businesses. Previously, to enter foreign markets, firms often needed to painstakingly build distribution networks and brand recognition country by country, a process that many times favored large firms over small ones. Today, a well-developed website can draw the business of consumers throughout the world without the need to establish a physical presence in each country, making it easier for small businesses to participate in the international marketplace.

Another reason for you to study international business is to keep pace with your future competitors. Business students in Europe have traditionally learned multiple languages, traveled widely, and had job experiences in different countries. Many of their programs require them to spend one or more semesters in different countries. Asian students, too, are actively working to learn more about foreign markets and cultures, especially those of North American and European countries. These students, training to become managers, will soon be in direct competition with you, either in jobs with competing companies or in positions within your own company. You need to ensure that your global skills and knowledge will aid your career, rather than allow their absence to hinder it.

You also need to study international business to stay abreast of the latest business techniques and tools because no single country has a monopoly on good ideas. For example, Japanese firms pioneered inventory management techniques such as **just-in-time (JIT) systems**. Under JIT, suppliers are expected to deliver necessary inputs just as they are needed. European firms such as Volvo and Japanese firms such as Honda were among the first to experiment with such labor practices as empowerment, quality circles, autonomous work groups, and cross-functional teams to raise the productivity and satisfaction of their workforces. Similarly, Chinese firms are cutting-edge innovators in electronic payments and artificial intelligence technologies. Managers who remain ignorant of the innovations of their international competitors are bound to fail in the global marketplace.

Finally, you need to study international business to obtain cultural literacy. As global cultures and political systems become even more intertwined than they are now, understanding and appreciating the similarities and differences of the world's peoples will become increasingly important. You will more often encounter colleagues, customers, suppliers, and competitors from different countries and cultural backgrounds. Knowing something about how and where their countries and companies fit into the global economy can help you earn their respect and confidence as well as give you a competitive edge in dealing with them. Conversely, if you know little or nothing about the rest of the world, you may come across as provincial, arrogant, or simply inept. This holds true regardless of whether you are a manager, a consumer, or just an observer of world events.

### In Practice

- Studying international business is critical if you want to be an effective manager. You need global skills and knowledge to compete successfully with peers inside and outside your organization.
- The growth of the Internet and e-commerce allows even the smallest business to compete in international markets, as well as to be vulnerable to foreign competition.

*For further consideration:* Can you think of a business or trade in your country that is not affected by international business activity?

## International Business Activities

**1.3.** Identify and describe the basic forms of international business activities.

Historically, international business activity first took the form of exporting and importing (see “Bringing the World into Focus”). However, in today’s complex world of international commerce, numerous other forms of international business activity are also common.

### BRINGING THE WORLD INTO FOCUS



#### THE EARLY ERA OF INTERNATIONAL BUSINESS

International business originally consisted of international trade. Trade between nations can be traced back as far as 2000 B.C.E., when tribes in northern Africa took dates and clothing to Babylonia and Assyria in the Middle East and traded them for spices and olive oil. This trade continued to expand over the years, encompassing more regions and a growing list of resources and products. Even the Olympic Games have their roots in this early era, with the first games being held in Greece in 776 B.C.E. By 500 B.C.E. Chinese merchants were actively exporting silk and jade to India and Europe, and common trade routes were being established.

Success in international trade often led to political and military power. First Greece and then the Roman Empire prospered in part because of exploitation of international trade. Ancient wars were fought to maintain trade dominance. For example, the North African city of Carthage became an international business center that rivaled Rome in the third century B.C.E., as merchants from Europe brought precious metals and glass to trade for the grains, ivory, and textiles offered by African merchants. Over a period of 100 years, Rome fought three bloody wars with Carthage to maintain its trade supremacy, finally defeating the Carthaginians in 146 B.C.E. The victorious Romans burned the city and plowed salt into the soil so that crops could not grow, to ensure that Carthage would never again rise as a rival.

During the Middle Ages, Italy became a focal point for international business because of its central location in what was then the world market. The political and military strength of Venice, Genoa,

and Florence reflected their roles as major centers of international commerce and banking that linked trade routes between Europe and China. In 1453 these trade routes were severed when the Turks conquered Constantinople (now Istanbul) and gained control of the Middle East. Europe’s trade with China had been particularly profitable, so European governments became interested in finding new ocean routes to the Far East. Backed by the Spanish government, Christopher Columbus sailed west from Europe looking for such routes. His landing in the Caribbean islands served instead to identify an important new source of resources and, eventually, led to the colonization of the Americas by European countries.

As this colonization took place, new avenues of trade opened. Settlers throughout the Americas sold raw materials, precious metals, and grains to Europe in exchange for tea, manufactured goods, and other commodities. Most of the American territories eventually became independent countries and important contributors to the world economy.

Another phenomenon of great importance to international business developed during the colonial period and the subsequent Age of Imperialism: the growth of foreign direct investment (FDI) and multinational corporations (MNCs), both of which involve foreigners supplying and controlling investments in a host country. European capitalists from such imperialist powers as the United Kingdom, France, the Netherlands, Spain, Belgium, and Portugal nurtured new businesses in their colonial empires in the Americas, Asia, and Africa, establishing networks of banking, transportation, and trade that persist to this day. The earliest of these firms included the Dutch East India Company (established in 1600), the British East India Company (1602), and the Hudson’s Bay Company (1670). These and latter-day trading companies, such as Jardine Matheson Holdings, Ltd., owned copper mines, tea and coffee estates, jute and cotton mills, rubber plantations, and the like as part of their global trading empires.

During the nineteenth century, the invention and perfection of the steam engine, coupled with the spread of railroads, dramatically lowered the cost of transporting goods over land and thereby made larger factories more economical. This development in turn broadened the extent of FDI. The forerunners of such large contemporary MNCs as Unilever, Ericsson, and Royal Dutch Shell took their first steps on the path to becoming international giants by investing in facilities throughout Asia, Europe, and the Americas during this period. New inventions promoting technological change further stimulated FDI. For example, in 1852 Samuel Colt built a factory in Great Britain to produce his famous firearms, and later in the century Dunlop built factories in Belgium, France, and Japan to exploit its tire-making expertise.

*Sources:* Based on S. D. Chapman, “British-based investment groups before 1914,” *Economic History Review*, vol. 38 (1985), pp. 230–235; John H. Dunning, *Multinational Enterprises and the Global Economy* Wokingham, England: Addison-Wesley Publishing Company, 1993, p. 3; Simcha Ronen, *Comparative and Multinational Management* New York: John Wiley & Sons, 1986.



Michael Pustay

During the fifth century B.C.E., international commerce was dominated by Athens and its allies. The Peloponnesian War (431–404 B.C.E.) brought an end to Athens’s power and prosperity. Today’s visitors to the Acropolis are reminded of the poignant words of Edgar Allan Poe:

*On desperate seas long wont to roam . . . /Thy Naiad airs  
have brought me home /To the glory that was Greece, /And  
the grandeur that was Rome.*

## Exporting and Importing

**Exporting** is the selling of products made in one's own country for use or resale in other countries. **Importing** is the buying of products made in other countries for use or resale in one's own country. Exporting and importing activities often are divided into two groups. One group of activities is trade in goods—tangible products such as clothing, computers, and raw materials. Official U.S. government publications call this type of trade **merchandise exports and imports**; the British often refer to it as *visible trade*. The other group of activities is trade in services—intangible products such as banking, travel, and accounting activities. In the United States this type of trade is called **service exports and imports**; in the United Kingdom it is often called *invisible trade*.

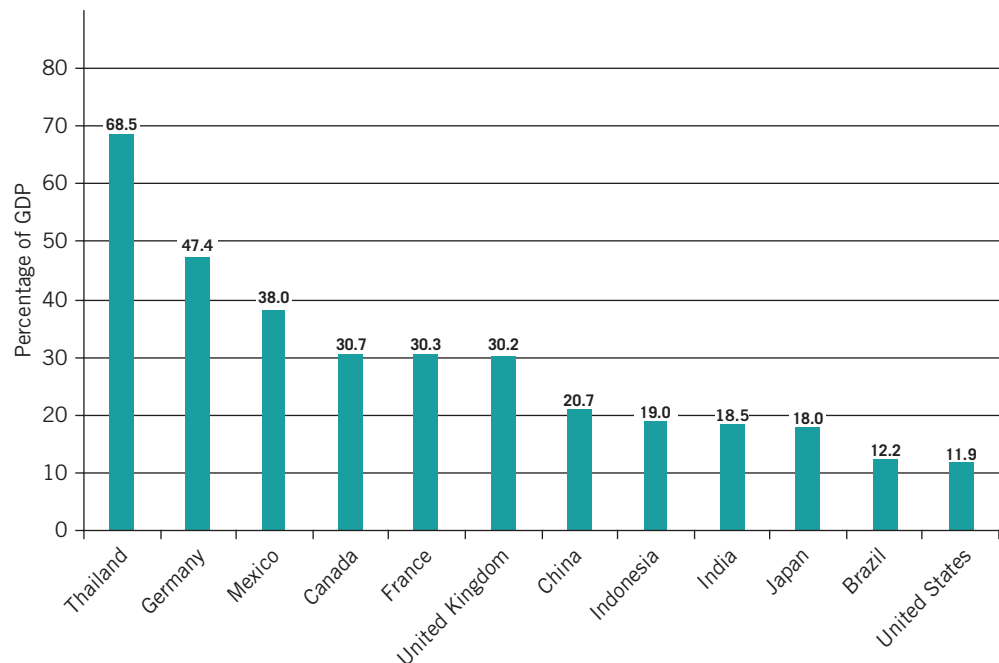
Exports are often critical to a firm's financial health. In a normal year, 70 percent of Boeing's commercial aircraft sales, which generated \$57 billion of revenue in 2017, are to foreign customers, creating tens of thousands of jobs at the company and thousands more at the factories of its parts suppliers. International sales often are equally important to smaller firms, such as Task Force Tips, an Indiana manufacturer of fire hose nozzles, which exports its specialized products to 100 countries.<sup>3</sup> Trade is important to countries as well. As Figure 1.1 shows, exporting accounts for more than two-thirds of the gross domestic products (GDP) of Thailand, and over 25 percent of the GDPs of Canada, France, Germany, Mexico, and the United Kingdom.

## International Investments

The second major form of international business activity is **international investments**—capital supplied by residents of one country to residents of another. Such investments are divided into two categories: foreign direct investments and foreign portfolio investments. **Foreign direct investments (FDI)** are investments made for the purpose of actively controlling property, assets, or companies located in host countries. (The country in which the parent company's headquarters is located is called the **home country**; any other country in which the company operates is known as a **host country**.) An example of an FDI is the purchase of all the common stock of the UK's Cadbury PLC by Kraft. After the purchase, Kraft installed its own executives to oversee Cadbury's operations and integrate them into Kraft's global procurement and marketing programs.

**Foreign portfolio investments (FPI)** are purchases of foreign financial assets (stocks, bonds, and certificates of deposit) for a purpose other than control. An example of a portfolio investment

**FIGURE 1.1**  
Exports of Goods and  
Services as a Percentage  
of GDP for Some Key  
Countries (2017 data)



Source: Based on World Trade Organization Trade Profiles 2018.

is the purchase of 1,000 shares of Sony's common stock by a Danish pension fund. With this investment the pension fund is trying to raise the rate of return on its asset portfolio rather than control Sony's decision making. For the same reason, many investors in recent years have bought shares of mutual funds that specialize in foreign stocks and bonds.

### Other Forms of International Business Activity

International business activity can also take other forms. Licensing, franchising, and management contracts are among the most important. **International licensing** is a contractual arrangement in which a firm in one country licenses the use of its intellectual property (patents, trademarks, brand names, copyrights, or trade secrets) to a firm in a second country in return for a royalty payment. The Walt Disney Company may permit a German clothing retailer to market children's pajamas embroidered with Mickey Mouse's smiling face in return for a percentage of the company's sales. **International franchising**, a specialized form of international licensing, occurs when a firm in one country (the franchisor) authorizes a firm in a second country (the franchisee) to use its operating systems as well as its brand names, trademarks, and logos in return for a royalty payment. For example, McDonald's Corporation franchises its fast-food restaurants worldwide. Finally, an **international management contract** is an arrangement wherein a firm in one country agrees to operate facilities or provide other management services to a firm in another country for an agreed-on fee. Management contracts are common, for instance, in the upper end of the international hotel industry. Hoteliers such as Marriott and Hilton often do not own the expensive hotels that bear their brand names throughout the world but rather operate them under management contracts.

A firm that engages in any of these types of transactions can be labeled an international business. More formally, we can define an **international business** as any organization that engages in cross-border commercial transactions with individuals, private firms, or public sector organizations. But note that we have also used the term *international business* to mean cross-border commercial transactions. Whenever you see this term, you need to determine, from the context in which it is being used, whether it is referring to a general process involving transactions across borders or to a single organization engaging in specific transactions across borders.

The term **multinational corporation (MNC)** is used to identify firms that have extensive involvement in international business. A more precise definition of an MNC is a firm "that engages in FDI and owns or controls value-adding activities in more than one country."<sup>4</sup> In addition to owning and controlling foreign assets, MNCs typically buy resources in a variety of countries, create goods or services in a variety of countries, and then sell those goods and services in a variety of countries. MNCs generally coordinate their activities from a central headquarters but may also allow their affiliates or subsidiaries in foreign markets considerable latitude in adjusting their operations to local circumstances. Because some large MNCs, such as accounting partnerships and Lloyd's of London, are not true corporations, some writers distinguish between multinational corporations and **multinational enterprises (MNEs)**. Further, not-for-profit organizations, such as the IOC and the International Red Cross, are not true enterprises, so the term **multinational organization (MNO)** can be used when one wants to refer to both not-for-profit and profit-seeking organizations. Table 1.1 lists the world's largest corporations in 2017.

### In Practice

- Trade between individuals, tribes, and then nations has occurred for thousands of years. Throughout the centuries, the desire to control trade and trade routes has often been the cause of conflict between countries.
- The most important modes of international commerce include international trade and international investing, as well as more specialized business activities like licensing, franchising, and management contracts.

*For further consideration:* Analyze the information in Table 1.1. How would you characterize the world's largest corporations? How would you characterize the relative changes in their sizes?



**TABLE 1.1** The World's Largest Corporations

	Revenues (in billions of U.S. dollars)	
	2017	2007
Walmart	500.3	379.0
State Grid	348.9	132.9
Sinopec Group	327.0	159.3
China National Petroleum	326.0	129.8
Royal Dutch Shell	311.9	355.8
Toyota Motor	265.2	230.2
Volkswagen	260.0	149.1
BP	244.6	291.4
Exxon Mobil	244.4	372.8
Berkshire Hathaway	242.1	118.2
Apple	229.2	24.0
Samsung Electronics	211.9	106.0
McKesson	208.4	101.7
Glencore	205.5	142.0
UnitedHealth Group	201.2	75.4
Daimler	185.2	177.2
CVS Health	184.8	76.3
Amazon	177.9	14.8
EXOR Group	161.7	n.a.
AT&T	160.6	118.9

Sources: Based on [www.fortune.com](http://www.fortune.com), accessed July 30, 2018; *Fortune*, July 21, 2008, pp. 161-171; "Glencore's turnover soars to \$142 billion in 2007," [www.metalbulletin.com](http://www.metalbulletin.com), March 11, 2008, various corporate websites.

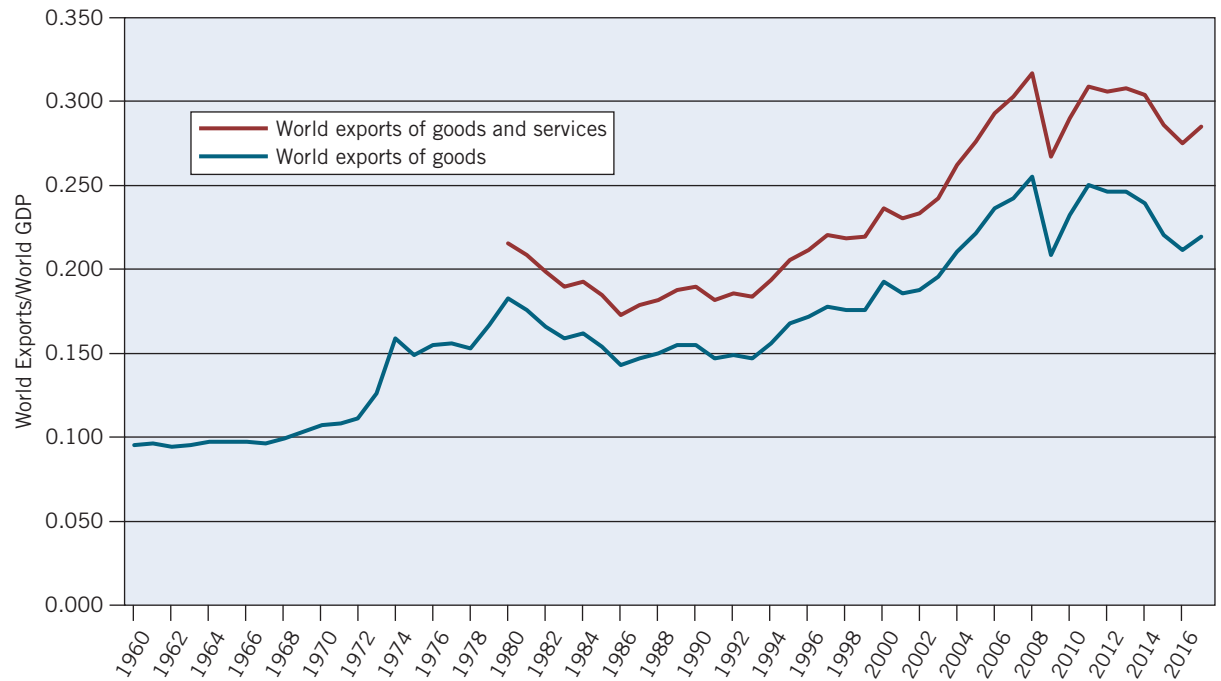
## The Contemporary Causes of Globalization

**1.4.** Discuss the causes of globalization.

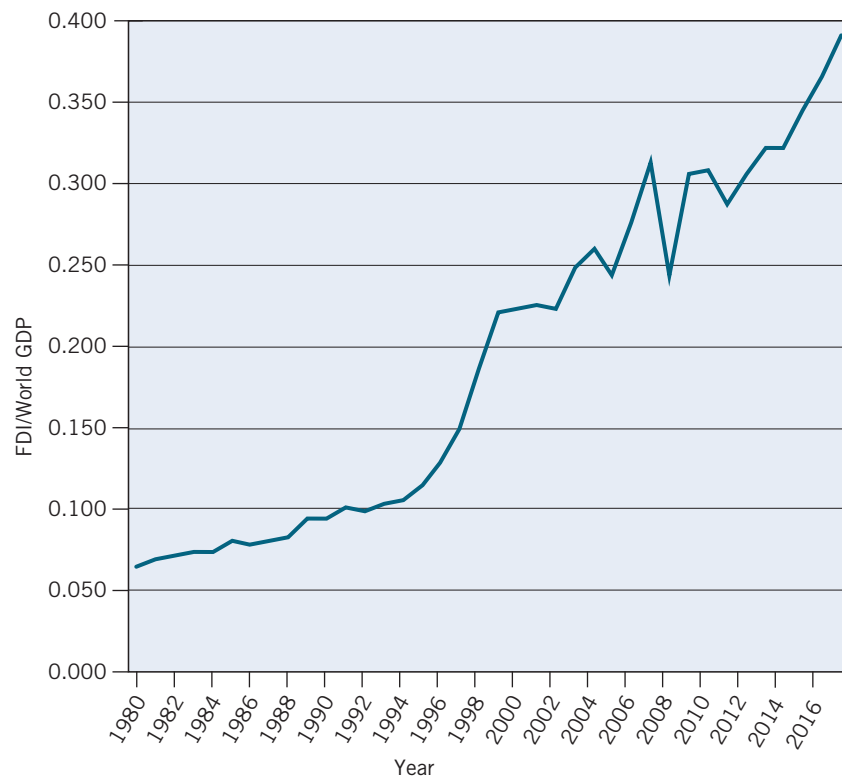
International business has grown so rapidly in the past decade that many experts believe we are living in the era of globalization. **Globalization** can be defined as “the inexorable integration of markets, nation-states, and technologies . . . in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper, and cheaper than ever before.”<sup>5</sup>

There is little doubt that international trade and international direct investment—the two primary vehicles for conducting international business—are becoming increasingly important in the world's economy. Globalization has led to an intensification of the role of international trade in the economies of the world. As Figure 1.2 indicates, the ratio of international trade to economic activity has risen dramatically. (You may note the impact of the global recession: In 2009, trade volumes decreased more than the world's GDP did, thus causing the ratio of trade to GDP to fall.) In 1960, merchandise trade accounted for about 9 percent of the total GDP of the world's nations; by 2017, it represented 22 percent. International trade in services added another 6 percent to this total. Some of the rapid growth in international trade in services is the result of the development of the Internet and associated technologies, which makes international trade in such diverse industries as banking, consulting, education, retailing, and gambling more feasible. For example, many Canadian and U.S. companies have shifted their customer service and data entry operations to areas with lower labor costs in and outside North America. As long as the transaction can be performed electronically, the physical location of the facility is of little importance. India, for example, has a growing call-center business, providing customer care and troubleshooting services for customers of numerous MNCs throughout the world.

Another manifestation of globalization is the growing importance of FDI—investments made by citizens of one country to operate and control assets in another. As Figure 1.3 demonstrates, the importance of FDI in the world's economy has risen significantly over time. In 1980, the stock of FDI was only 6 percent of the world's GDP; by 2017, the stock of FDI was 39 percent of that year's GDP.

**FIGURE 1.2****World Exports as a Percentage of World GDP**

Source: Based on World Bank statistical database (for GDP data) and the World Trade Organization database (for exports of goods and exports of services).

**FIGURE 1.3****Stock of Foreign Direct Investment (FDI) Relative to World GDP**

Source: Based on World Bank, *World Development Indicators* data bank, accessed August 1, 2018; United Nations Conference for Trade and Development, *World Investment Report*, various issues.

The growth of international business in recent years has been clear and dramatic, as depicted in Figures 1.2 and 1.3. But why has this growth occurred? And why is international business activity likely to continue to skyrocket during the next decade? There are two broad reasons: strategic imperatives, which motivate globalization, and environmental changes, which facilitate it.

### Strategic Imperatives

Several basic motives have compelled firms to become more global in both their orientation and actions. These strategic imperatives include leveraging a firm's core competencies, acquiring resources at low cost, expanding into new markets, and competing with industry rivals.

**TO LEVERAGE CORE COMPETENCIES** One major motive for globalization is the opportunity to leverage a core competency that a firm has developed in its home market. A **core competency** is a distinctive strength or advantage that is central to a firm's operations. By using its core competency in new markets, the firm is able to increase its revenues and profits. Samsung, for example, developed cutting-edge cellular phone technology that was eagerly adopted by domestic consumers in South Korea. Samsung's managers quickly recognized that the firm could increase its revenues and profits by expanding its operations and sales in other countries. Similarly, since its birth in 1972, Singapore Airlines has worked hard to develop award-winning standards of customer satisfaction and reliability that have drawn millions of Asian passengers to its flights. Believing that travelers in other markets would welcome the tender loving care for which the carrier is renowned, Singapore Airlines has deftly expanded its services to more than 131 cities in 35 countries throughout the world.

**TO ACQUIRE RESOURCES AND SUPPLIES** Another important reason for going international is to acquire resources such as materials, labor, capital, or technology. In some cases, organizations must go to foreign sources because certain products or services are either scarce or unavailable locally. For example, North American grocery wholesalers buy coffee and bananas from South America; Japanese firms buy forest products from Canada; and firms worldwide buy oil from the Middle East and Africa. In other cases, firms simply find it easier or more economical to buy from other countries. For instance, many U.S. advertising agencies shoot commercials overseas. Cape Town, South Africa, has become a popular site, for example, because production crews and equipment can be hired there for less than 40 percent of their cost in Los Angeles.<sup>6</sup> As the chapter's closing case, "Demography Is Destiny," indicates, demographic changes will play a major role in the future resource acquisition strategies of MNCs.

**TO SEEK NEW MARKETS** Seeking new markets is also a common motive for international expansion. When a firm's domestic market matures, it becomes increasingly difficult to generate high revenue and profit growth. For example, the market for toothpaste in Canada, the United States, and the EU can be classified as mature—most people there have had the financial resources for decades to regularly purchase toothpaste. Thus, firms like Procter & Gamble, Unilever, and Colgate-Palmolive cannot expect to achieve significant growth in sales from their toothpaste products in these markets and have aggressively moved into emerging markets like China, India, and Indonesia to seek greener pastures. Expansion into new markets carries with it two other benefits. First, a firm may be able to achieve economies of scale, lowering its average costs as its production increases. Second, such expansion diversifies a firm's revenue stream. As it serves more countries, the firm becomes less dependent on its sales in any one country, thereby protecting itself should that country's economy turn sour.

**TO BETTER COMPETE WITH RIVALS** Finally, businesses sometimes enter foreign markets to better compete with industry rivals. For example, as Coca-Cola expands aggressively around the world, rival Pepsi-Cola has little choice but to follow and try to keep up. Should Pepsi allow Coca-Cola to dominate important markets, Coca-Cola could use profits from those markets to finance attacks on Pepsi in still other markets. Such thinking permeates industries such as earthmoving equipment, smartphones, and aircraft manufacturing, where the leading firms continually attack and counterattack each other in every region of the world to prevent their rivals from getting a stranglehold in any country.

## The Environmental Causes of Globalization

These strategic imperatives provide firms with the motivation to internationalize their operations. However, firms would not have been able to expand their international activities to the extent we have observed during the post–World War II period without significant changes in two key areas: the political environment and the technological environment.

**CHANGES IN THE POLITICAL ENVIRONMENT** During the first half of the twentieth century, firms wishing to enter new markets were often frustrated by barriers against foreign trade and investment erected by national governments. After World War I, many countries, including the United States, France, the United Kingdom, and Germany, imposed tariffs and quotas on imported goods and favored local firms on government supply contracts. As a result, international trade and investment declined throughout the 1930s. However, after World War II these policies were reversed. The major trading powers negotiated reductions in tariffs and quotas and eliminated barriers to FDI within their borders. Many of the reductions were negotiated through the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO). Regional accords, such as the EU, the Mercosur Accord, and the North American Free Trade Agreement (NAFTA), also have relaxed trade and investment barriers among their members.

**TECHNOLOGICAL CHANGES** Changes in governmental policies encouraged international business activity. Improvements in technology—particularly in communication, transportation, and information processing—made international business more feasible and more profitable. Think about the difficulties of conducting business internationally when the primary form of transportation was the sailing ship, the primary form of data processing was pencil and paper, and the primary form of communication was the letter delivered by a postman on horseback. Transportation improvements during the past 150 years—from sailing ship to steamship to seaplane to jet airliner—mean that a manager in London no longer needs to spend weeks traveling to confer with colleagues in New Delhi, Toronto, or New York. Advances in transportation also have stimulated growth in international tourism, which is the largest component of international trade in services. The increasing ability of computers to rapidly process vast quantities of information allows firms to manage offices and factories located in every corner of the globe. Exxon Mobil, for example, relies on its computers to continuously adjust the output of its refineries and the sailings of its tankers to meet changes in worldwide demand for its products. Changes in communications technology, such as the advent of electronic mail, smartphones, and tablet computers, enable a manager in Tokyo to receive reports from colleagues in Amsterdam, Abidjan, and Auckland in seconds rather than days. These technological advances make managing distant businesses far easier today than executives would have dreamed possible just a few decades ago and so have facilitated expansion into international markets. However, globalization is not without cost or consequence, as “Emerging Opportunities” indicates.

## Globalization and Emerging Markets

We noted that globalization has led to an intensification of international business activity. It is also marked by an expansion of such activity into new markets previously insulated from the international marketplace.

The political changes discussed previously have played a major role in this process. During the Cold War between the United States and the Soviet Union, many scholars divided the world into three regions: the First World, consisting of the rich, major trading nations from Western Europe, North America, Australia, and parts of Asia, most of which were allied diplomatically with the United States; the Second World, consisting of the Soviet Union and allied Communist states; and the Third World, consisting primarily of the low- to medium-income countries populating Latin America, Africa, and most of Asia. Most international business activity took place between members of the First World. The Second World walled itself off to commerce with the First World, while the Third World was primarily viewed as a supplier of raw materials and commodities to the First World countries.

This is no longer the case: The collapse of European Communism, the ideological and policy changes undertaken by China and India, and the reduction of trade barriers have transformed the global marketplace. Shakespeare once wrote, “All the world’s a stage.” Today, savvy businesspersons recognize that business opportunities are no longer limited to the traditional markets of

## EMERGING OPPORTUNITIES



## IS GLOBALIZATION GOOD FOR US?

Many experts have enthused that globalization will lead to a borderless world where nation-states will play a diminished role. Others are not so sure. In his influential book, *The Lexus and the Olive Tree*, *New York Times* correspondent Thomas L. Friedman argues that globalization and the nation-state will continue to be major, and often antagonistic, forces in our lives. In his metaphor, the Lexus represents globalization of commerce and the forces that homogenize aspirations, opportunities, and viewpoints of people around the world. Conversely, the olive tree

represent[s] everything that roots us, anchors us, identifies us and locates us in the world. . . . Olive trees are what give us the warmth of family, the joy of individuality. . . . Indeed, one reason that the nation-state will never disappear, even if it does weaken, is because it is the ultimate olive tree—the ultimate expression of who we belong to. (p. 31)

One of the great challenges facing political and business leaders in the next decades will be to understand and reconcile the competing,

often contradictory demands of the global economy (the Lexus) and of the nations (the olive tree) that encompass it.

Furthermore, although globalization has generated many benefits, it is not without costs, in the view of many critics. Activists for human rights, labor rights, and environmental rights believe that globalization allows firms from developed countries to shirk their responsibilities to their workforces and to their communities by shifting production from developed countries to developing countries, where labor laws and environmental protection are often less onerous and weakly enforced. Others argue that the dominant institutions of the era of globalization—the WTO, the World Bank, and the International Monetary Fund—are fundamentally undemocratic and promote the interests of the rich and powerful over those of the poor and dispossessed. Addressing these and related issues presents the nations of the world with major challenges in the years to come.

Source: Thomas L. Friedman, *The Lexus and the Olive Tree*, New York: Anchor Books, 2000.

Western Europe, North America, or Japan. Indeed, today much of the attention of international businesses is focused on the so-called **emerging markets**, countries whose recent growth or prospects for future growth exceed that of traditional markets. Many companies are finding much of their sales and profit growth is attributable to emerging markets. For example, Chinese consumers purchased \$22.0 billion of luxury goods in 2017, up 20 percent from the previous year, as upscale producers like LVMH, Burberry, and Gucci are well aware.<sup>7</sup>

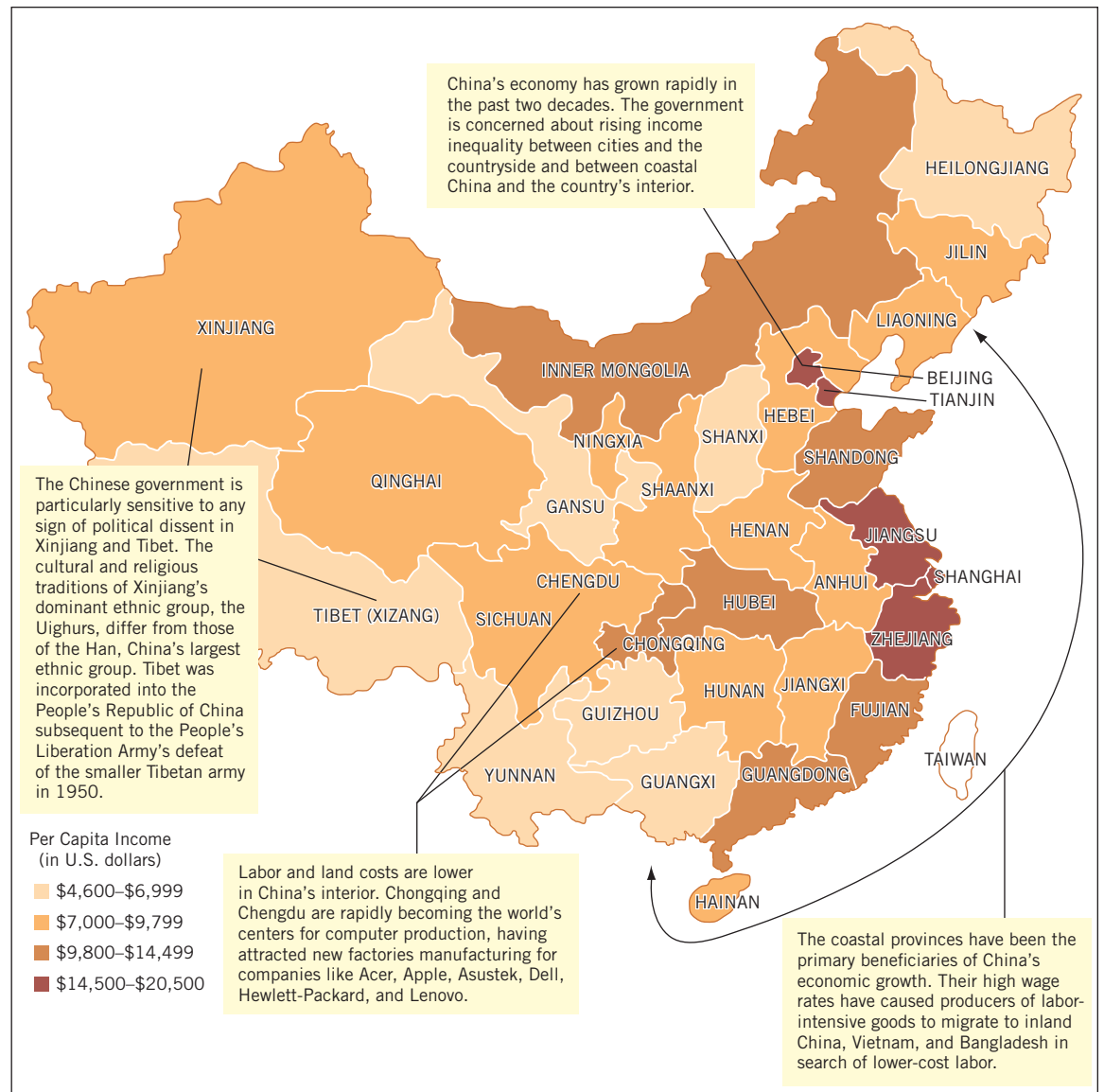
There is no universally accepted definition of the countries to be included in the emerging markets category. Some scholars limit the term to the **BRIC countries**—Brazil, Russia, India, and China. Other researchers have used the term to describe the so-called **Big Ten**—Argentina, Brazil, China, India, Indonesia, Mexico, Poland, South Africa, South Korea, and Turkey.<sup>8</sup> Other experts have a more expansive definition, including most non-high-income countries in Africa, Asia, Eastern Europe, and Latin America. Regardless of the definition, it is clear that international businesses that ignore the emerging markets do so at their own risk. Consider that two of these emerging markets, China (see Map 1.1) and India, together account for more than one-third of the world's population. Their economies are growing significantly faster than that of the world as a whole, as Table 1.2 indicates.

While China's economy has enjoyed rapid growth in the past 20 years, China's leaders need to develop policies to ensure that its large rural population shares in the country's prosperity.



Ricky W. Griffin



**MAP 1.1****China's Regional Challenges**

Source: Based on "China Quietly Releases 2017 Provincial GDP Figures," *Forbes*, February 12, 2018; "Rich province, poor province," *The Economist*, October 1, 2016; "Truckloads of notebooks mark first step of long march inland," *Financial Times*, May 24, 2011, p. 17.; "Factory blast roils tech supply chain," *Wall Street Journal*, May 24, 2011, p. B1; "China's rising wage bill poses risk of relocation," *Financial Times*, February 16, 2011, p. 3; Chinese National Statistics Bureau, 2010 Census.

**In Practice**

- The growth of international business activity has been facilitated by political change and by technological change. Political change has opened more markets to international businesses; technological change has given them the ability to compete in those newly opened markets.
- As Figures 1.2 and 1.3 indicate, an increasing share of world economic activity is attributable to international business activity.

*For further consideration:* If you are looking for additional evidence of the globalized nature of the world's economy, consider the impact of the Global Recession of 2007–2009 on the data reported in Figures 1.2 and 1.3. Why did the ratios in these two figures decline in those years?

**TABLE 1.2** Characteristics of Selected Emerging Markets, 2017

Country	Total Population (millions)	Total GDP (billions of U.S. dollars)	Per capita GDP (in U.S. dollars)
BRIC			
Brazil	209	2,055	9,821
Russia	144	1,578	10,743
India	1,339	2,597	1,940
China	1,386	12,237	8,827
<b>Total</b>	<b>3,078</b>	<b>18,467</b>	
Big Ten			
Argentina	44	638	14,401
Brazil	209	2,055	9,821
China	1,386	12,237	8,827
India	1,339	2,597	1,940
Indonesia	264	1,016	3,847
Mexico	129	1,150	8,903
Poland	38	525	13,812
South Africa	57	349	6,161
South Korea	51	1,531	29,743
Turkey	81	851	10,541
<b>Total</b>	<b>3,598</b>	<b>22,984</b>	
World total	7,530	80,068	10,714

Source: Based on World Bank, *World Development Indicators* data bank.

## An Overview of the Contents of This Book

In writing this book, we have started with the assumption that most readers will eventually work for or own a firm that is affected by international business activity. Our goal is to help them become more confident and effective managers in the competitive global marketplace. To do so, we provide our readers with the knowledge and skills necessary to succeed in international business.

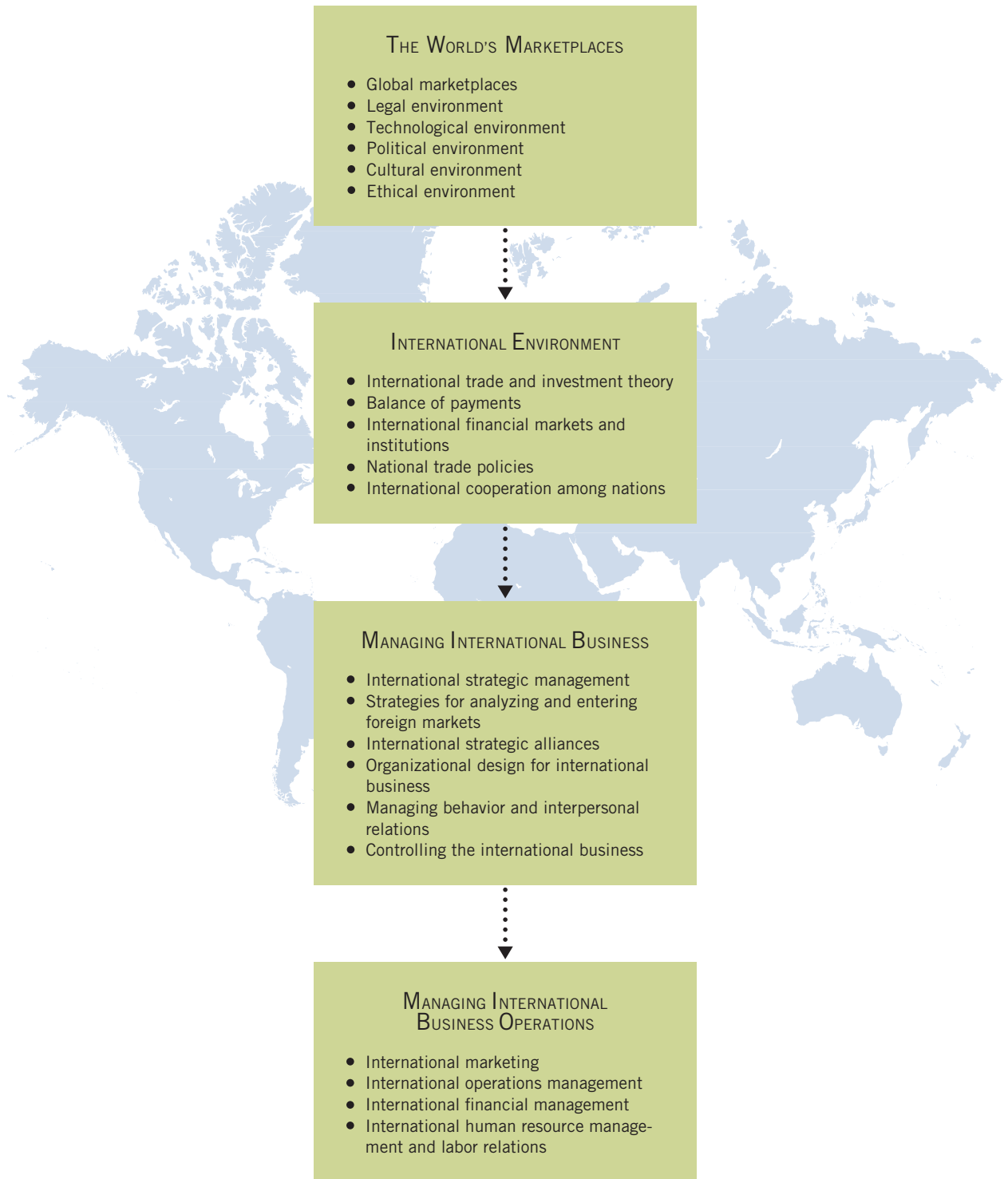
We have structured the contents of the book to move from relatively macro, or general, issues to increasingly micro, or specific, issues that managers deal with regularly. Our rationale is that managers must fully understand the context of international business to work effectively within it. This broad, general context provides the backdrop within which all international business occurs. At each increasingly specific level within that context, the international manager is faced with specific and operational issues, problems, challenges, and opportunities.

Part 1 comprises Chapters 1 through 5. It provides an overview of the world's marketplaces. Chapter 1 has supplied some background definitions and discussed the contemporary global business environment. Chapter 2 provides a wealth of economic and geographical information about the world's major economies and business centers. Chapters 3 and 4 describe the national environments of international business—the more specific, country-level environmental context that affects and impacts business activity and opportunities. Chapter 5 addresses the social responsibility challenges that international businesses must address in the era of globalization.

Parts 2 through 4 follow a logical progression of topics, moving from the broad, general issues confronting international business to increasingly more specific, focused issues that managers face daily (see Figure 1.4). Part 2 discusses the international environment in more detail, addressing the overall context of international business and introducing many of the global forces and conditions that affect organizations and managers. Part 3 adopts the perspective of a

specific organization, focusing on general management issues such as international strategies, modes of entry into foreign markets, joint ventures and strategic alliances, organization design, organizational control, and organizational behavior in international business. Part 4 covers the management of specific international business functions: marketing, operations, finance, and human resource management.

**FIGURE 1.4**  
Framework for This Book





## ★ WATCH IT!

Go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) to complete the video exercise.

# CHAPTER REVIEW

## Summary

International business encompasses any business transaction that involves parties from more than one country. These transactions can take various forms and can involve individual companies, groups of companies, or government agencies. International business can differ from domestic business because of differences in currencies, legal systems, cultures, and resource availability.

Studying international business is important for several reasons. First, any organization you work for, even if small, is likely to be affected by the global economy. Second, someday you may work for a foreign-owned firm. Further, you need to keep pace with other managers who are learning to function in international settings. Finally, you need to be culturally literate in today's world.

International business activity can take various forms. Exporting involves selling products made in one's own country for use or resale in another country. Importing involves buying products made in other countries for use or resale in one's own country. FDIs are investments made for the purpose of controlling property, assets, or companies located in foreign countries.

Other common forms of international business activity include licensing, franchising, and management contracts.

An international business is one that engages in commercial transactions with individuals, private firms, or public sector organizations that cross national boundaries. Firms with extensive international involvement are called multinational corporations, or MNCs.

International business has grown dramatically in recent years because of strategic imperatives and environmental changes. Strategic imperatives include the need to leverage core competencies, acquire resources, seek new markets, and match the actions of rivals. Although strategic imperatives indicate why firms wish to internationalize their operations, significant changes in the political and technological environments have no doubt facilitated the explosive growth in international business activity that has occurred since World War II. The growth of the Internet and other information technologies is likely to redefine global competition and ways of doing international business once again.

## Review Questions

- 1-1. What is international business? How does it differ from domestic business?
- 1-2. Why is it important for you to study international business?
- 1-3. What are the basic forms of international business activity?
- 1-4. How do merchandise exports and imports differ from service exports and imports?
- 1-5. What is portfolio investment?
- 1-6. What are the basic reasons for the recent growth of international business activity?

## Questions for Discussion

- 1-7. Why do some industries become global whereas others remain local or regional?
- 1-8. What is the impact of the Internet on international business? Which companies and which countries will gain as Internet usage increases throughout the world? Which will lose?
- 1-9. Which markets are more important to international businesses—the traditional markets of North America, the EU, and Japan, or the emerging markets? Defend your answer.
- 1-10. Does your college or university have any international programs? Does this make the institution an international business? Why or why not?
- 1-11. What are some of the differences in skills that may exist between managers in a domestic firm and those in an international firm?
- 1-12. Would you want to work for a foreign-owned firm? Why or why not?

## Building Global Skills

List different products you use on a regular basis, such as your alarm clock, camera, car, coffeemaker, computer, smartphone, television, tablet—perhaps even your favorite CD, shirt, fruit juice, e-book reader, or footwear. Determine which firms made these items. After you have developed your list, go to the library or search the Internet to research the following for each item:

- 1-13. In which country is the firm headquartered?
- 1-14. What percentage of the firm's annual sales comes from its home market? What percentage comes from other countries?
- 1-15. Where was the item most likely manufactured?
- 1-16. Why do you think it was manufactured there?

Follow up by meeting with a small group of your classmates and completing these activities:

- 1-17. Discuss the relative impact of international business on your daily lives.
- 1-18. Compile a combined list of the 10 most common products the average college student might use.
- 1-19. Try to identify the brands of each product that are made by domestic firms.
- 1-20. Try to identify the brands of each product that are made by foreign firms.
- 1-21. Does your list of 10 products include items with components that are both domestically made and foreign made?

## CLOSING CASE

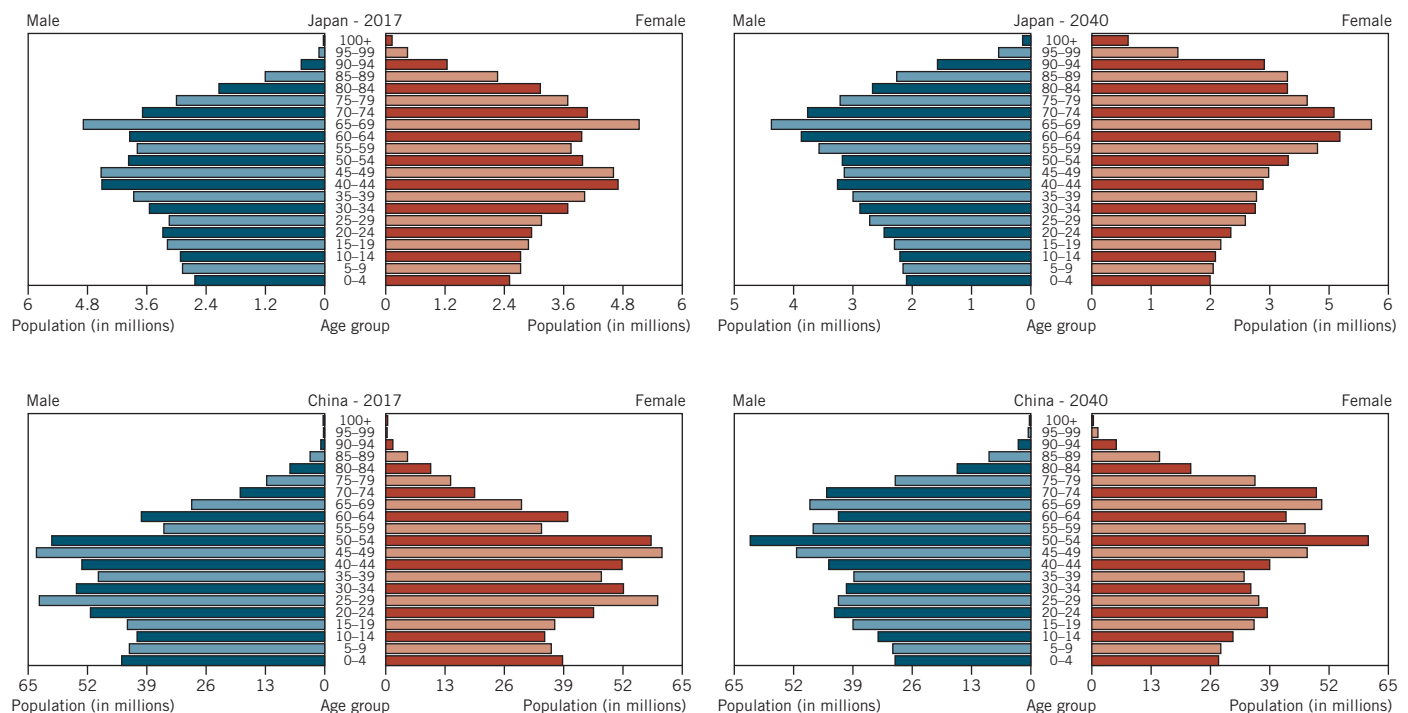
Demography is the study of the structure of human populations—their size, age composition, gender mix, growth, and so on. Demographers often assert that demography is destiny. By that they mean that a country's demography constrains and shapes the opportunities available to it. If so, then changes in the population, age structure, and gender

## Demography Is Destiny

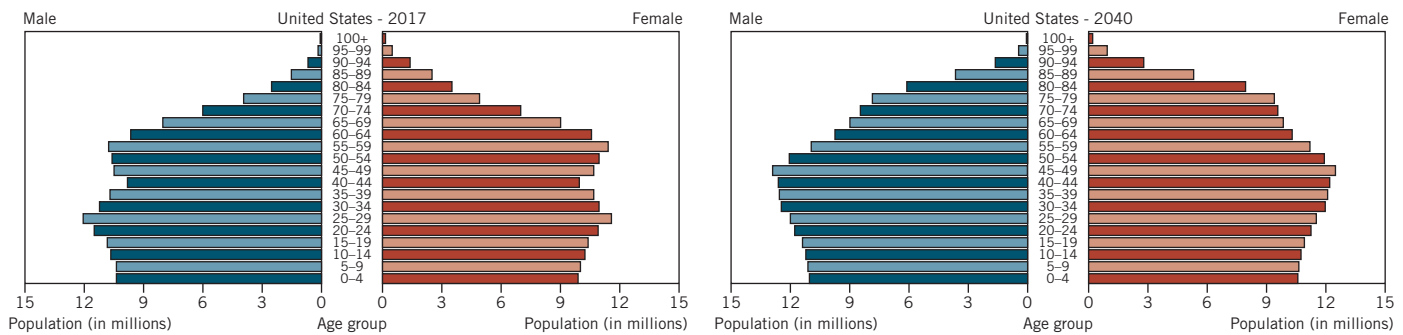
mix of the world's major economies suggest that significant changes are in store for the world economy.

A traditional way of examining a country's demography is through the use of population pyramids (see Figure 1.5, which depicts population pyramids for China, Japan, and the United States for 2017 and 2040—roughly

**FIGURE 1.5**  
**Population Pyramids for 2017 and 2040**



(Continued)

**FIGURE 1.5***(Continued)*

Source: U.S. Census Bureau, International Data Base.

one generation later). In the past, the normal structure of a country's age distribution was a pyramid. Each layer of the pyramid consisted of the number of individuals in an age bracket. The pyramid shape resulted from the fact that the number of people aged 0–4 was slightly larger than the number aged 5–9; 5- to 9-year-olds slightly outnumbered 10- to 14-year-olds; and so forth. The declining size was the result of the cruel reality of death from disease, famine, and childbirth in a world without modern medicine. Fortunately, better health care, education, and hygiene have freed many societies from this cruel reality, and some population pyramids more closely resemble diamonds or rectangles. But these societies now face the challenge of dealing with graying populations. (The U.S. Census Bureau presents population data for many of the world's countries: go to [www.census.gov](http://www.census.gov); then use the search box to locate the international data base.)

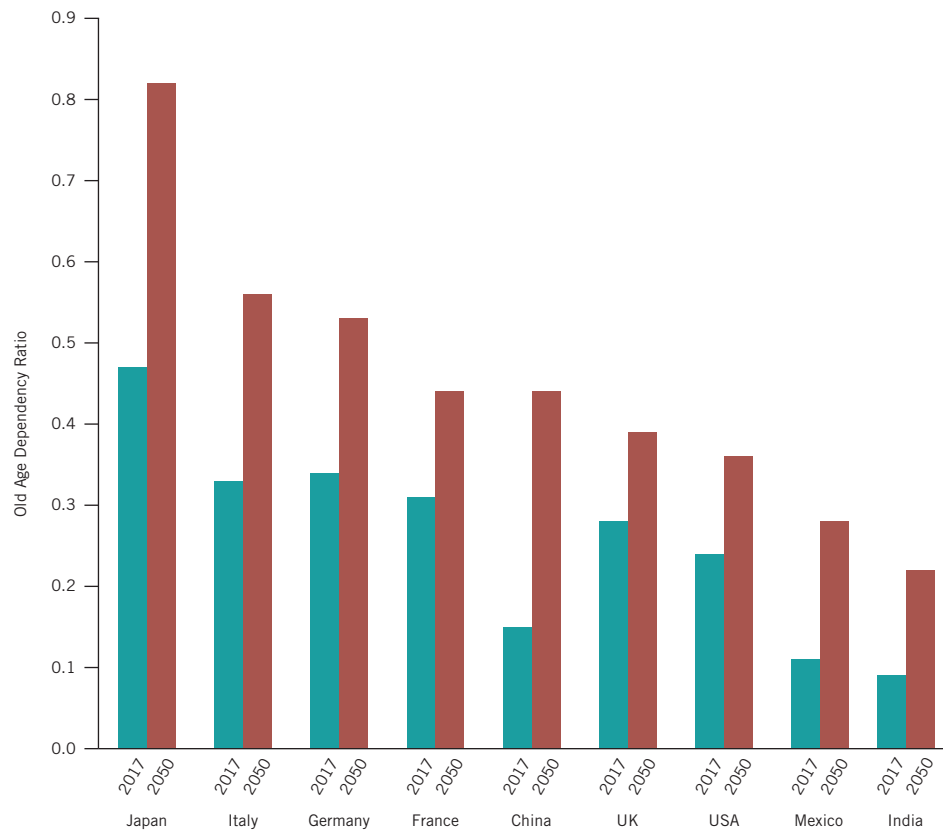
These dramatic demographic changes portend major shifts in economic power and competitiveness. The populations of many major economic powers—including Russia, Italy, Germany, South Korea, and Japan—are predicted to get older and smaller over the next two decades. According to the Organisation for Economic Cooperation and Development (OECD), the old-age dependency ratio will rise dramatically over the next several decades (see Figure 1.6). The old-age dependency ratio is the ratio of the number of people 65 and older to the number of people between the ages of 15 and 64. A rising old-age dependency ratio indicates that the burden imposed on current workers to support retirees will increase. This burden can take the form of familial transfers or increased taxes. In either case, the monies available to support the consumption of current workers will decline.

The implications of these demographic changes for companies and countries alike are profound. For many companies, when retirees leave work on their last day, a lifetime of experience and knowledge walks out the door as well. Some companies recognize that they will have to change their ways of doing business. For countries, graying of the workforce suggests pressures on the public treasury to support older

citizens. Japan is one of the first major economies to face an aging, shrinking population. In 2009, Japan's population began to decline, by a modest 84,000 residents. Japan's population in 2017 was 126.5 million; by 2050, its citizenry will shrink to 107.2 million. In 2017, 27.9 percent of the population was 65 or older; by 2050, that percentage will rise to 40.1 percent, thanks in part to the 85-year life expectancy that its citizens enjoy. It is not surprising, then, that Japanese companies are at the forefront of responding to these changes. Toyota has begun to adapt its workstations to make them more comfortable for a workforce that is growing older. Although such changes will help, the reality is that companies operating in countries with shrinking populations are likely to face higher wage and salary costs as the supply of labor contracts. In countries with aging populations, firms are likely to face higher taxes as governments struggle to find revenues to support and care for older citizens. Moreover, an increasing portion of the labor force will be employed caring for retirees, shrinking the availability of labor for other sectors of the economy.

The structure of consumption will also change because the bundle of goods consumed by retirees differs dramatically from that of younger workers. Retirees demand more medical services, for example, whereas younger workers buy homes, furniture, household goods, and educational services. Japanese companies appear to be at the forefront of adapting new technologies to meet these demographic challenges. One cable TV provider developed a system to allow the elderly to self-administer basic medical measurements, which can then be transmitted over the local area network to their doctors. A leading manufacturer of rice cookers and tea kettles experimented with equipping its wares with wireless transmitters that send a message to family or friends that the kitchen equipment has been used. Other manufacturers are busily developing service robots to help the elderly lift heavy objects or monitor their health or even to provide certain nursing care services.

The likely paths of the world's two most populous nations, China and India, diverge. China's economic growth was based in part on a ready supply of cheap labor for its manufacturing sector, a result of dramatic declines in infant

**FIGURE 1.6****Old Age Dependency Ratios, Selected Countries, 2017 and 2050**

Source: U.S. Census Bureau, International Data Base.

mortality that occurred in the 1960s and 1970. However, China's working age population began shrinking in 2015. The number of women between 18 and 35 is declining, as is the population between 20 and 24. These declines suggest that aggregate family formation will decrease, as will births. China's population is predicted to peak in 2026 at 1.407 billion, and gradually decline to 1.301 billion by 2050. India's population, which is much younger than China's, will continue to grow. U.S. government demographers predict that by 2050, India's population will be 1.656 billion (up from 1.339 billion in 2017). The median age of Indians in 2050 will be 37.2; Americans, 40.0; Chinese, 48.7.

India will face the task of providing employment for these young workers, whereas China will face the same challenges of a graying population that today confront Japan and most of Western Europe, with two added problems. First, China's "one-child" policy, which began in 1979 and ended in 2016, discouraged families from having more than one child. Accordingly, as that one child enters the labor force and his or her parents subsequently retire, the child may need to provide financial support for both parents; and moreover, given the improvements in longevity in China, in some cases the child may also need to support four grandparents. Second, because of Chinese

cultural values that favor male children, the one-child policy created a conspicuous imbalance in the gender ratio between males and females, with significant impacts on the marriage market, family formation, and elder care. In a decade or two, consumption patterns in young, growing India are likely to diverge dramatically from those in a graying China. Suppliers of video games, big-screen TVs, and child car seats may flock to India, whereas purveyors of hypertension and cholesterol-lowering medicines, bifocals, and retirement financial services will find China an attractive market.

### Case Questions

- 1-22. What challenges do graying populations create for companies?
- 1-23. What opportunities do graying populations create for firms?
- 1-24. How will demographic changes affect the competitiveness of countries in the international marketplace?
- 1-25. What can countries do to counteract the impact of these demographic changes on their economic competitiveness?

(Continued)

- 1-26. What has been the impact of the one-child policy on China's economic fortunes?
- 1-27. Go to the U.S. Census Bureau's international data base at [www.census.gov](http://www.census.gov). Pick two countries and analyze their changing demographics. Which one faces the more favorable demographic future?

*Sources:* Based on <http://www.census.gov>'s international database, accessed March 3, 2018; "Japan is embracing nursing-care robots," *The Economist*, November 23, 2017; "Investors should wake up to Japan's robotic future," *Financial Times*, September 24, 2017; "China's demographic divisions are getting deeper," *The Economist*, September 21, 2017; "The rise of childlessness," *The Economist*, July 27, 2017; "Desperately seeking young people," *The Economist*, January 7, 2017; "The empty crib," *The Economist*, August 27, 2016, p. 14; "A narrow passage," *The Economist*, August 20, 2016, p. 31; "China's one-child plan faces new fire," *Financial Times*,

April 29, 2011, p. 1; "India passes 1.2 billion mark," *Wall Street Journal*, April 1, 2011, p. A10; "No babies," *New York Times*, June 29, 2008 (online); "Cautiously, an aging Japan warms to foreign workers," *Wall Street Journal*, May 25, 2007, p. A1; "Bringing up baby," *The Economist*, June 14, 2007, (online); "Population shift is ignored threat," *Wall Street Journal*, June 6, 2006, p. A9; "Labor shortage in China may lead to trade shift," *New York Times*, April 3, 2006 (online); "Chinese president asks senior officials to promote rural development," *People's Daily Online*, February 15, 2006; "Turning boomers into boomerangs," *The Economist*, February 18, 2006, pp. 65–67; "Hey, big-spender," *The Economist*, December 3, 2005, p. 52; "Why China stands to grow old before it gets rich," *Financial Times*, November 10, 2005, p. 13; "China and India: The challenge and the opportunity," *Businessweek*, August 22/29, 2005, pp. 51–136; "The factory that has mastered the ageing challenge," *Financial Times*, July 5, 2005, p. 7; "China's golden oldies," *The Economist*, February 26, 2005, p. 65.

## MyLab Management

Go to [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) for Auto-graded writing questions as well as the following Assisted-graded writing questions:

- 1-28. What are the primary causes of globalization?
- 1-29. Is globalization good or bad for the world? Is its impact uniform, or are some groups and countries benefited/harmed more than other groups and countries?
- 1-30. MyLab Management Only—comprehensive writing assignment for this chapter.

## Endnotes

1. "Olympic Marketing Fact File 2018 Edition," accessed March 2, 2018, <http://www.ioc.org>; "Big Winter Olympics Advertisers Cut Spending for 2018 Games," *Wall Street Journal*, February 9, 2018; "The business model for the Olympic Games is running out of puff," *The Economist*, March 16, 2017; "More with less," *The Economist*, August 11, 2016; "NBC Extends Olympic Rights Through 2032," *Wall Street Journal*, May 7, 2014; "Castles in the sand," *The Economist*, July 13, 2013; "NBC Says Olympic Ad Sales Strong," *Wall Street Journal*, May 16, 2013; "Olympic Bailouts for Russian Moguls," *Wall Street Journal*, April 29, 2013; "Russia Tempers Expectations for Sochi," *Wall Street Journal*, March 22, 2013; "NBC Realizes Olympic Dream," *Wall Street Journal*, June 8, 2011, p. B1; "Security is a 'massive challenge'," *USA Today*, March 22, 2011, p. 2C; "In NBC's shadow, Comcast ponders an Olympic plunge," *New York Times*, December 28, 2010; "When the circus leaves town," *The Economist*, July 24, 2010, p. 57; "Gold medal in the race for business," *Financial Times*, September 24, 2009, p. 12; "Olympic marketers seek to soar above politics," *Wall Street Journal*, March 20, 2008, p. B5; "Chinese Olympic ads draw high prices," *Wall Street Journal*, November 20, 2007, p. B3; "GM's pending Olympic exit reshapes marketing arena," *Wall Street Journal*, August 8, 2007, p. B2; "A year out, Beijing games test China's rising power," *Wall Street Journal*, August 7, 2007, p. A1; "Stepping up," *Houston*

*Chronicle*, February 24, 2006, p. C2; "Obscurity takes a holiday," *Wall Street Journal*, February 11–12, 2006, p. A5; "Closing words opened door for London," *Financial Times*, July 7, 2005, p. 2; "A ringing endorsement: Business backing for the Olympics grows as scandals abate," *Financial Times*, July 1, 2005, p. 11; "NBC proud as a peacock of Olympics deal, high-tech focus," *Houston Chronicle*, June 7, 2003, p. 13B; "NBC plans 24-hour coverage of Summer Olympics in 2004," *Wall Street Journal*, February 5, 2003, p. B10; "Sydney already feeling the heat," *USA Today*, February 15, 2000, pp. 1C–2C; "How the Olympics were bought," *Time*, January 25, 1999; "GM to spend up to \$1 billion on Olympics through 2008 in pact with USOC, NBC," *Wall Street Journal*, July 29, 1997, p. B5; "Greek leaders see winning Olympic bid as an endorsement of market reforms," *Wall Street Journal*, September 8, 1997; "NBC wraps up the Olympics through 2008," *Wall Street Journal*, December 13, 1995, p. B1; "Japan's Nagano, site of 1998 games, faces problems of Olympic proportions," *Wall Street Journal*, March 15, 1994, p. A14; "Olympics strategy has its rewards," *USA Today*, February 21, 1994, pp. 1B–2B; "Going for the gold, merchandisers and retailers promote the Olympics two years in advance," *Wall Street Journal*, December 7, 1993, pp. B1, B16; "Let the bidding begin for the TV rights to '96 Olympics, and watch it heat up," *Wall Street Journal*, August 7, 1992, p. B1; "The Olympics: Brought to you by . . ."

- USA Today*, July 21, 1992, pp. 1B, 2B; “NBC’s Olympic gamble,” *Newsweek*, January 13, 1992, p. 44.
2. *Survey of Current Business*, Washington, DC: U.S. Department of Commerce, August 2017, and December 2017; BEA database, [www.bea.gov](http://www.bea.gov), accessed August 20, 2018.
  3. Boeing Corporation Annual Report 2017; Task Force Tips, accessed March 2, 2018, [www.tft.com](http://www.tft.com); “Surging exports lighten the gloom,” *Wall Street Journal*, March 24, 2008, p. A2.
  4. John H. Dunning, *Multinational Enterprises and the Global Economy*, Wokingham, England: Addison-Wesley Publishing Company, 1993, p. 106ff.
  5. Thomas L. Friedman, *The Lexus and the Olive Tree*, New York: Anchor Books, 2000, p. 9.
  6. “Cape Town Is a Scene-Stealer for Film,” *Wall Street Journal*, June 3, 2015; “U.S. agencies shift work overseas,” *Wall Street Journal*, June 24, 2002, p. B5.
  7. “Rich Outlook for China’s Luxury Market,” [www.barrons.com](http://www.barrons.com), March 29, 2018; “China luxury sales rebound as millennials snap up cosmetics, handbags: report,” [www.reuters.com](http://www.reuters.com), January 17, 2018; “When It Comes to Luxury, China Still Leads,” *New York Times*, April 5, 2016.
  8. Jeffrey Garten, *The Big Ten: The Big Emerging Markets and How They Will Change Your Life*, New York: Harper-Collins, 1998.



# 2

## Global Marketplaces and Business Centers



Jan Will/Fotolia

### LEARNING OBJECTIVES

- 2.1.** Discuss North America as a major marketplace and business center in the world economy.
- 2.2.** Describe Western Europe as a major marketplace and business center in the world economy.
- 2.3.** Analyze the role of Eastern Europe and Central Asia in the world economy.
- 2.4.** Discuss Asia as a major marketplace and business center in the world economy.
- 2.5.** Assess the development challenges facing African and Middle Eastern countries.
- 2.6.** Evaluate the economic prospects of the South American countries.

---

### MyLab Management

#### ★ Improve Your Grade!

More than 10 million students improved their results using the Pearson MyLabs. Visit [www.pearson.com/mylab/management](http://www.pearson.com/mylab/management) for simulations, tutorials, and end-of-chapter problems.