

International Management

Culture, Strategy, and Behavior



ELEVENTH EDITION



**Mc
Graw
Hill**

Fred Luthans | Jonathan P. Doh

International Management

Culture, Strategy, and Behavior

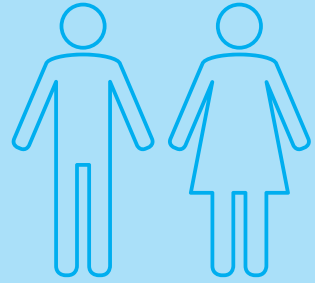
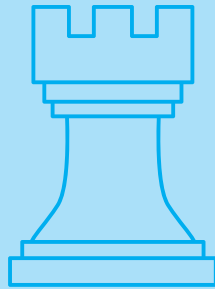
Eleventh Edition

Fred Luthans

University of Nebraska–Lincoln

Jonathan P. Doh

Villanova University



**Mc
Graw
Hill**



INTERNATIONAL MANAGEMENT: CULTURE, STRATEGY, AND BEHAVIOR, ELEVENTH EDITION

Published by McGraw-Hill Education, 2 Penn Plaza, New York, NY 10121. Copyright © 2021 by McGraw-Hill Education. All rights reserved. Printed in the United States of America. Previous editions © 2018, 2015, and 2012. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written consent of McGraw-Hill Education, including, but not limited to, in any network or other electronic storage or transmission, or broadcast for distance learning.

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

This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 LWI 24 23 22 21 20

ISBN 978-1-260-26047-2 (bound edition)

MHID 1-260-26047-X (bound edition)

ISBN 978-1-260-56393-1 (loose-leaf edition)

MHID 1-260-56393-6 (loose-leaf edition)

Director: *Michael Ablassmeir*

Portfolio Manager: *Laura Hurst Spell*

Marketing Manager: *Lisa Granger*

Content Project Managers: *Melissa M. Leick, Emily Windelborn, Karen Jozefowicz*

Buyer: *Sue Culbertson*

Design: *Beth Blech*

Content Licensing Specialist: *Gina Oberbroeckling*

Cover Image: Nawi Cove, Sydney, Australia: *Leonid Andronov/Shutterstock*; hands with city and globe:

Jacob_09/Shutterstock; businesspeople: *Robert Kneschke/Shutterstock*

Compositor: *Aptara[®], Inc.*

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

Library of Congress Cataloging-in-Publication Data

Names: Luthans, Fred, author. | Doh, Jonathan P., author.

Title: International management : culture, strategy, and behavior /

Jonathan P. Doh, Villanova University, Fred Luthans, University of Nebraska-Lincoln.

Description: Eleventh edition. | New York, NY : McGraw-Hill Education, [2021] | Includes bibliographical references and index.

Identifiers: LCCN 2019050157 (print) | LCCN 2019050158 (ebook) | ISBN 9781260260472 (hardcover) | ISBN 9781260563931 (spiral bound) | ISBN 9781260563917 (ebook) | ISBN 9781260563979 (ebook other)

Subjects: LCSH: International business enterprises—Management. | International business enterprises—Management—Case studies.

Classification: LCC HD62.4 .H63 2021 (print) | LCC HD62.4 (ebook) | DDC 658/.049—dc23

LC record available at <https://lcn.loc.gov/2019050157>

LC ebook record available at <https://lcn.loc.gov/2019050158>

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

Dedicated in Memory of

Rafael Lucea,

A Passionate Advocate for Global Business Education and Experience

Preface

The global business environment in recent years has been characterized by substantial and often unforeseen change. By some accounts, the degree of uncertainty and volatility in global political and economic affairs has increased as several long-term trends have come to a halt or, in some cases, reversed. Political conflicts, economic disruptions, and realignment of security arrangements have all created challenges for global business. Around the world, support for global economic integration and engagement appears to be on the decline. The vote by the United Kingdom to separate from the European Union and the withdrawal of the United States from the Trans-Pacific Partnership, a proposed trade agreement among 12 Pacific-facing nations, are two stark examples of this broad trend. Some see the United States as retreating from its long-held position as the leading advocate of trade and economic interdependence. Further, trade tensions have risen not just between the U.S. and China, two world powers jockeying for global leadership, but also between the U.S. and its key allies, such as the European Union and Canada. Concurrently, nationalist sentiments in the United States, Europe, Asia, and elsewhere have resulted in raised barriers to both legal and illegal immigration. Exacerbating these pressures, longstanding concerns about the uneven impacts of globalization on jobs, wages, and incomes have resurfaced, as have broader questions about the costs of economic globalization to both developed and developing countries and their citizens.

At the same time, however, trade and investment agreements continue to operate, and new economic arrangements are implemented. Businesses, professionals, and citizens continue to engage in global commerce, investment, and people-to-people exchanges. Rapid advances in social media have not only accelerated globalization but also called into question issues of privacy, security, and access to private information (see opening articles in Chapters 1 and 2). In addition, concerns about climate change and other environmental issues have prompted companies, in conjunction with governments and nongovernmental organizations, to consider alternate approaches to business and governance (see Chapter 3 opening article).

Some of these developments have challenged longstanding beliefs about the power and benefits of globalization and economic integration, but they also underscore the interconnected nature of global economies. Although many countries and regions around the world are closely linked, important differences in institutional and cultural environments persist, and some of these differences have become even more pronounced in recent years. The challenges for international management reflect this dynamism and the increasing unpredictability of global economic and political events. Continued growth of the emerging markets is reshaping the global balance of economic power, even though differences exist between and among regions and countries. Although many emerging markets continued to experience growth during a period when developed countries' economies stagnated or declined, others, like Russia and Brazil, have faced major setbacks. Further, some developed economies, such as Greece, Italy, Spain, and Portugal, are finally emerging from the formidable challenges of the European debt crisis that began over a decade ago.

The global political and security environment remains unpredictable and volatile, with ongoing conflicts in the Middle East and Africa. The Syrian civil war has resulted in mass migration—and broad dislocations—across North Africa and Europe (see Chapters 1 and 2 for further discussion). Additionally, allegations of Russian interference in domestic affairs—including major elections—in Europe and the United States have escalated tensions. On the economic front, the global trade and integration agenda seems stalled,

largely due to domestic political pressures and increased protectionism in Europe and North America. Examples include the United States' threat to withdraw from—and subsequent renegotiation—of the NAFTA (now called the United States–Mexico–Canada Agreement), the application of tariffs on a range of imports from China and elsewhere in 2018 and 2019, and the previously mentioned withdrawal of the United States from the Trans-Pacific Partnership.

As mentioned, the advent of social networking has transformed the way citizens interact; how businesses market, promote, and distribute their products globally; and how civil society expresses its concerns that governments provide greater freedoms and accountability. Concurrently, companies, individuals, and even students can now engage in broad “mass” collaboration through digital, online technology for the development of new and innovative systems, products, and ideas. Both social networking and mass collaboration bring new power and influence to individuals across borders and transform the nature of their relationships with global organizations. Although globalization and technology continue to link nations, businesses, and individuals, these linkages also highlight the importance of understanding different cultures, national systems, and corporate management practices around the world. The world is now interconnected geographically, but also electronically and psychologically; as such, nearly all businesses have been touched in some way by globalization. Yet, as cultural, political, and economic differences persist, astute international managers must be in a position to adapt and adjust to the vagaries of different contexts and environments.

In this new, eleventh edition of *International Management*, we have retained the strong and effective foundations gained from research and practice over the past decades while incorporating the important latest research and contemporary insights that have changed the context and environment for international management. Several trends have emerged that pose both challenges and opportunities for international managers.

First, more nationalistically oriented politicians have gained power in many regions of the world, including in the United States, Brazil, and the Philippines and across Europe, especially the Central European economies of Poland, Hungary, and the Czech Republic. These leaders and their governments are challenging previous assumptions about the benefits and inevitability of globalization and integration. The looming exit of the United Kingdom from the European Union and the implementation of tariffs by the United States have complicated international trade for multinational corporations. Second, while emerging markets remain vitally important to global growth, many of these economies have slowed in the past few years. China's economic growth has significantly decelerated as it has matured. In South America, Brazil continues to recover from a deep recession, and Argentina has battled accelerating inflation. Third, the development of new technology, such as artificial intelligence and robotics, will result in fundamental changes to the global job market. Fourth, increasing electronic connectivity in developing countries will continue to help accelerate those economies and facilitate international business of all sorts. However, barriers and limitations imposed by governments could threaten this progress.

Although we have extensive new, evidence-based material in this edition, we continue to strive to make the book even more user-friendly and applicable to practice. We continue to take a balanced approach in the eleventh edition of *International Management: Culture, Strategy, and Behavior*. While other texts stress culture, strategy, or behavior, our emphasis on all three critical dimensions—and the interactions among them—has been a primary reason the previous editions have been the market-leading international management text. Specifically, this edition has the following chapter distribution: environment (three chapters), culture (four chapters), strategy (four chapters), and organizational behavior/human resource management (three chapters). Because the context of international management changes rapidly, all the chapters have been updated and improved. New real-world examples and research results are integrated throughout the book, accentuating the experiential relevance of the straightforward content. As always, we emphasize a balance of research and application.

For the new, eleventh edition, we have incorporated important new content in the areas of the emergence of protectionism and its impact on international trade, the use of social media and other communication connectivity in global affairs, the role that advanced technologies are beginning to fill in international business, and other important global themes. We have incorporated the latest research and practical insights on pressure for both MNCs and governments to adopt more sustainable practices, and the strategies many companies are using to differentiate their products through such “green” management practices. We have updated the discussion of a range of contemporary topics, including ongoing global conflicts.

A continuing and relevant end-of-chapter feature in this edition is the “Internet Exercise.” The purpose of each exercise is to encourage students to use the Internet to find information from the websites of prominent MNCs to answer relevant questions about the chapter topic. An end-of-book feature is a series of Skill-Building and Experiential Exercises for aspiring international managers. These in-class exercises represent the various parts of the text (culture, strategy, and behavior) and provide hands-on experience.

We have extended from the tenth edition of *International Management* the chapter opening discussions called “The World of International Management” (WIM), based on very recent, relevant news stories to grab readers’ interest and attention. Many of these opening articles are new to this edition and all have been updated. These timely opening discussions transition the reader into the chapter topic. At the end of each chapter, there is a pedagogical feature that revisits the chapter’s subject matter: “The World of International Management—Revisited.” Here we pose several discussion questions based on the topic of the opening feature in light of the student’s entire reading of the chapter. Answering these questions requires readers to reconsider and to draw from the chapter material. Suggested answers to these “WIM—Revisited” discussion questions appear in the completely updated Instructor’s Manual, where we also provide some multiple-choice and true-false questions that draw directly from the chapters’ World of International Management topic matter for instructors who want to include this material in their tests.

The use and application of cases are further enhanced in this edition. All cases have been updated, and several new ones have been added. The short, within-chapter country case illustrations—“In the International Spotlight”—can be read and discussed in class. These have all been revised, and five have been added—Kenya, Argentina, Turkey, U.A.E, and Vietnam. In addition, we have updated or replaced all of the additional “You Be the International Management Consultant” exercises, which present a current challenge or dilemma facing a company in the subject country of the “International Spotlight.” Students are invited to respond to a question related to this challenge. The revised or newly added “Integrative Cases” positioned at the end of each main part of the text were created exclusively for this edition and provide opportunities for reading and analysis outside class. Review questions provided for each case are intended to facilitate lively and productive written analysis or in-class discussion. Our “Brief Integrative Cases” typically explore a specific situation or challenge facing an individual or team. Our longer and more detailed “In-Depth Integrative Cases” provide a broader discussion of the challenges facing a company. These two formats allow maximum flexibility, so that instructors can use the cases in a tailored and customized fashion. Accompanying many of the in-depth cases are short exercises that can be used in class to reinforce both the substantive topic and students’ skills in negotiation, presentation, and analysis. The cases have been extensively updated, and several are new to this edition. Cases concerning the controversies over drug pricing, TOMS shoes, Russell Athletics/Fruit of the Loom, Euro Disneyland and Disney Asia, Google in China, IKEA, Nike, Walmart, Danone, Chiquita, Coca-Cola, and others are unique to this book and specific to this edition. In addition, two brand-new cases written specifically for this edition explore Starbucks’ entrance into India via a joint venture with the Tata Group and Didi’s successful response to Uber’s move into China. Of course, instructors also have access to Create (<http://create.mheducation.com>), McGraw-Hill’s extensive content database,

which includes thousands of cases from major sources such as Harvard Business School, Ivey, Darden, and NACRA case databases.

Along with the new or updated “International Management in Action” boxed application examples within each chapter and other pedagogical features at the end of each chapter (i.e., “Key Terms,” “Review and Discussion Questions,” “The World of International Management—Revisited,” and “Internet Exercise”), the end-of-part brief and in-depth cases and the end-of-book skill-building exercises and simulations in the Connect resources complete the package.

International Management is generally recognized to be the first “mainstream” text of its kind. Strategy casebooks and specialized books in organizational behavior, human resources, and, of course, international business, finance, marketing, and economics preceded it, but there were no international management texts before this one, and it remains the market leader. We have had sustainability because of the effort and care put into the revisions. We hope you agree that this eleventh edition continues the tradition and remains the “world-class” text for the study of international management.

Instructor Library

The Connect Instructor Library is your repository for additional resources to improve student engagement in and out of class. You can select and use any asset that enhances your lecture.

To help instructors teach international management, this text is accompanied by a revised and expanded Instructor’s Resource Manual, Test Bank, and PowerPoint slides, all of which are in the Connect Library.

Acknowledgments

We would like to acknowledge those who have helped to make this book a reality. We will never forget the legacy of international management education in general and for this text in particular provided by our departed colleague Richard M. Hodgetts. Special thanks also go to our growing number of colleagues throughout the world who have given us many ideas and inspired us to think internationally. Closer to home, Jonathan Doh would like to thank Villanova University and its leadership, especially Provost Pat Maggitti, Villanova School of Business Dean Joyce Russell, Associate Dean Wen Mao, and Herb Rammrath, who generously endowed the Chair in International Business Jonathan now holds, and Bob Moran, who endowed Villanova’s Center for Global Leadership. Additionally, for this new, eleventh edition, we would like to thank Heui Chan Lee, who researched and drafted chapter opening World of International Management features. Fred Luthans would like to give special recognition to two international management scholars: Henry H. Albers, former Chair of the Management Department at the University of Nebraska and former Dean at the University of Petroleum and Minerals, Saudi Arabia, to whom previous editions of this book were dedicated; and Sang M. Lee, former Chair of the Management Department at Nebraska, founding and current President of the Pan Pacific Business Association, and close colleague on many ventures around the world over the past 30 years.

In addition, we would like to acknowledge the help that we received from the many reviewers from around the globe, whose feedback guided us in preparing the eleventh edition of the text. These include

Luke H. Cashen, Nicholls State University
Imran Chowdhury, Pace University
Laurnyn A. De George, University of
Central Florida

John Donnellan, New Jersey City
University
Sharon Segrest, University of South Florida
St. Petersburg

Our thanks, too, to the reviewers of previous editions of the text:

Thomas M. Abbott, Post University	Robert Kuhne, Hofstra University
Yohannan T. Abraham, Southwest Missouri State University	Christine Lentz, Rider University
Janet S. Adams, Kennesaw State University	Ben Lever III, College of Charleston
Irfan Ahmed, Sam Houston State University	Robert C. Maddox, University of Tennessee
Joseph S. Anderson, Northern Arizona University	Curtis Matherne III, East Tennessee State University
Chi Anyansi-Archibong, North Carolina A&T State University	Douglas M. McCabe, Georgetown University
Kibok Baik, James Madison University	Jeanne M. McNett, Assumption College
R. B. Barton, Murray State University	Lauryn Migenes, University of Central Florida
Lawrence A. Beer, Arizona State University	Alan N. Miller, University of Nevada, Las Vegas
Koren Borges, University of North Florida	Ray Montagno, Ball State University
Tope A. Bello, East Carolina University	Rebecca J. Morris, University of Nebraska–Omaha
Mauritz Blonder, Hofstra University	Ernst W. Neuland, University of Pretoria
Gunther S. Boroschek, University of Massachusetts–Boston	William Newbury, Rutgers Business School
Charles M. Byles, Virginia Commonwealth University	Yongsun Paik, Loyola Marymount University
Constance Campbell, Georgia Southern University	Valerie S. Perotti, Rochester Institute of Technology
Scott Kenneth Campbell, Georgia College & State University	Richard B. Peterson, University of Washington
M. Suzanne Clinton, University of Central Oklahoma	Suzanne J. Peterson, University of Nebraska–Lincoln
Lauryn De George, University of Central Florida	Joseph A. Petrick, Wright State University
Helen Deresky, SUNY Plattsburgh	Juan F. Ramirez, Nova Southeastern University
Dr. Dharma deSilva, Center for International Business Advancement (CIBA)	Richard David Ramsey, Southeastern Louisiana University
David Elloy, Gonzaga University	Manjula S. Salimath, University of North Texas
Val Finnigan, Leeds Metropolitan University	Owen Sevier, University of Central Oklahoma
David M. Flynn, Hofstra University	Mansour Sharif-Zadeh, California State Polytechnic University–Pomona
Jan Flynn, Georgia College and State University	Emeric Solymossy, Western Illinois University
Joseph Richard Goldman, University of Minnesota	Jane H. Stanford, Texas A&M University–Kingsville
James Gran, Buena Vista University	Dale V. Steinmann, San Francisco State University
Robert T. Green, University of Texas at Austin	Randall Stross, San Jose State University
Annette Gunter, University of Central Oklahoma	George Sutija, Florida International University
Jerry Haar, Florida International University–Miami	Deanna Teel, Houston Community College
Jean M. Hanebury, Salisbury State University	David Turnipseed, University of South Alabama–Mobile
Richard C. Hoffman, Salisbury State University	Katheryn H. Ward, Chicago State University
Johan Hough, University of South Africa	Li Weixing, University of Nebraska–Lincoln
Julie Huang, Rio Hondo College	Aimee Wheaton, Regis College
Mohd Nazari Ismail, University of Malaya	Marion M. White, James Madison University
Steve Jenner, California State University–Dominguez Hills	Timothy Wilkinson, University of Akron
James P. Johnson, Rollins College	George Yacus, Old Dominion University
Marjorie Jones, Nova Southeastern University	Corinne Young, University of Tampa
Jae C. Jung, University of Missouri–Kansas City	Zhe Zhang, University of Central Florida–Orlando
Ann Langlois, Palm Beach Atlantic University	Anatoly Zhuplev, Loyola Marymount University

Finally, thanks to the team at McGraw-Hill who worked on this book: Terri Schiesl, Managing Director; Michael Ablassmeir, Director; Laura Hurst Spell, Associate Portfolio Manager; Sarah Blasco, Development Editor; Lisa Granger, Marketing Manager; and Melissa M. Leick, Senior Content Project Manager. Last but by no means least, we greatly appreciate the love and support provided by our families.

Fred Luthans and Jonathan P. Doh

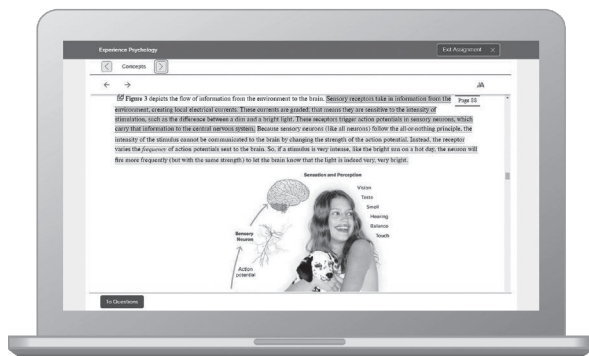
FOR INSTRUCTORS

You're in the driver's seat.

Want to build your own course? No problem. Prefer to use our turnkey, prebuilt course? Easy. Want to make changes throughout the semester? Sure. And you'll save time with Connect's auto-grading too.

65%

Less Time
Grading



Laptop: McGraw-Hill; Woman/dog: George Doyle/Getty Images

They'll thank you for it.

Adaptive study resources like SmartBook® 2.0 help your students be better prepared in less time. You can transform your class time from dull definitions to dynamic debates. Find out more about the powerful personalized learning experience available in SmartBook 2.0 at www.mheducation.com/highered/connect/smartbook

Make it simple, make it affordable.



Connect makes it easy with seamless integration using any of the major Learning Management Systems—Blackboard®, Canvas, and D2L, among others—to let you organize your course in one convenient location. Give your students access to digital materials at a discount with our inclusive access program. Ask your McGraw-Hill representative for more information.

Padlock: Jobalou/Getty Images

Solutions for your challenges.



A product isn't a solution. Real solutions are affordable, reliable, and come with training and ongoing support when you need it and how you want it. Our Customer Experience Group can also help you troubleshoot tech problems—although Connect's 99% uptime means you might not need to call them. See for yourself at **status.mheducation.com**

Checkmark: Jobalou/Getty Images

SUPPORT ^{AT}
every step

FOR STUDENTS

Effective, efficient studying.

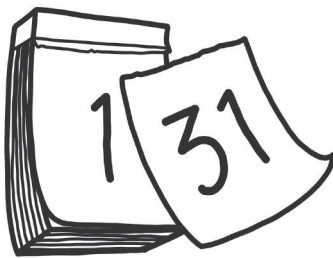
Connect helps you be more productive with your study time and get better grades using tools like SmartBook 2.0, which highlights key concepts and creates a personalized study plan. Connect sets you up for success, so you walk into class with confidence and walk out with better grades.

Study anytime, anywhere.

Download the free ReadAnywhere app and access your online eBook or SmartBook 2.0 assignments when it's convenient, even if you're offline. And since the app automatically syncs with your eBook and SmartBook 2.0 assignments in Connect, all of your work is available every time you open it. Find out more at www.mheducation.com/readanywhere

"I really liked this app—it made it easy to study when you don't have your textbook in front of you."

- Jordan Cunningham,
Eastern Washington University



Calendar: owattaphotos/Getty Images

No surprises.

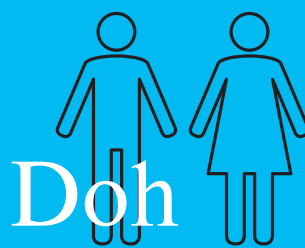
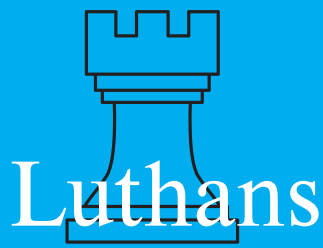
The Connect Calendar and Reports tools keep you on track with the work you need to get done and your assignment scores. Life gets busy; Connect tools help you keep learning through it all.

Learning for everyone.

McGraw-Hill works directly with Accessibility Services Departments and faculty to meet the learning needs of all students. Please contact your Accessibility Services office and ask them to email accessibility@mheducation.com, or visit www.mheducation.com/about/accessibility for more information.

Top: Jenner Images/Getty Images, Left: Hero Images/Getty Images, Right: Hero Images/Getty Images





The eleventh edition
of *International*
Management: Culture,
Strategy, and Behavior

is still setting the standard. Authors Jonathan Doh and Fred Luthans have taken care to retain the effective foundation gained from research and practice over the past decades. At the same time, they have fully incorporated important new and emerging developments that have changed what international managers are currently facing and likely to face in the coming years.

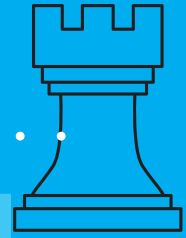
New and Enhanced Themes

- Thoroughly revised and updated chapters to reflect the most critical issues for international managers.
- New or revised opening World of International Management (WIM) features written by the authors on current international management challenges; these mini-cases were prepared expressly for this edition and are not available elsewhere.
- Discussions of the rise of protectionism and its impact on international business.
- New and updated discussions of major issues in global ethics, technology, sustainability, and other cutting-edge research.
- Greater attention to shifting demographic trends and global talent management, emphasizing the impact of new advanced technology will have on the global economy.
- Renewed emphasis on major emerging regions, economic challenges in major countries such as Brazil and Argentina, and specific case illustrations on how companies are managing these challenges.

Thoroughly Revised and Updated Chapter Content

- New or revised opening WIM discussions on topics including the global influences of social media using the case of Facebook; the impact of sanctions and political uncertainty when doing business in Iran; the role of social networking in political change in the Middle East; sustainability as a global competitive advantage using examples of Patagonia, L'Oreal, and Unilever; cultural challenges in global mergers and acquisitions; the competitive dynamics between Apple and Xiaomi and Amazon and Alibaba; Airbnb's entry into China and Cuba; Netflix's strategies for global expansion; and many others. These features were written expressly for this edition and are not available elsewhere.
- Updated and strengthened emphasis on ethics, technology, and sustainability.
- Extensive coverage of current geopolitical issues impacting international business, including Brexit, increased nationalism and protectionism across Europe and the United States, trade disputes between China and the United States, rising tensions with Russia, renewed sanctions on Iran, the renegotiation of trade deals such as USMCA and CPTPP, and the economic slowdown in China, to name a few.
- Revised or new "In the International Spotlight" inserts that profile the key economic and political issues relevant to managers in specific countries.

CONTINUES TO SET THE STANDARD. . .



Thoroughly Updated and/or New Cases, Inserts, and Exercises

- Completely new “In the International Spotlight” country profiles at the end of every chapter, including the addition of profiles on Argentina, Kenya, Turkey, United Arab Emirates, and Vietnam.
- “You Be the International Management Consultant” exercises, many new to this edition, present an actual company’s challenge in that country and invite students to recommend a course of action.
- New “International Management in Action” features, including discussions on timely topics such as the trade disputes between the United States and China, the Huawei controversy, and the shifting cultural dynamics associated with increasing percentages of Millennials and Gen Z in the workforce, to name a few.
- Thoroughly updated cases (not available elsewhere): TOMS shoes, Russell Athletics/Fruit of the Loom, Euro Disneyland and Disney Asia, Google in China, IKEA, Nike, Walmart, Danone, Chiquita, Coca-Cola, and others are unique to this book and specific to this edition.
- Brand new end-of-part cases developed exclusively for this edition (not available elsewhere): *How Starbucks Convinced Indians to Embrace Coffee* and *How Didi Fought Uber in China and Won; Next, Taking on the World*.
- Brand new “World of International Management” chapter opening discussions, including topics such as Netflix’s expansion to emerging markets, Starbucks’ strategy for Italy and China, the Cambridge Analytica scandal at Facebook, the impact of Iranian sanctions on international businesses, and the expansion of Airbnb, to name a few.
- New and revised graphics throughout.
- Timely updates throughout, based on the latest research, including a discussion of the influence of new technology on the global economy, the impact of protectionism on the international business community, and the continued push toward a sustainable future, to name a few.

Totally Revised Instructor and Student Support

The following instructor and student support materials can be found in Connect® at connect.mheducation.com for the eleventh edition.

- The Instructor’s Manual offers a summary of Learning Objectives and a teaching outline with lecture notes and teaching tips, as well as suggested answers to questions found throughout and at the conclusion of each chapter. Suggested answers are also provided for all the cases found in the book.



connect®



- The test bank offers over 1,000 test items consisting of true/false, multiple choice, and essay. Answers are provided for all test bank questions.
- PowerPoint Presentations consisting of approximately 30 slides per chapter give instructors talking points, feature exhibits from the text, and are summarized with a review and discussion slide.
- **Create:** Instructors can now tailor their teaching resources to match the way they teach! With McGraw-Hill Create, create.mheducation.com, instructors can easily rearrange chapters, combine material from other content sources, and quickly upload and integrate their own content, like course syllabi or teaching notes. Find the right content in Create by searching through thousands of leading McGraw-Hill textbooks. Arrange the material to fit your teaching style. Order a Create book and receive a complimentary print review copy in 3–5 business days or a complimentary electronic review copy (echo) via e-mail within one hour. Go to create.mheducation.com today and register.

AACSB Tagging

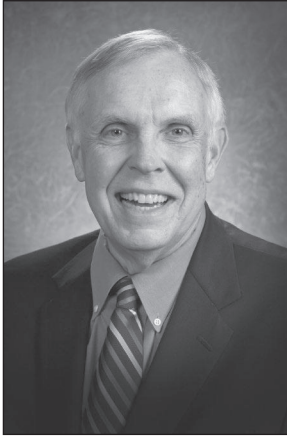
McGraw-Hill Education is a proud corporate member of AACSB International. Understanding the importance and value of AACSB accreditation, *International Management* recognizes the curriculum guidelines detailed in the AACSB standards for business accreditation by connecting selected questions in the text and the test bank to the six general knowledge and skill guidelines in the AACSB standards. The statements contained in *International Management* are provided only as a guide for the users of this textbook. The AACSB leaves content coverage and assessment within the purview of individual schools, the mission of the school, and the faculty. While the *International Management* teaching package makes no claim of any specific AACSB qualification or evaluation, we have within *International Management* labeled selected questions according to the six general knowledge and skills areas.

About the Authors

JONATHAN P. DOH is Associate Dean of Research, the Herbert G. Rammrath Chair in International Business, co-faculty Director of the Center for Global Leadership, and Professor of Management at the Villanova School of Business. Jonathan teaches, does research, and serves as an executive instructor and consultant in the areas of international strategy and corporate responsibility. Previously, he was on the faculty of American and Georgetown Universities and a trade official with the U.S. government. Jonathan is author or co-author of more than 85 refereed articles published in leading international business and management journals, more than 30 chapters in scholarly edited volumes, and more than 90 conference papers. Recent articles have appeared in journals such as *Academy of Management Review*, *California Management Review*, *Journal of International Business Studies*, *Journal of Management*, *Journal of Management Studies*, *Journal of World Business*, *Organization Science*, *Sloan Management Review*, and *Strategic Management Journal*. He is co-editor and contributing author of *Globalization and NGOs* (Praeger, 2003) and *Handbook on Responsible Leadership and Governance in Global Business* (Elgar, 2005) and co-author of the previous edition of *International Management: Culture, Strategy, and Behavior* (10th ed., McGraw-Hill/Irwin, 2015), the best-selling international management text. His current research focus is on strategy for and in emerging markets and global corporate responsibility and sustainability. His scholarly books include *Multinationals and Development* (with Alan Rugman, Yale University Press, 2008), *NGOs and Corporations: Conflict and Collaboration* (with Michael Yaziji, Cambridge University Press, 2009), and *Aligning for Advantage: Competitive Strategy for the Social and Political Arenas* (with Tom Lawton and Tazeeb Rajwani, Oxford University Press, 2014). He has been an associate, consulting, or senior editor for numerous journals and was editor-in-chief of *Journal of World Business* from 2014 to 2018. Jonathan has also developed more than a dozen original cases and simulations published in books, journals, and case databases and used at many leading global universities. He has been a consultant or executive instructor for ABB, Anglo American, Bodycote, Bosch, China Minsheng Bank, Hana Financial, HSBC, Ingersoll Rand, Medtronic, Shanghai Municipal Government, Siam Cement, and the World Economic Forum, among others. Previously, he was an external adviser to the Global Energy Resource Group of Deloitte Touche. Jonathan served for five years as a member of the Executive Committee of the Academy of Management Organizations and Natural Environment Division, a role that culminated in service as chair of the division in 2016. He was ranked among the top 15 most prolific international business scholars in the world for the period 2001–2009 (Lahiri and Kumar, 2012) and in 2015 was elected a fellow of the Academy of International Business. He has been an associate editor, special issue editor, senior editor, or consulting editor of several academic journals. From 2014 to 2018, he was Editor-in-Chief of *Journal of World Business* and is currently Senior Associate Editor of *Journal of Management Studies*. He is a frequent keynote speaker to academic and professional groups in Europe, Asia, and Latin America. He holds a Ph.D. in strategic and international management from George Washington University.



Villanova University, John Shetron.



Courtesy of University of Nebraska-
Lincoln College of Business
Administration

FRED LUTHANS is University and the George Holmes Distinguished Professor of Management, Emeritus at the University of Nebraska-Lincoln. He is also a senior research scientist for HUMANeX Ventures Inc. He received his B.A., M.B.A., and Ph.D. from the University of Iowa, where he received the Distinguished Alumni Award in 2002. While serving as an officer in the U.S. Army from 1965 to 1967, he taught leadership at the U.S. Military Academy at West Point. He has been a visiting scholar at a number of colleges and universities and has lectured in numerous European and Pacific Rim countries. He has taught international management as a visiting faculty member at the universities of Bangkok, Hawaii, Henley in England, Norwegian Management School, Monash in Australia, Macau, Chemnitz in Germany, and Tirana in Albania. A past President of the Academy of Management, in 1997 he received the Academy's Distinguished Educator Award. In 2000 he became an inaugural member of the Academy's Hall of Fame for being one of the "Top Five" all-time published authors in the prestigious academy journals. For many years he was co-editor-in-chief of the *Journal of World Business* and editor of *Organizational Dynamics* and is currently co-editor of *Journal of Leadership and Organizational Studies*. The author of numerous books, his seminal *Organizational Behavior* is now in its thirteenth edition and the 2007 groundbreaking book *Psychological Capital* (Oxford University Press) with Carolyn Youssef and Bruce Avolio came out in a new version in 2015. He is one of very few management scholars who is a Fellow of the Academy of Management, the Decision Sciences Institute, and the Pan Pacific Business Association. He received the Global Leadership Award from the Pan Pacific Association and has been a member of its Executive Committee since it was founded over 30 years ago. This committee helps organize the annual meeting held in Pacific Rim countries. He has been involved with some of the first empirical studies on motivation and behavioral management techniques and the analysis of managerial activities in Russia; these articles were published in the *Academy of Management Journal*, *Journal of International Business Studies*, *Journal of World Business*, and *European Management Journal*. Since the very beginning of the transition to market economies after the fall of communism in Eastern Europe, he has been actively involved in management education programs sponsored by the U.S. Agency for International Development in Albania and Macedonia, and in U.S. Information Agency programs involving the Central Asian countries of Kazakhstan, Kyrgyzstan, and Tajikistan. Professor Luthans's recent international research involves his construct of positive psychological capital (PsyCap). For example, he and colleagues have published their research demonstrating the impact of Chinese workers' PsyCap on their performance in the *International Journal of Human Resource Management* and *Management and Organization Review*. He is applying his positive approach to positive organizational behavior (POB), PsyCap, and authentic leadership to effective global management and has been the keynote at programs in China (numerous times), Malaysia, South Korea, Indonesia, Philippines, Singapore, Taiwan, Japan, Vietnam, Costa Rica, Mexico, Chile, Fiji, Germany, France, England, Spain, Norway, Finland, Denmark, Netherlands, Italy, Russia, Macedonia, Albania, Morocco, South Africa, New Zealand, and Australia.

Brief Contents

Environmental Foundation

Part One

1	Globalization and International Linkages	2
2	The Political, Legal, and Technological Environment	46
3	Ethics, Social Responsibility, and Sustainability	76
	Brief Integrative Case 1.1: Advertising or Free Speech?	
	The Case of Nike and Human Rights	101
	Brief Integrative Case 1.2: TOMS Puts Its Right Foot Forward	104
	In-Depth Integrative Case 1.1: Student Advocacy and “Sweatshop” Labor: The Case of Russell Athletic	109
	In-Depth Integrative Case 1.2: The Ethics of Global Drug Pricing	115

The Role of Culture

Part Two

4	The Meanings and Dimensions of Culture	124
5	Managing Across Cultures	154
6	Organizational Cultures and Diversity	178
7	Cross-Cultural Communication and Negotiation	204
	Brief Integrative Case 2.1: Coca-Cola in India	243
	Brief Integrative Case 2.2: Danone’s Wrangle with Wahaha	250
	In-Depth Integrative Case 2.1a: Euro Disneyland	257
	In-Depth Integrative Case 2.1b: Disney in Asia	268
	In-Depth Integrative Case 2.2: Walmart’s Global Strategies	274

International Strategic Management

Part Three

8	Strategy Formulation and Implementation	286
9	Entry Strategies and Organizational Structures	322
10	Managing Political Risk, Government Relations, and Alliances	354
11	Management Decision and Control	380
	Brief Integrative Case 3.1: Google in China: Protecting Property and Rights	407
	In-Depth Integrative Case 3.1: How Starbucks Convinced Indians to Embrace Coffee	413

Part Four	Organizational Behavior and Human Resource Management	
12	Motivation Across Cultures	428
13	Leadership Across Cultures	464
14	Human Resource Selection and Development Across Cultures	504
	Brief Integrative Case 4.1: IKEA's Global Renovations	551
	In-Depth Integrative Case 4.1: How Didi Fought Uber in China and Won; Next, Taking On the World	560
	In-Depth Integrative Case 4.2: Chiquita's Global Turnaround	574
	Skill-Building and Experiential Exercises	583
	Glossary	597
	Indexes	603

Table of Contents

Environmental Foundation

Part One

1 Globalization and International Linkages	2
The World of International Management: An Interconnected World	2
Introduction	4
Globalization and Internationalization	7
<i>Globalization, Antiglobalization, and Global Pressures for Change</i>	7
<i>Global and Regional Integration</i>	9
<i>Changing Global Demographics</i>	13
<i>The Shifting Balance of Economic Power in the Global Economy</i>	14
Global Economic Systems	22
<i>Market Economy</i>	22
<i>Command Economy</i>	23
<i>Mixed Economy</i>	23
Economic Performance and Issues of Major Regions	23
<i>Established Economies</i>	23
<i>Emerging and Developing Economies</i>	26
<i>Developing Economies on the Verge</i>	30
The World of International Management—Revisited	35
Summary of Key Points	37
Key Terms	37
Review and Discussion Questions	37
Answers to the In-Chapter Quiz	38
Internet Exercise: Global Competition in Fast Food	38
Endnotes	38
In the International Spotlight: India	44
2 The Political, Legal, and Technological Environment	46
The World of International Management:	
Social Media and Political Change	46
Political Environment	48
<i>Ideologies</i>	49
<i>Political Systems</i>	52
Legal and Regulatory Environment	54
<i>Basic Principles of International Law</i>	55
<i>Examples of Legal and Regulatory Issues</i>	56
<i>Privatization</i>	59
<i>Regulation of Trade and Investment</i>	62

Technological Environment and Global Shifts in Production	62
<i>Trends in Technology, Communication, and Innovation</i>	63
<i>Biotechnology</i>	64
<i>E-Business</i>	65
<i>Telecommunications</i>	66
<i>Technological Advancements, Outsourcing, and Offshoring</i>	67
The World of International Management—Revisited	69
Summary of Key Points	69
Key Terms	70
Review and Discussion Questions	70
Internet Exercise: Hitachi Goes Worldwide	70
Endnotes	70
In the International Spotlight: Turkey	75
 3 Ethics, Social Responsibility, and Sustainability	 76
The World of International Management: Sustaining Sustainable Companies	76
Ethics and Social Responsibility	79
<i>Ethics and Social Responsibility in International Management</i>	79
<i>Ethics Theories and Philosophy</i>	79
Human Rights	81
<i>Labor, Employment, and Business Practices</i>	82
<i>Environmental Protection and Development</i>	83
Globalization and Ethical Obligations of MNCs	85
<i>Reconciling Ethical Differences across Cultures</i>	87
<i>Corporate Social Responsibility and Sustainability</i>	87
<i>Corporate Governance</i>	91
<i>Corruption</i>	92
<i>International Assistance</i>	93
The World of International Management—Revisited	95
Summary of Key Points	95
Key Terms	96
Review and Discussion Questions	96
Endnotes	96
In the International Spotlight: Argentina	100
Brief Integrative Case 1.1: Advertising or Free Speech? The Case of Nike and Human Rights	101
Endnotes	103
Brief Integrative Case 1.2: TOMS Puts Its Right Foot Forward	104
Endnotes	107
In-Depth Integrative Case 1.1: Student Advocacy and “Sweatshop” Labor: The Case of Russell Athletic	109

Endnotes	113
In-Depth Integrative Case 1.2: The Ethics of Global Drug Pricing	115
Endnotes	121

The Role of Culture

Part Two

4 The Meanings and Dimensions of Culture	124
The World of International Management: Culture Clashes in Cross-Border Mergers and Acquisitions	124
The Nature of Culture	126
Cultural Diversity	127
Values in Culture	130
<i>Values in Transition</i>	130
Cultural Dimensions	131
<i>Hofstede</i>	132
<i>Trompenaars</i>	141
Integrating Culture and Management: The GLOBE Project	144
<i>Culture and Management</i>	145
<i>GLOBE's Cultural Dimensions</i>	145
<i>GLOBE Country Analysis</i>	146
The World of International Management—Revisited	147
Summary of Key Points	149
Key Terms	149
Review and Discussion Questions	149
Internet Exercise: Renault-Nissan in South Africa	150
Endnotes	150
In the International Spotlight: Kenya	153
5 Managing Across Cultures	154
The World of International Management: Taking a Bite Out of Apple: Corporate Culture and an Unlikely Chinese Start-up	154
The Strategy for Managing across Cultures	156
<i>Strategic Predispositions</i>	157
<i>Meeting the Challenge</i>	158
Cross-Cultural Differences and Similarities	159
<i>Parochialism and Simplification</i>	160
<i>Similarities across Cultures</i>	162
<i>Many Differences across Cultures</i>	162
Cultural Differences in Selected Countries and Regions	166
<i>Using the GLOBE Project to Compare Managerial Differences</i>	166
<i>Managing Culture in Selected Countries and Regions</i>	167

The World of International Management—Revisited	172
Summary of Key Points	173
Key Terms	173
Review and Discussion Questions	173
Internet Exercise: Haier's Approach	173
Endnotes	174
In the International Spotlight: Poland	177
6 Organizational Cultures and Diversity	178
The World of International Management: The Fundamentals of Strong Multinational Teams	178
The Nature of Organizational Culture	180
<i>Definition and Characteristics</i>	181
Interaction between National and Organizational Cultures	182
Organizational Cultures in MNCs	186
<i>Family Culture</i>	188
<i>Eiffel Tower Culture</i>	188
<i>Guided Missile Culture</i>	189
<i>Incubator Culture</i>	190
Managing Multiculturalism and Diversity	192
<i>Phases of Multicultural Development</i>	192
<i>Types of Multiculturalism</i>	194
<i>Potential Problems Associated with Diversity</i>	195
<i>Advantages of Diversity</i>	196
<i>Building Multicultural Team Effectiveness</i>	197
The World of International Management—Revisited	199
Summary of Key Points	199
Key Terms	200
Review and Discussion Questions	200
Internet Exercise: Lenovo's International Focus	200
Endnotes	201
In the International Spotlight: Nigeria	203
7 Cross-Cultural Communication and Negotiation	204
The World of International Management: Netflix's Negotiations: Global Expansion Strategies	204
The Overall Communication Process	206
<i>Verbal Communication Styles</i>	206
<i>Interpretation of Communications</i>	209
Communication Flows	210
<i>Downward Communication</i>	210
<i>Upward Communication</i>	210

Communication Barriers	211
<i>Language Barriers</i>	212
<i>Perceptual Barriers</i>	214
<i>The Impact of Culture</i>	217
<i>Nonverbal Communication</i>	218
Achieving Communication Effectiveness	221
<i>Improve Feedback Systems</i>	221
<i>Provide Language Training</i>	221
<i>Provide Cultural Training</i>	222
<i>Increase Flexibility and Cooperation</i>	224
Managing Cross-Cultural Negotiations	224
<i>Types of Negotiation</i>	224
<i>The Negotiation Process</i>	225
<i>Cultural Differences Affecting Negotiations</i>	226
<i>Negotiation Tactics</i>	229
<i>Negotiating for Mutual Benefit</i>	230
<i>Bargaining Behaviors</i>	232
The World of International Management—Revisited	235
Summary of Key Points	236
Key Terms	236
Review and Discussion Questions	236
Internet Exercise: Working Effectively at Toyota	237
Endnotes	237
In the International Spotlight: China	241
Brief Integrative Case 2.1: Coca-Cola in India	243
Endnotes	247
Brief Integrative Case 2.2: Danone's Wrangle with Wahaha	250
Endnotes	255
In-Depth Integrative Case 2.1a: Euro Disneyland	257
Endnotes	266
In-Depth Integrative Case 2.1b: Disney in Asia	268
Endnotes	272
In-Depth Integrative Case 2.2: Walmart's Global Strategies	274
Endnotes	281

INTERNATIONAL STRATEGIC MANAGEMENT

Part Three

8 Strategy Formulation and Implementation	286
The World of International Management:	
Starbucks' Caffeinated Push for Global Growth	286
Strategic Management	288
<i>The Growing Need for Strategic Management</i>	288

<i>Benefits of Strategic Planning</i>	289
<i>Approaches to Formulating and Implementing Strategy</i>	290
<i>Global and Regional Strategies</i>	293
The Basic Steps in Formulating Strategy	296
<i>Environmental Scanning</i>	296
<i>Internal Resource Analysis</i>	298
<i>Goal Setting for Strategy Formulation</i>	299
Strategy Implementation	300
<i>Location Considerations for Implementation</i>	300
<i>Combining Country and Firm-Specific Factors in International Strategy</i>	302
<i>The Role of the Functional Areas in Implementation</i>	304
Specialized Strategies	305
<i>Strategies for Emerging Markets</i>	305
<i>Entrepreneurial Strategy and New Ventures</i>	311
The World of International Management—Revisited	313
Summary of Key Points	313
Key Terms	314
Review and Discussion Questions	314
Internet Exercise: Infosys' Global Strategy	314
Endnotes	314
In the International Spotlight: United Arab Emirates	320
9 Entry Strategies and Organizational Structures	322
The World of International Management: Airbnb	322
Entry Strategies and Ownership Structures	324
<i>Export/Import</i>	324
<i>Wholly Owned Subsidiaries</i>	324
<i>Mergers/Acquisitions</i>	325
<i>Alliances and Joint Ventures</i>	326
<i>Licensing</i>	329
<i>Franchising</i>	329
The Organization Challenge	330
Basic Organizational Structures	331
<i>Initial Division Structure</i>	332
<i>International Division Structure</i>	332
<i>Global Structural Arrangements</i>	333
<i>Transnational Network Structures</i>	337
Nontraditional Organizational Arrangements	339
<i>Organizational Arrangements from Mergers, Acquisitions, Joint Ventures, and Alliances</i>	339

The Emergence of the Network Organizational Forms	341
<i>Organizing for Product Integration</i>	342
Organizational Characteristics of MNCs	343
<i>Formalization</i>	343
<i>Specialization</i>	344
<i>Centralization</i>	345
<i>Putting Organizational Characteristics in Perspective</i>	345
The World of International Management—Revisited	347
Summary of Key Points	347
Key Terms	348
Review and Discussion Questions	348
Internet Exercise: Organizing for Effectiveness	348
Endnotes	348
In the International Spotlight: Mexico	352
 10 Managing Political Risk, Government Relations, and Alliances	 354
The World of International Management: Iran: Risks and Political Uncertainty	354
The Nature and Analysis of Political Risk	356
<i>Macro and Micro Analysis of Political Risk</i>	357
<i>Terrorism and Its Overseas Expansion</i>	360
<i>Analyzing the Expropriation Risk</i>	361
Managing Political Risk and Government Relations	361
<i>Developing a Comprehensive Framework or Quantitative Analysis</i>	361
<i>Techniques for Responding to Political Risk</i>	365
Managing Alliances	370
<i>The Alliance Challenge</i>	370
<i>The Role of Host Governments in Alliances</i>	371
<i>Examples of Challenges and Opportunities in Alliance Management</i>	372
The World of International Management—Revisited	373
Summary of Key Points	374
Key Terms	374
Review and Discussion Questions	374
Internet Exercise: Nokia in China	374
Endnotes	375
In the International Spotlight: Brazil	378
 11 Management Decision and Control	 380
The World of International Management: Global Online Retail: Amazon versus Alibaba	380

Decision-Making Process and Challenges	382
<i>Factors Affecting Decision-Making Authority</i>	383
<i>Cultural Differences and Comparative Examples of Decision Making</i>	385
<i>Total Quality Management Decisions</i>	386
<i>Decisions for Attacking the Competition</i>	388
Decision and Control Linkages	389
The Controlling Process	390
<i>Types of Control</i>	391
<i>Approaches to Control</i>	393
Performance Evaluation as a Mechanism of Control	395
<i>Financial Performance</i>	395
<i>Quality Performance</i>	396
<i>Personnel Performance</i>	399
The World of International Management—Revisited	401
Summary of Key Points	402
Key Terms	402
Review and Discussion Questions	402
Internet Exercise: Looking at the Best	403
Endnotes	403
In the International Spotlight: Japan	406
Brief Integrative Case 3.1:	
Google in China: Protecting Property and Rights	407
Endnotes	411
In-Depth Integrative Case 3.1:	
How Starbucks Convinced Indians to Embrace Coffee	413
Endnotes	423

Part Four **Organizational Behavior and Human Resource Management**

12 Motivation Across Cultures	428
The World of International Management: Motivating Employees in a Multicultural Context: Insights from Emerging Markets	428
The Nature of Motivation	430
<i>The Universalist Assumption</i>	430
<i>The Assumption of Content and Process</i>	432
The Hierarchy-of-Needs Theory	433
<i>The Maslow Theory</i>	433
<i>International Findings on Maslow's Theory</i>	434
The Two-Factor Theory of Motivation	438
<i>The Herzberg Theory</i>	438
<i>International Findings on Herzberg's Theory</i>	439

Achievement Motivation Theory	442
<i>The Background of Achievement Motivation Theory</i>	442
<i>International Findings on Achievement Motivation Theory</i>	443
Select Process Theories	445
<i>Equity Theory</i>	445
<i>Goal-Setting Theory</i>	446
<i>Expectancy Theory</i>	447
Motivation Applied: Job Design, Work Centrality, and Rewards	447
<i>Job Design</i>	447
<i>Work Centrality</i>	450
<i>Reward Systems</i>	454
Incentives and Culture	454
The World of International Management—Revisited	456
Summary of Key Points	457
Key Terms	458
Review and Discussion Questions	458
Internet Exercise: Motivating Potential Employees	458
Endnotes	458
In the International Spotlight: Vietnam	463
 13 Leadership Across Cultures	 464
The World of International Management: Global Leadership Development: An Emerging Need	464
Foundation for Leadership	465
<i>The Manager-Leader Paradigm</i>	466
<i>Philosophical Background: Theories X, Y, and Z</i>	467
<i>Leadership Behaviors and Styles</i>	470
<i>The Managerial Grid Performance: A Japanese Perspective</i>	472
Leadership in the International Context	474
<i>Attitudes of European Managers toward Leadership Practices</i>	475
<i>Japanese Leadership Approaches</i>	476
<i>Differences between Japanese and U.S. Leadership Styles</i>	477
<i>Leadership in China</i>	479
<i>Leadership in the Middle East</i>	479
<i>Leadership Approaches in India</i>	481
<i>Leadership Approaches in Latin America</i>	482
Recent Findings and Insights about Leadership	482
<i>Transformational, Charismatic, and Transactional Leadership</i>	483
<i>Qualities for Successful Leaders</i>	484
<i>Culture Clusters and Leader Effectiveness</i>	485

<i>Leader Behavior, Leader Effectiveness, and Leading Teams</i>	487
<i>Cross-Cultural Leadership: Insights from the GLOBE Study</i>	488
<i>Positive Organizational Scholarship and Leadership</i>	491
<i>Authentic Leadership</i>	492
<i>Ethical, Responsible, and Servant Leadership</i>	494
<i>Entrepreneurial Leadership and Mindset</i>	495
The World of International Management—Revisited	496
Summary of Key Points	496
Key Terms	497
Review and Discussion Questions	497
Internet Exercise: Taking a Closer Look	498
Endnotes	498
In the International Spotlight: Germany	503
 14 Human Resource Selection and Development Across Cultures	 504
The World of International Management: The Challenge of Talent Retention in India	504
The Importance of International Human Resources	507
<i>Getting the Employee Perspective</i>	507
<i>Employees as Critical Resources</i>	507
<i>Investing in International Assignments</i>	508
<i>Economic Pressures</i>	508
Sources of Human Resources	509
<i>Home-Country Nationals</i>	509
<i>Host-Country Nationals</i>	509
<i>Third-Country Nationals</i>	510
<i>Subcontracting and Outsourcing</i>	512
Selection Criteria for International Assignments	514
<i>General Criteria</i>	514
<i>Adaptability to Cultural Change</i>	514
<i>Physical and Emotional Health</i>	515
<i>Age, Experience, and Education</i>	516
<i>Language Training</i>	516
<i>Motivation for a Foreign Assignment</i>	516
<i>Spouses and Dependents or Work-Family Issues</i>	517
<i>Leadership Ability</i>	518
<i>Other Considerations</i>	519
Economic Pressures and Trends in Expat Assignments	519

International Human Resource Selection Procedures	520
<i>Testing and Interviewing Procedures</i>	520
<i>The Adjustment Process</i>	521
Compensation	522
<i>Common Elements of Compensation Packages</i>	523
<i>Tailoring the Package</i>	525
Individual and Host-Country Viewpoints	526
<i>Candidate Motivations</i>	526
<i>Host-Country Desires</i>	527
Repatriation of Expatriates	528
<i>Reasons for Returning</i>	528
<i>Readjustment Problems</i>	529
<i>Transition Strategies</i>	530
Training in International Management	531
<i>The Impact of Overall Management Philosophy on Training</i>	533
<i>The Impact of Different Learning Styles on Training and Development</i>	534
<i>Reasons for Training</i>	535
Types of Training Programs	537
<i>Standardized vs. Tailor-Made</i>	537
Cultural Assimilators	540
<i>Choice of Content of the Assimilators</i>	540
<i>Validation of the Assimilator</i>	540
<i>The Cost-Benefit Analysis of Assimilators</i>	541
<i>Positive Organizational Behavior</i>	541
Future Trends	543
The World of International Management—Revisited	543
Summary of Key Points	544
Key Terms	544
Review and Discussion Questions	545
Internet Exercise: Coke Goes Worldwide	545
Endnotes	546
In the International Spotlight: Russia	550
Brief Integrative Case 4.1: IKEA's Global Renovations	551
Endnotes	558
In-Depth Integrative Case 4.1:	
How Didi Fought Uber in China and Won; Next, Taking On the World	560
Endnotes	570
In-Depth Integrative Case 4.2: Chiquita's Global Turnaround	574
Endnotes	581

Skill-Building and Experiential Exercises	583
Personal Skill-Building Exercises	584
1. The Culture Quiz	584
2. “When in Bogotá . . .”	588
3. The International Cola Alliances	591
4. Whom to Hire?	594
In-Class Simulations (available in Connect, connect.mheducation.com)	
1. “Frankenfoods” or Rice Bowl for the World: The U.S.-EU Dispute over Trade in Genetically Modified Organisms	
2. Cross-Cultural Conflicts in the Corning-Vitro Joint Venture	
 Glossary	 597
Name and Organization Index	603
Subject Index	621



PART ONE

ENVIRONMENTAL
FOUNDATION



Chapter 1

GLOBALIZATION AND INTERNATIONAL LINKAGES

OBJECTIVES OF THE CHAPTER

Globalization is one of the most profound forces in our contemporary economic environment, although support for free trade and open borders is not universal. The practical impact of globalization can be felt on all aspects of society, and effective management of organizations in an increasingly complex global environment is crucial for success. In nearly every country, increasing numbers of large, medium, and even small corporations are engaging in international activities, and a growing percentage of company revenue is derived from overseas markets. Yet, continued economic and political uncertainties in many world regions, the rise of more nationalistic political movements, and continued concerns about the impact of immigration have caused some to question the current system for regulating and overseeing international trade, investments, migration, and financial flows. Nonetheless, international management—the process of applying management concepts and techniques in a multinational environment—continues to retain importance.

Although globalization and international linkages have been part of history for centuries (see the International Management in Action box “Tracing the Roots of Modern Globalization” later in the chapter), the principal focus of this opening chapter is to examine the process of globalization in the contemporary world. The rapid integration of countries, advances in information technology, and the explosion in electronic communication have created a new, more integrated world and true global competition. Yet, the complexities of doing business in distinct markets persist. Since the environment of international management is all-encompassing, this chapter is mostly concerned with the economic dimensions, while the following two chapters are focused on the political, legal, and technological dimensions and ethical and social dimensions, respectively. The specific objectives of this chapter are

1. **ASSESS** the implications of globalization for countries, industries, firms, and communities.
2. **REVIEW** the major trends in global and regional integration.
3. **EXAMINE** the changing balance of global economic power and trade and investment flows among countries.
4. **ANALYZE** the major economic systems and recent developments among countries that reflect those systems.

The World of International Management

An Interconnected World

On the morning of April 10, 2018, Facebook founder and president Mark Zuckerberg, dressed in a suit and tie rather than his typical gray T-shirt and hoodie, headed to the Hart Senate Office Building in Washington, D.C. Surrounded by intense media coverage, Zuckerberg was facing perhaps the most serious and high-profile crisis in his young company’s history: a breach of data privacy for nearly 90 million Facebook users.

The trouble for Facebook began back in March 2018, when it was revealed that Aleksander Kogan, a university research associate, and Cambridge Analytica, a British political consulting firm, had released a third-party Facebook application called “This Is Your Digital Life.” Although the application itself was simply a personality quiz, users of the application unknowingly enabled Cambridge Analytica to collect detailed information from their Facebook profiles. Personal information such as home location, current city, interests, and birthdates was gathered from users of the application, as well as from their Facebook friends. Only a few hundred thousand people actually downloaded the application, yet 87 million people had their personal data compromised. Using the information gathered through the application, Cambridge Analytica was able to profile Facebook users based on personality, age, location, and interests. These users could then be targeted with political advertisements that would be more likely to influence their political opinion.

Even before the Cambridge Analytica scandal was revealed in March 2018, Facebook was already facing serious integrity issues and eroding public trust due to its lack of content control and oversight. The Russian government’s utilization of social media to interfere in the 2016 U.S. presidential election, including the spread of misinformation, went unchecked and unrestricted by Facebook. More than 3,000 advertisements and 80,000 posts, originating from Russian-based operatives and designed to incite political divisions, were posted to the site in the two years prior to the election. Facebook first estimated in October 2017 that up to 10 million users had been targeted by Russian-purchased election advertisements but later confirmed that as many as 125 million U.S. users could have seen posts or advertisements from Russian-based operatives.

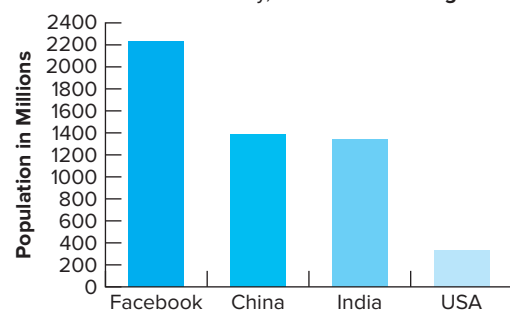
Although Zuckerberg had persevered through numerous crises in Facebook's young history, including a tumultuous initial public offering and a questionable company culture, nothing had quite prepared him for the outrage that he was now facing. Facebook's stock price was in freefall, users were exiting the social network in large numbers, and U.S. senators from both sides of the political aisle wanted answers. At the height of the Cambridge Analytica scandal, Facebook lost nearly US\$134 billion in its market value. As Zuckerberg took his seat before the U.S. Senate's Commerce and Judiciary committees, many wondered: Could Zuckerberg's reputation—and perhaps Facebook as a whole—survive?

Social Media Has Changed How We Connect

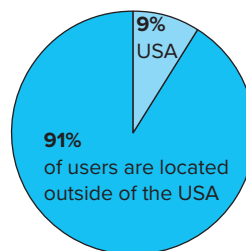
Although Facebook and other social media applications have faced considerable scrutiny in regard to data privacy, one thing is certain: We currently live in a world interconnected and transformed by social media. Through online networking, the way we connect with others has drastically changed. The volume of content being created and shared is staggering, with virtually anyone on the globe only a few clicks away. In fact, the average number of links separating any two random people on Facebook is now only 3.57.¹ Statistics from some of the most used social networking applications underscore how social media has connected people across the globe:

Facebook

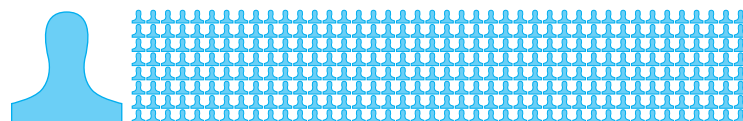
If Facebook were a country, it would be the **largest**.



The vast majority of users are located outside of the USA:



88% of the daily users, access Facebook through their mobile devices. Globally, the average user has 338 “friends”:



Source: “41 Facebook Stats That Matter to Marketers in 2019.” Hootsuite, November 13, 2018. <https://blog.hootsuite.com/facebook-statistics>. Instagram.

Instagram

- Over 1 billion people create content on Instagram every month.²
- Over 80 percent of Instagram users are from outside the United States.³
- Ninety-five million new photos are uploaded and shared every day.⁴

Snapchat

- Snapchat reached 100 million active members in less than four years—outpacing the growth of Facebook or Instagram.⁵
- By the end of 2018, Snapchat had over 186 million daily users.
- Fifty-eight percent of active daily users are located outside the United States.
- More than 3 billion “snaps” are sent every day, equating to more than 10 billion video views.
- Ninety-four percent of 18- to 24-year-olds in the U.S. are on Snapchat.⁶

Certainly, social networks are a part of many people's lives. Yet, has the virtual world of social media networks made a permanent impact in the world of international business?

Social Media Has Changed Global Business Strategy

Marriott International, an American-based hotel company, has strategically leveraged social media to improve the customer experience across its many global locations. A key component of this strategy is Marriott's “M Live” studios, which serve as centralized social media “command centers” for the company. M Live employees, equipped with conference rooms and large shared screens, monitor customers' posts, comments, and pictures across a variety of social networking platforms in real time.^{7,8}

The M Live strategy has improved the way that Marriott engages its global customer base. With more than 6,500 properties around the globe, creating personalized interactions with guests was nearly impossible

before social media. Marriott was dependent on call centers and e-mails to answer questions and complaints. Communication was slow and generic, often eroding customer patience and resulting in negative feedback. By using social media, however, Marriott representatives at M Live centers are able to engage in instant and meaningful interactions, whether the customer is located in the U.S., the United Arab Emirates, or Uganda. The M Live employees, who are equipped to respond in a variety of languages, can engage with social media posts, interact one-on-one with customers, and monitor conversations from around the globe.⁹

By utilizing social media, Marriott can offer a more personalized service to its customers. An example of this is M Live's use of "geo-tags." Geo-tags, which are often included on public social networking posts, are digital markers that give the physical location of the person uploading a photo or post to a website. These tags give M Live employees the ability to search for posts that were uploaded by customers who are physically located at one of their properties—even if the customer does not tag Marriott in his or her post—and to interact with that guest in a positive way. For example, if a pair of customers post a photo of themselves celebrating a first wedding anniversary at a Marriott hotel in Orlando, the M Live command center can find that post through the geo-tag in real time, call the local hotel's concierge, and have a bottle of champagne sent to the couple's room.¹⁰

By 2018, Marriott had opened its fourth M Live location and now has command centers in London, Hong Kong, and the United States, covering the European, North and South American, and Asian markets. Social media will continue to be a valuable tool for Marriott as the company expands to new locations in the developing regions of the world, creating positive customer experiences that help build the brand's reputation.^{11,12,13}

Social Media Has Impacted International Diplomacy

World leaders have turned to social media as a way to express opinions and gauge public support. According to a 2018 study, 97 percent of all governments have an official Twitter presence, 93 percent maintain a Facebook account, and 81 percent utilize Instagram. Additionally, over 900 government ministers and 1,400 ambassadors maintain individual Twitter accounts. Citizens in most countries can now directly access their governments through these social networks. For example, the Dutch government responds to policy comments and questions for 12 hours a day, every weekday, through Twitter. The Nepalese government's "Hello Government" Twitter account focuses on replying to questions from citizens, and more than 85 percent of Rwandan President Paul Kagame's tweets are replies to other users.¹⁴

Open dialogue between world leaders is also becoming commonplace on social media platforms. The international reaction to

the United States' withdrawal from the Paris Climate Agreement in 2017 provides a good example. Various global leaders used Twitter to openly urge U.S. President Trump to reconsider his decision. Fiji Prime Minister Frank Bainimarama tagged President Trump's personal Twitter account to ask him "not to abandon the Paris Agreement," and the prime ministers of the Nordic countries used Twitter to appeal to President Trump "to show global leadership." French President Emmanuel Macron called on President Trump to "Make Our Planet Great Again," and the French Foreign Ministry tagged Ivanka Trump (President Trump's daughter and adviser) in a tweet asking her to change her father's mind.¹⁵

The United Nations (U.N.) has increasingly embraced social media as a tool to enhance diplomacy and understanding worldwide. The U.N. maintains official accounts on Twitter, YouTube, Flickr, Pinterest, Tumblr, Instagram, Snapchat, and LinkedIn, and, as of 2019, boasts over 4 million followers on its primary Facebook page. As part of its 2018 United Nations Climate Change Conference, the U.N. utilized various social media platforms to spread information regarding gender inequity and the U.N.'s sustainable development goals worldwide. The hashtag "#COP24" was used to link activities across various networks, while YouTube and Facebook served as primary platforms for disseminating information and videos to its global audience (refer to Chapter 3, Table 3–4, for a further discussion of the U.N.'s sustainable development goals).¹⁶

Social media networks have accelerated technological integration among the nations of the world. People across the globe are now linked more closely than ever before. This social phenomenon has implications for businesses, as corporations can now leverage networks such as Facebook to achieve greater success. Understanding the global impact of social media is key to understanding our global society.

Despite the challenges and privacy concerns that social networking platforms face, such as Facebook's Cambridge Analytica scandal, discussed in the beginning of this section, social media has transformed the world in which we live. The pace of interconnectivity across the globe continues to increase with the new communication tools that social networking provides. Social media has altered the way that we interact with each other, and businesses, like Marriott, have gained advantages by leveraging online networks. In this chapter, we examine the globalization phenomenon, the growing integration among countries and regions, the changing balance of global economic power, and examples of different economic systems. As you read this chapter, keep in mind that although there are periodic setbacks, globalization continues to move at a rapid pace and that all nations, including the United States, as well as individual companies and their managers will have to keep a close watch on the current environment if they hope to be competitive in the years ahead.

management

The process of completing activities efficiently and effectively with and through other people.

■ Introduction

Management is the process of completing activities with and through other people. **International management** is the process of applying management concepts and techniques in a multinational environment and adapting management practices to different economic, political, and cultural contexts. Many managers practice some level of international management

in today's increasingly diverse organizations. International management is distinct from other forms of management in that knowledge and insights about global issues and specific cultures are a requisite for success. Today more firms than ever are earning some of their revenue from international operations, even nascent organizations, as illustrated in the chapter opening World of International Management.

Many of these companies are multinational corporations (MNCs). An MNC is a firm that has operations in more than one country, international sales, and a mix of nationalities among managers and owners. In recent years such well-known American MNCs as Apple, Oracle, Coca-Cola, Ford Motor Company, ExxonMobil, Caterpillar, Walmart, Microsoft, and Google have all earned more annual revenue in the international arena than they have in the United States. In addition, MNCs from developing economies, such as India, Brazil, and China, are providing formidable competition to their North American, European, and Japanese counterparts. Names like Cemex, Embraer, Haier, Lenovo, LG Electronics, Huawei, Telefonica, Santander, Reliance, Samsung, Li & Fung, Airtel, Tata, and Infosys are becoming well-known global brands. Table 1-1 lists the world's top nonfinancial companies ranked by foreign assets through 2017.

Globalization, coupled with the rise of emerging market MNCs, has brought prosperity to many previously underdeveloped parts of the world. This is especially true in China, where luxury items, like automobiles, have become increasingly attainable. In 2005, automobile sales in China totaled only 5.8 million units, representing less than 9 percent of global sales, while automobile sales in the United States exceeded 17.4 million units. Just 13 years later, in 2018, over 28 million automobile units were sold in China, accounting for over a quarter of global sales and far surpassing the 17 million units sold in the U.S.¹⁷ Moreover, a number of emerging market auto companies are becoming global players through their exporting, foreign investment, and international acquisitions, including the purchase of Volvo by Chinese automaker Geely and Tata's acquisition of Jaguar Land Rover.

Procter & Gamble (P&G), an American consumer products MNC headquartered in Cincinnati, Ohio, has invested heavily in its Singapore operations over the last 10 years. P&G's Singapore Innovation Center (SgIC) functions as the primary research and development center for the company's hair, skin, and home care products. Initially costing US\$185 million, the SgIC employs more than 500 engineers and scientists, focuses on more than 18 different fields of study, and has successfully introduced several major products into the global marketplace. Inspired by the success of the SgIC, P&G invested a further US\$100 million in 2017 to establish the P&G Singapore E-Center, a digital innovation hub that focuses on improving the supply chain and end-to-end logistics of the

international management

The process of applying management concepts and techniques in a multi-national environment and adapting management practices to different economic, political, and cultural environments.

MNC

A firm having operations in more than one country, international sales, and a nationality mix of managers and owners.

Table 1-1
The World's Top Nonfinancial MNCs, Ranked by Foreign Assets, 2017
(in millions of dollars)

Rank	Company Name	Home Economy	Foreign Assets	Total Assets	Foreign Sales	Total Sales
1	Royal Dutch/Shell Plc	United Kingdom	\$344,210	\$407,097	\$204,570	\$305,179
2	Toyota Motor Corporation	Japan	302,788	472,625	181,358	265,008
3	Total SA	France	234,993	242,576	109,164	140,124
4	British Petroleum Company Plc	United Kingdom	220,380	276,620	152,525	228,794
5	Volkswagen Group	Germany	219,917	506,348	210,089	260,070
6	Softbank Corp	Japan	214,863	292,928	42,148	82,614
7	Exxon Mobil Corporation	United States	203,626	348,691	155,083	237,162
8	British American Tobacco Plc	United Kingdom	189,214	190,643	25,844	26,116
9	General Electric Co	United Kingdom	186,586	377,945	75,796	122,093
10	Chevron Corporation	United States	183,643	253,806	77,101	134,779

Source: "World Investment Report 2018," United Nations Conference on Trade and Development, 2018.

company. The Asian market, with nearly 2 billion customers and 25 different brands, is particularly important for P&G's future growth plans.^{18,19,20}

In the last few years, Africa's emerging markets have benefited from significant investments made by technology-focused MNCs. Google A.I., a division of Google that specializes in developing artificial intelligence technology, announced the opening of a major research center in Accra, Ghana, in 2018. The new center, which focuses on developing Artificial Intelligence (A.I.) tools for the health care, education, and agriculture sectors, aims to employ highly educated engineers and researchers from local universities.²¹ In late 2017, Facebook, which has close to 200 million users in Africa, announced plans to open a technology-based incubator space for start-ups in Lagos, Nigeria, called Ng Hub. As of September 2019, phase one of the project had been launched and the initial 12 entrepreneurs had been selected for occupancy and support in the Hub.²² The primary goal of the project is to provide education and tools to underfunded entrepreneurs, which will enable the start-ups to grow and attract investment from around the globe. In addition to the incubator space, Facebook committed to providing technology-based training to over 50,000 Nigerians.²³

MNCs continue to turn to India when expanding their consulting, IT, and other service-based offerings. Accenture, an American professional services firm, employs 150,000 people in India, constituting more than a third of its global workforce. In fact, 85 percent of the 469,000 Accenture employees worldwide are now located outside the United States.²⁴ Accenture's Indian operations, with highly specialized knowledge in artificial intelligence, blockchain technology, and machine learning, are increasingly driving innovation for the company.²⁵ With offices in 200 cities across 52 countries, Accenture has focused on providing services for both developed and growing markets.²⁶ In 2017, Accenture drew 46 percent of its revenue from outsourcing.²⁷

These trends reflect the reality that firms are finding they must develop international management expertise, especially expertise relevant to the increasingly important developing and emerging markets of the world. Managers from today's MNCs must learn to work effectively with those from many different countries. Moreover, more and more small and medium-sized businesses will find that they are being affected by internationalization. Many of these companies will be doing business abroad, and those that do not will find themselves doing business with MNCs operating locally. And increasingly, the MNCs are coming from the developing world as previously domestic-oriented companies from countries like China and India expand abroad through acquisitions or other means. Table 1-2 lists the world's top nonfinancial companies from developing countries ranked by foreign assets in 2016.

Table 1-2
The World's Top Nonfinancial TNCs from Developing and Transitioning Economies,
Ranked by Foreign Assets, 2016
(in millions of dollars)

Rank	Company Name	Home Economy	Foreign Assets	Total Assets	Foreign Sales	Total Sales
1	CK Hutchison Holdings Limited	Hong Kong/China	\$110,515	\$130,677	\$ 26,050	\$ 33,474
2	China COSCO Shipping Corp Ltd	China	73,362	94,762	19,561	29,743
3	Hon Hai Precision Industries	Taiwan	70,797	79,991	134,170	135,177
4	China National Offshore Oil	China	64,686	166,715	17,261	65,881
5	Samsung Electronics Co., Ltd.	South Korea	63,704	217,714	114,510	173,949
6	Broadcom Limited	Singapore	48,413	49,966	12,990	13,240
7	HNA Group Co Ltd	China	47,530	144,000	44,064	86,400
8	Petronas—Petroliam Nasional Bhd	Malaysia	39,341	134,483	34,574	49,446
9	Vale SA	Brazil	37,413	99,157	25,123	27,161
10	América Móvil SAB de CV	Mexico	37,158	73,352	42,188	52,202

Source: "World Investment Report 2018." United Nations Conference on Trade and Development, 2018.

■ Globalization and Internationalization

International business is not a new phenomenon; however, the volume of international trade has increased dramatically over the last two decades. Today, every nation and an increasing number of companies buy and sell goods in the international marketplace. A number of developments around the world have helped fuel this activity.

Globalization, Antiglobalization, and Global Pressures for Change

Globalization can be defined as the process of social, political, economic, cultural, and technological integration among countries around the world. Globalization is distinct from internationalization in that internationalization is the process of a business crossing national and cultural borders, while globalization is the vision of creating one world unit, a single market entity. Evidence of globalization can be seen in increased levels of trade, capital flows, and migration. Globalization has been facilitated by technological advances in transnational communications, transport, and travel. Thomas Friedman, in his book *The World Is Flat*, identified 10 “flatteners” that have hastened the globalization trend, including the fall of the Berlin Wall, **offshoring**, and **outsourcing**, which have combined to dramatically intensify the effects of increasing global linkages.²⁸ Hence, in recent years, globalization has accelerated, creating both opportunities and challenges to global business and international management.

On the positive side, global trade and investment continue to grow, bringing wealth, jobs, and technology to many regions around the world. While some emerging countries have not benefited from globalization and integration, the emergence of MNCs from developing countries reflects the increasing inclusion of all regions of the world in the benefits of globalization. Yet, as the pace of global integration quickens, so have the cries against globalization and the emergence of new concerns over mounting global pressures.²⁹ These pressures can be seen in protests at the meetings of the World Trade Organization (WTO), International Monetary Fund (IMF), and other global bodies and in the growing calls by developing countries to make the global trading system more responsive to their economic and social needs. These groups are especially concerned about rising inequities between incomes, and nongovernmental organizations (NGOs) have become more active in expressing concerns about the potential shortcomings of economic globalization.³⁰ In addition, an increasing number of candidates in various election campaigns around the world have criticized globalization, including the migration of people, as a contributing factor leading to lost jobs at home and general economic insecurity. The perceived negative effects from globalization on the U.S. manufacturing industry was a major issue in the 2016 U.S. presidential election. According to some analysts, the antiglobalization sentiment may have ultimately swayed the vote in several key states to then-candidate Donald Trump. It is important to remember that even though globalization does contribute to changes in industry and manufacturing, as well as the loss of some jobs, these problems are typically the result of a range of factors, of which globalization is just one.

Who benefits from globalization? Proponents believe that everyone benefits from globalization, as evidenced in lower prices, greater availability of goods, better jobs, and access to technology. Theoretically, individuals in established markets will strive for better education and training to be prepared for future positions, while citizens in emerging markets and underdeveloped countries will reap the benefits of large amounts of capital flowing into those countries, which will stimulate growth and development. Critics disagree, noting that the high number of jobs moving abroad as a result of the offshoring of business services jobs to lower-wage countries does not inherently create greater opportunities at home and that the main winners of globalization are the company executives. Proponents claim that job losses are a natural consequence of economic and technological change and that offshoring actually improves the competitiveness of American companies and increases the size of the overall economic pie.³¹ Critics point out that growing

globalization

The process of social, political, economic, cultural, and technological integration among countries around the world.

offshoring

The process by which companies undertake some activities at offshore locations instead of in their countries of origin.

outsourcing

The subcontracting, or contracting out, of activities to endogenous organizations that had previously been performed by the firm.

Tracing the Roots of Modern Globalization

Globalization is often presented as a new phenomenon associated with the post–World War II period. In fact, globalization is not new. Rather, its roots extend back to ancient times. Globalization emerged from long-standing patterns of transcontinental trade that developed over many centuries. The act of barter is the forerunner of modern international trade. During different periods of time, nearly every civilization contributed to the expansion of trade.

Middle Eastern Intercontinental Trade

In ancient Egypt, the King's Highway, or Royal Road, stretched across the Sinai into Jordan and Syria and into the Euphrates Valley. These early merchants practiced their trade following one of the earliest codes of commercial integrity: *Do not move the scales, do not change the weights, and do not diminish parts of the bushel*. Land bridges later extended to the Phoenicians, the first middlemen of global trade. Over 2,000 years ago, traders in silk and other rare valued goods moved east out of the Nile basin to Baghdad and Kashmir and linked the ancient empires of China, India, Persia, and Rome. At its height, the Silk Road extended over 4,000 miles, providing a transcontinental conduit for the dissemination of art, religion, technology, ideas, and culture. Commercial caravans crossing land routes in Arabian areas were forced to pay tribute—a forerunner of custom duties—to those who controlled such territories. In his youth, the Prophet Muhammad traveled with traders, and prior to his religious enlightenment the founder of Islam himself was a trader. Accordingly, the Qur'an instructs followers to respect private property, business agreements, and trade.

Trans-Saharan Cross-Continental Trade

Early tribes inhabiting the triad cities of Mauritania, in ancient West Africa below the Sahara, embraced caravan trade with the Berbers of North Africa. Gold from the sub-Saharan area was exchanged for something even more prized—salt, a precious substance needed for retaining body moisture, preserving meat, and flavoring food. Single caravans, stretching 5 miles and including nearly 2,500 camels, earned their reputation as ships of the desert as they ferried gold powder, slaves, ivory, animal hides, and ostrich feathers to the northeast and returned with salt, wool, gunpowder, porcelain pottery, silk, dates, millet, wheat, and barley from the east.

China as an Ancient Global Trading Initiator

In 1421, a fleet of over 3,750 vessels set sail from China to cultivate trade around the world for the emperor. The voyage reflected the emperor's desire to collect tribute in exchange for trading privileges with China and China's protection. The Chinese, like modern-day multinationals, sought to extend their economic reach while recognizing principles of economic equity and fair trade. In the course of their global trading, the Chinese introduced uniform

container measurements to enable merchants to transact business using common weight and dimension measurement systems. Like the early Egyptians and later the Romans, they used coinage as an intermediary form of value exchange or specie, thus eliminating complicated barter transactions.

European Trade Imperative

The concept of the alphabet came to the Greeks via trade with the Phoenicians. During the time of Alexander the Great, transcontinental trade was extended into Afghanistan and India. With the rise of the Roman Empire, global trade routes stretched from the Middle East through central Europe, through Gaul, and across the English Channel. In 1215, King John of England signed the Magna Carta, which stressed the importance of cross-border trade. By the time of Marco Polo's writing of *The Description of the World* at the end of the 13th century, the Silk Road from China to the city-states of Italy was a well-traveled commercial highway. His tales, chronicled journeys with his merchant uncles, gave Europeans a taste for the exotic, further stimulating the consumer appetite that propelled trade and globalization. Around 1340, Francesco Balducci Pegolotti, a Florentine mercantile agent, authored *Practica Della Mercatura* (*Practice of Marketing*), the first widely distributed reference on international business and a precursor to today's textbooks. The search for trading routes contributed to the Age of Discovery and encouraged Christopher Columbus to sail west in 1492.

Globalization in U.S. History

The Declaration of Independence, which set out grievances against the English crown, upon which a new nation was founded, cites the desire to “establish Commerce” as a chief rationale for establishing an independent state. The king of England was admonished “for cutting off our trade with all parts of the world” in one of the earliest antiprotectionist free trade statements from the New World.

Globalization, begun as trade between and across territorial borders in ancient times, was historically and is even today the key driver of world economic development. The first paths in the creation of civilization were made in the footsteps of trade. In fact, the word meaning “footsteps” in the old Anglo-Saxon language is *trada*, from which the modern English word *trade* is derived. Contemporary globalization is a new branch of a very old tree whose roots were planted in antiquity.

Sources: Thomas Cahill, *Sailing the Wine Dark Sea: Why Greeks Matter* (New York: Doubleday, 2003), 10, 56–57; Charles W. L. Hill, *International Business*, 4th ed. (New York: McGraw-Hill Irwin, 2003), 100; Gavin Menzies, *1421: The Year China Discovered America* (New York: William Morrow/HarperCollins, 2003), 26–27; Milton Viorst, *The Great Documents of Western Civilization* (New York: Barnes & Noble Books, 1994), 115 (Magna Carta), 168 (Declaration of Independence).

trade deficits and slow wage growth are damaging economies and that globalization may be moving too fast for some emerging markets, which could result in economic collapse. Moreover, critics argue that when production moves to countries to take advantage of lower labor costs or less regulated environments, it creates a “race to the bottom” in which companies and countries place downward pressure on wages and working conditions.³²

India is one country at the center of the globalization debate. As noted previously, India has been the beneficiary of significant foreign investment, especially in services such as software and information technology (IT). India’s public debt has declined to about 65 percent of GDP over the last 10 years, increasing macroeconomic stability and lowering its vulnerability to external risks. Additionally, India continues to outpace China as the fastest growing large economy, with GDP expanding by over 7 percent in 2018.³³ Despite this growth, infrastructure challenges still remain. Limited clean water, power, paved roadways, and modern bridges have made it increasingly difficult for companies to expand. There have even been instances of substantial losses for companies using India as an off-shore base, as occurred when several automakers, including Ford, Hyundai, Renault-Nissan, and Daimler, experienced the destruction of inventory and a week-long production stoppage due to flooding in southern India.³⁴ It is possible that India will follow in China’s footsteps and continue rapid growth in incomes and wealth; however, it is also possible that the challenges India faces are greater than the country’s capacity to respond to them. See In the International Spotlight at the end of this chapter for additional insights into India.

This example illustrates just one of the ways in which globalization has raised particular concerns over environmental and social impacts. According to antiglobalization activists, if corporations are free to locate anywhere in the world, the world’s poorest countries will relax or eliminate environmental standards and social services in order to attract first-world investment and the jobs and wealth that come with it. Proponents of globalization contend that even within the developing world, it is protectionist policies, not trade and investment liberalization, that result in environmental and social damage. They believe globalization will force higher-polluting countries such as China and Russia into an integrated global community that takes responsible measures to protect the environment. However, given the significant changes required in many developing nations to support globalization, such as better infrastructure, greater educational opportunities, and other improvements, most supporters concede that there may be some short-term disruptions. Over the long term, globalization supporters believe industrialization will create wealth that will enable new industries to employ more modern, environmentally friendly technology. We discuss the social and environmental aspects of globalization in more detail in Chapter 3.

These contending perspectives are unlikely to be resolved anytime soon. Instead, a vigorous debate among countries, MNCs, and civil society will likely continue and affect the context in which firms do business internationally. Business firms operating around the world must be sensitive to different perspectives on the costs and benefits of globalization and adapt and adjust their strategies and approaches to these differences.

Global and Regional Integration

One important dimension of globalization is the increasing economic integration among countries brought about by the negotiation and implementation of trade and investment agreements. Here we provide a brief overview of some of the major developments in global and regional integration.

Over the past six decades, succeeding rounds of global trade negotiations have resulted in dramatically reduced tariff and nontariff barriers among countries. Table 1–3 shows the history of these negotiation rounds, their primary focus, and the number of countries involved. These efforts reached their crest in 1994 with the conclusion of the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) and the creation of the **World Trade Organization (WTO)** to oversee the conduct of trade around the world. The WTO is the global organization of countries

World Trade Organization (WTO)

The global organization of countries that oversees rules and regulations for international trade and investment.

Outsourcing and Offshoring

The concepts of outsourcing and offshoring are not new, but these practices are growing at an extreme rate. *Offshoring* refers to the process by which companies undertake some activities at offshore locations instead of in their countries of origin. *Outsourcing* is the subcontracting or contracting out of activities to external organizations that had previously been performed within the firm and is a wholly different phenomenon. Often the two combine to create “offshore outsourcing.” Offshoring began with manufacturing operations. Globalization jump-started the extension of offshore outsourcing of services, including call centers, R&D, information services, and even legal work. American Express, GE, Sony, and Netflix have all used attorneys from Pangea3, a Mumbai-based legal firm, to review documents and draft contracts. These companies benefit from the lower costs and higher efficiency that companies like Pangea3 can provide compared to domestic legal firms. This is a risky venture, as legal practices are not the same across countries, and the documents may be too sensitive to

rely on assembly-line lawyers. It also raises the question as to whether or not there are limitations to offshore outsourcing. Many companies, including Deutsche Bank, spread offshore outsourcing opportunities across multiple countries such as India and Russia for economic or political reasons. The advantages, concerns, and issues with offshoring span a variety of subjects. Throughout the text we will revisit the idea of offshore outsourcing as it is relevant. Here in Chapter 1 we see how skeptics of globalization wonder if there are benefits to offshore outsourcing, while in Chapter 2 we see how these are related to technology, and finally in Chapter 14 we see how offshore practices affect human resource management and the global distribution of work.

Sources: Pete Engardio and Assif Shameen, “Let’s Offshore the Lawyers,” *BusinessWeek*, September 18, 2006, 42; Tony Hallett and Andy McCue, “Why Deutsche Bank Spreads Its Outsourcing,” *BusinessWeek*, March 15, 2007; “Offshoring Your Lawyer,” *The Economist*, December 16, 2010, <http://www.economist.com/node/17733545>.

that oversees rules and regulations for international trade and investment, including agriculture, intellectual property, services, competition, and subsidies. However, in the 25 years since the Uruguay Round, the momentum of global trade agreements has slowed. Trade talks at WTO Ministerial Conference in Seattle in 1999 were postponed after protesters disrupted meetings and trade representatives from developed and developing countries were unable to agree on an agenda. In November 2001, the members of the WTO successfully launched a new round of negotiations at Doha, Qatar, to be known as the “Development Round,” reflecting the recognition by members that trade agreements needed to explicitly consider the needs of and impact on developing countries.³⁵ However, after a lack of consensus among WTO members regarding agricultural subsidies and the

Table 1–3
Completed Rounds of the Negotiations under the GATT and WTO

Year	Place (name)	Subjects Covered	Countries
1947	Geneva	Tariffs	23
1949	Annecy	Tariffs	13
1951	Torquay	Tariffs	38
1956	Geneva	Tariffs	26
1960–1961	Geneva (Dillon Round)	Tariffs	26
1964–1967	Geneva (Kennedy Round)	Tariffs and antidumping measures	62
1973–1979	Geneva (Tokyo Round)	Tariffs, nontariff measures, “framework” agreements	102
1986–1994	Geneva (Uruguay Round)	Tariffs, nontariff measures, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO	123

Source: Understanding the WTO.

issues of competition and government procurement, progress again slowed. At the most recent meeting, held in Geneva in July 2008, disagreements among the U.S., China, and India over access to agricultural imports from developing countries resulted in an impasse after nine days of discussions.³⁶ Although there have been attempts to restart the negotiations, they have remained stalled, especially in light of rising protectionism.³⁷

Partly as a result of the slow progress in multilateral trade negotiations, the U.S. and many other countries have pursued bilateral and regional trade agreements. In 1994, the United States, Canada, and Mexico enacted the **North American Free Trade Agreement (NAFTA)**, which, removed most barriers to trade among these countries and created the world's largest free trade zone. A number of economic developments occurred because of this agreement, which was designed to promote commerce in the region. Some of the more important developments include (1) the elimination of tariffs as well as import and export quotas; (2) the opening of government procurement markets to companies in the other two nations; (3) an increase in the opportunity to make investments in each other's country; (4) an increase in the ease of travel between countries; and (5) the removal of restrictions on agricultural products, auto parts, and energy goods. In the more than 25 years since NAFTA was first implemented, trade between its member countries has quadrupled. Despite the successes, NAFTA, like other free trade agreements, was not immune from some criticism. In recent years, disruptions caused to specific industries, including the shifting of manufacturing jobs from the United States to Mexico, the continued tariffs on dairy exports to Canada, and the inability of Mexican farmers to compete with subsidized U.S. farmers, resulted in discussions to revise the deal. In 2018, the original NAFTA countries agreed to a renegotiated trade agreement, called the **United States–Mexico–Canada Agreement (USMCA)**, which is expected to replace NAFTA following its ratification by each country. USMCA maintains the key provisions of the original trade agreement while enacting minor changes aimed at protecting intellectual property rights, altering car manufacturing regulations to encourage more North American manufacturing, and opening the Canadian market to tariff-free dairy imports from the United States.

North American Free Trade Agreement (NAFTA)

A free trade agreement among the United States, Canada, and Mexico that removed most barriers to trade and investment. It was renegotiated and replaced by the United States–Mexico–Canada Agreement (USMCA), signed in 2018.

Other regional and bilateral trade agreements, including the 2003 U.S.–Singapore Free Trade Agreement and the 2004 U.S.–Dominican Republic–Central American Free Trade Agreement (CAFTA-DR), were negotiated in the same spirit as NAFTA/USMCA. The CAFTA-DR export zone, which was implemented on a rolling basis between 2006 and 2009, is the United States' second largest free trade zone in Latin America after Mexico. In 2017, two-way trade totaled more than US\$54 million.³⁸

Agreements like NAFTA/USMCA and CAFTA-DR not only reduce barriers to trade but also require additional domestic legal and business reforms in developing nations to protect property rights. Most of these agreements now include supplemental commitments on labor and the environment to encourage countries to upgrade their working conditions and environmental protections, although some critics believe the agreements do not go far enough in ensuring worker rights and environmental standards. Partly due to the stalled progress with the WTO and FTAA, the United States has pursued bilateral trade agreements with a range of countries, including Australia, Bahrain, Chile, Colombia, Israel, Jordan, Malaysia, Morocco, Oman, Panama, Peru, and South Korea.³⁹

Economic activity in Latin America continues to be volatile. Despite the continuing political and economic setbacks these countries periodically experience, economic and export growth continues in Brazil, Chile, and Mexico. In addition, while outside MNCs continually target this geographic area, there also is a great deal of cross-border investment among Latin American countries. Regional trade agreements are helping in this cross-border process, including the NAFTA/USMCA and CAFTA-DR agreements, presenting new opportunities for bolstering trade, investment, services, and working conditions in the region. Within South America, free trade is further promoted through two major regional trading blocs. Mercosur, a customs union, links the economies of Argentina, Brazil, Paraguay, Uruguay, and Venezuela (though Venezuela has been suspended since 2016 due to human rights concerns). Additionally, the Andean Community, a subregional

European Union (EU)

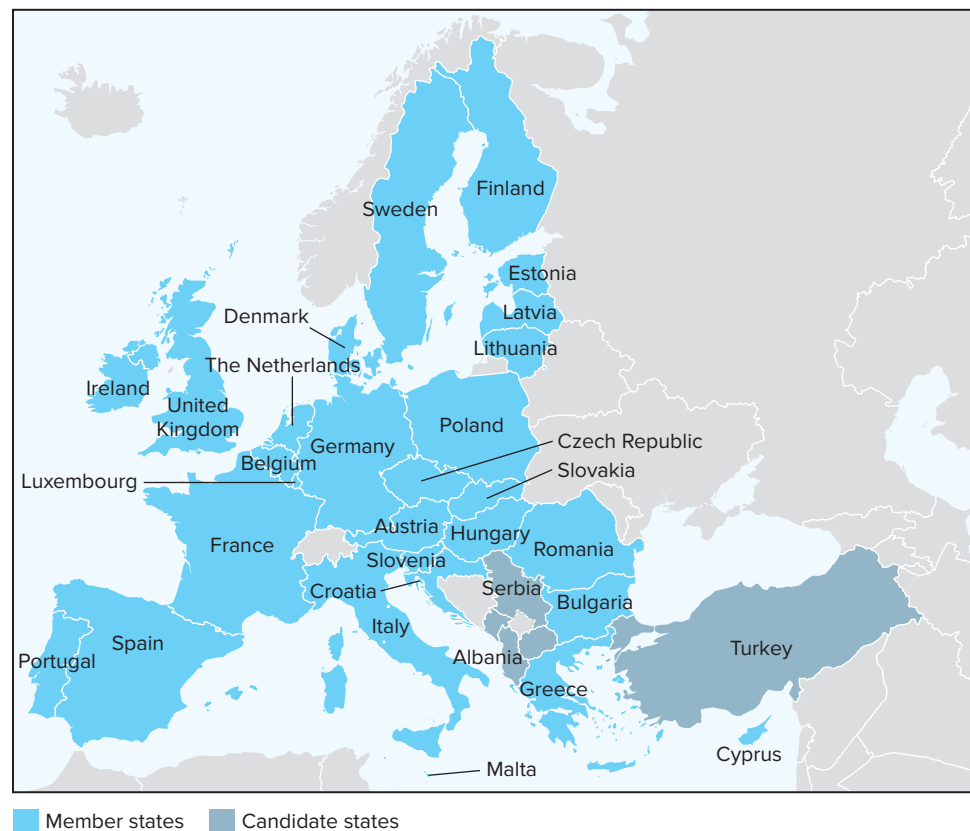
A political and economic community consisting of 28 member states.

free trade compact, was designed to promote economic and social integration and cooperation among Bolivia, Colombia, Ecuador, and Peru.

The **European Union (EU)** has made significant progress over the past two decades in becoming a unified market despite some challenges. In the early 2000s, the EU consisted of 15 nations: Austria, Belgium, Denmark, Finland, France, Germany (see In the International Spotlight at the end of Chapter 13), the United Kingdom, Greece, the Netherlands, Ireland, Italy, Luxembourg, Portugal, Spain, and Sweden. In May 2004, 10 additional countries, primarily located in Central and Eastern Europe, joined the EU: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. In January 2007, Romania and Bulgaria acceded to the EU, and in July 2013, Croatia became the newest and 28th member of the EU. Not only have most trade barriers between the member nations been removed, but a subset of 19 European countries have adopted a unified currency called the euro. As a result, it is now possible for customers to compare prices between most countries and for business firms to lower their costs by conducting business in one uniform currency. With access to the entire pan-European market, large MNCs can now achieve the operational scale and scope necessary to reduce costs and increase efficiencies. Even though long-standing cultural differences remain, and the EU has recently experienced some substantial challenges, including the planned exit of the United Kingdom (coined “Brexit”), the EU remains more integrated as a single market than NAFTA/USMCA, CAFTA-DR, or the allied Asian countries. With many additional countries interested in joining the EU, including Albania, Serbia, Montenegro, Macedonia, Bosnia and Herzegovina, and Turkey (although relationship between the EU and Turkey have been on a downward trajectory - see below), the resulting pan-European market is one that no major MNC can afford to ignore (see Figure 1-1). Moreover, the Transatlantic Trade and Investment Partnership (T-TIP), a proposed trade agreement between the European Union and the United States, could further bolster trade and multilateral economic growth in Europe and North America.⁴⁰

Figure 1-1

European Member States and Candidates, 2019



Source: Original graphic by Professor Jonathan Doh.

Although Japan has experienced economic problems since the early 1990s, it continues to be one of the primary economic forces in the Pacific Rim (see In the International Spotlight at the end of Chapter 11). Japanese MNCs want to take advantage of the huge, underdeveloped Asian markets. At the same time, China, already the largest economic force in the region, continues to experience steady growth. China is on pace to surpass the United States as the largest economy in the world, in terms of nominal GDP, as early as 2030.⁴¹ As a region, Asia continues to expand more rapidly than the rest of the world. The Philippines, Cambodia, Laos, and Myanmar are expected to average GDP growth rates in excess of 6 percent over the next several years, and Vietnam, with high amounts of foreign investment, low inflation, and a developed manufacturing sector, has emerged as a global exporter.^{42,43} The Association of Southeast Asian Nations (ASEAN), made up of Indonesia, Malaysia, the Philippines, Singapore, Brunei, Thailand, Cambodia, Laos, Myanmar, and Vietnam, is advancing trade and economic integration and now poses challenges to China as a region of relatively low-cost production and export. In addition, under the **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)**, Asian-facing countries have negotiated an ambitious, next-generation, Asia-Pacific trade agreement. The CPTPP group represents roughly 13 percent of the global economy, consisting of Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. Interestingly, the CPTPP is actually the second attempt at a major Pacific Rim trade deal; a nearly identical agreement, called the Trans-Pacific Partnership (TPP), was originally signed by these 11 countries plus the United States in 2016. However, the TPP was never fully ratified due to the withdrawal of the United States from the deal following Donald Trump's election. On March 8, 2018, representatives of the remaining 11 Pacific Rim countries, minus the United States, signed the reworked CPTPP deal. Following official ratification by six countries, the CPTPP went into effect on December 30, 2018. Full ratification by the remaining countries' legislative bodies is expected to take up to two years to complete.⁴⁴

Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

A trade agreement among 11 Pacific Rim countries, including Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

Central and Eastern Europe, Russia (see In the International Spotlight at the end of Chapter 14), and the other republics of the former Soviet Union are still trying to make stable transitions to market economies. Although the Czech Republic, Slovenia, Poland, and Hungary have accelerated this process through their accession to the EU, others (the Balkan countries, Russia, and the other republics of the former Soviet Union) still have a long way to go. However, all remain a target for MNCs looking for expansion opportunities. For example, after the fall of the Berlin Wall in 1989, Coca-Cola quickly began to sever its relationship with most of the state-run bottling companies in the former communist-bloc countries. The soft drink giant began investing heavily to import its own manufacturing, distribution, and marketing techniques. More than 30 years later, Coca-Cola has pumped billions into Central and Eastern Europe—and this investment has paid off. Its business in Central and Eastern Europe has expanded at twice the rate of its other foreign operations.

These are specific, geographic examples of emerging internationalism. Equally important to this new climate of globalization, however, are broader trends that reflect the emergence of developing countries as major players in global economic power and influence.

Changing Global Demographics

The collective world population is aging. In 2016, for the first time since the end of the second World War, the global working-age population declined. By 2050, the *Wall Street Journal* projects, the working-age population will have contracted by nearly 5 percent worldwide. These demographic changes will have significant effects on the global economy.⁴⁵

Multiple factors are contributing to an aging global population. Due to improvements in the technology and health care sectors, people are now living longer in both developed and developing countries. The percentage of people over the age of 65, which grew from 5 percent in 1960 to 9 percent in 2018, is expected to nearly double to 16 percent by 2050.⁴⁶ Global life expectancy, which increased from 48 years in 1950 to 72 years in 2016, will continue to increase steadily over the next several decades.^{47,48} As

more people are living longer, they are spending more time in retirement. People are also having fewer children. In the last 70 years, the global fertility rate was cut in half—from 5 children per woman in 1950 to 2.4 children per woman in 2018.^{49,50}

Though these demographic changes are projected to occur globally, the most dramatic impact will be seen in the developed nations. Western Europe, which has seen stagnant economic and population growth for the last decade, will face some of the sharpest constrictions of the workforce population. In Germany and Italy, the working-age population will shrink by over 20 percent by 2050. Developed Asian nations, with some of the longest life expectancies, will not be able to repopulate quickly enough to replace the retiring, aging population. In Japan, the number of nonworkers will be nearly equal to that of workers by 2050. Both Japan and South Korea will face a loss of over 25 percent of their working-class population.⁵¹

Even some developing countries will face large challenges. Due to years of a one-child policy, and rapidly rising incomes, which are almost always accompanied by lower birth rates, China faces an unbalanced population pyramid. It is estimated that China will see a 20 percent decline in its working-class population by 2050, as middle-aged workers begin to retire and are replaced by fewer workers. With a lower GDP per capita than Germany, Japan, and other developed nations, Chinese workers will face additional pressure to support the nonworking population.⁵²

The increase in the size of the elderly population affects more than just the proportion of workers to nonworkers. The amount of spending on health care–related services will continue to increase rapidly, while the demand for goods such as cars and computers will decline. While younger populations spend income on housing and other capably financed purchases, elderly populations spend money on health care services.⁵³

Although the full impact of these demographic changes will not be known for several years, strategies such as easing the immigration process for workers from developing to developed nations, incentivizing citizens in developed nations to have more children, and encouraging workers to delay retirement could help offset the problems associated with an aging global population.⁵⁴

The Shifting Balance of Economic Power in the Global Economy

Economic integration and the rapid growth of emerging markets are creating a shifting international economic landscape. Specifically, the developing and emerging countries of the world are now predicted to occupy increasingly dominant roles in the global economic system. Various economists have studied the potential growth of these rapidly expanding economies.

For nearly 20 years, the emerging markets of Brazil, Russia, India, and China—which collectively were coined as the “BRIC” nations in 2001 by Jim O’Neill of Goldman Sachs—have received a great deal of attention by economists and investors alike. Initial reports from Goldman Sachs, issued in the early 2000s, predicted that BRIC economies’ share of world growth could double from 20 percent in 2003 to more than 40 percent by 2025. Additionally, Goldman Sachs predicted that the BRIC’s total weight in the world economy would rise from approximately 10 percent in 2004 to more than 20 percent by 2025.^{55,56} The leaders of the BRIC nations, understanding their increasing role in the global economy, have met for an annual summit since 2009, and in 2010 the leaders of the founding members agreed to admit South Africa to the group, making it “BRICS.”

In recent years, however, global economic conditions have led to some setbacks for the economies of Brazil, Russia, and China, leading some to reconsider the rate at which the BRIC economies will continue to grow. Low prices for oil and other commodities contributed to the deep 2015 and 2016 recessions in Russia and Brazil, and China’s growth has slowed substantially. In 2015, after a few years of losses and weak forecasts for Brazil, Russia, and China, Goldman Sachs dissolved its BRIC mutual fund and folded the remaining assets into its larger emerging markets fund.⁵⁷ Unlike its fellow BRIC partners, however, India continues to post strong figures, and the country has actually surpassed China in annual GDP growth rate in recent years.

Despite these setbacks, the economic expansion of these four countries has had a tremendous impact on global trade and commerce over the last 20 years. By 2018, the four BRIC economies accounted for 23 percent of global nominal GDP, compared to just 8 percent in 2001. Over the same period, nominal GDP for Brazil, Russia, India, and China grew by an annualized 7.5 percent, 9.7 percent, 10.5 percent, and 14.5 percent, respectively. This far outpaced the developed economies of the United States, Germany, and United Kingdom, which only grew by an annualized 4.0 percent, 4.4 percent, and 3.3 percent, respectively. Whether or not Goldman Sachs' original long-term predictions hold true is yet to be seen, but Brazil, Russia, China, and India will continue to assume a broader role in the global economy.^{58,59}

As the BRICS' economies mature and growth slows, some analysts, including Goldman Sachs, are beginning to turn their attention to a new group of emerging markets. In March 2006, PricewaterhouseCoopers (PwC) coined the term *E7* to describe seven major emerging economies (Brazil, China, India, Indonesia, Mexico, Russia, and Turkey) that are expected to expand significantly in the coming decades.⁶⁰ Unlike the G7 economies, which are primarily located in North America and Europe, the E7 economies are located throughout Latin America and Asia (see Figure 1-2 and Figure 1-3).

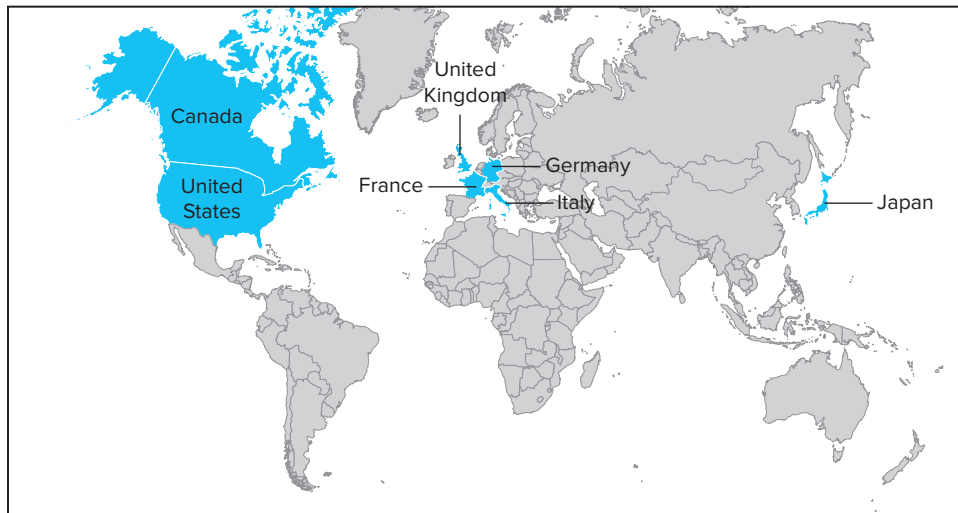


Figure 1-2
G7 (Group of Seven)
Economies

Source: Original graphic by Professor Jonathan Doh.

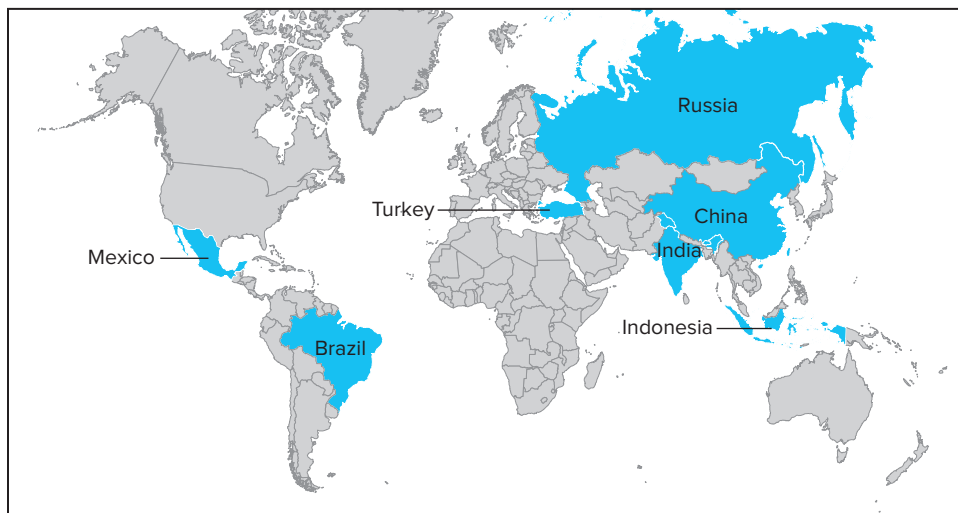


Figure 1-3
E7 (Emerging Seven)
Economies

Source: Original graphic by Professor Jonathan Doh.

In 2017, PwC predicted that the GDP of the E7, when measured in terms of market exchange rates (MER), would surpass that of the G7 by around 2030. Furthermore, the GDP of the E7 would expand at an annual rate of 3.5 percent through 2050, while the G7 would only expand by 1.6 percent annually. Per PwC's predictions, by 2050, the GDP of the E7 is predicted to be 50 percent higher than that of the G7.⁶¹

The N-11 (*N* stands for “next”) is another grouping of economies that may constitute the next wave of emerging markets growth. These countries—Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey, and Vietnam—represent a diverse global set, with relative strengths (and weaknesses) in terms of their future potential. The MIST countries (Mexico, Indonesia, South Korea, and Turkey), a subset of the N-11, are sometimes grouped as a particularly attractive subset of the N-11. Goldman views the MIST countries as the most promising and advanced of the N-11, all of which have young, growing populations and other positive conditions for economic growth. Other groupings of fast-growing developing countries include the CEVITS (Colombia, Egypt, Vietnam, Indonesia, Turkey, and South Africa) and EAGLES (which stands for emerging and growth-leading economies), which includes the original BRIC and MIST countries plus Egypt and Taiwan.⁶² Table 1-4 compares the G-7 (advanced countries), BRIC, and N-11 by population, GDP, and GDP per capita in 2000, 2010, and 2023.

Using data from the World Bank, PricewaterhouseCoopers has made estimates about the future growth of emerging versus developed economies, the results of which appear in summary form in Table 1-5 and Table 1-6. Table 1-5 shows the world's largest economies in 2020 and 2050 (projected) using (current) market exchange rates. By this calculation, China would surge past the United States and Japan by 2050, and India would move from fifth to third. Viewing the data on a purchasing power parity (PPP) basis, a method that adjusts GDP to account for different prices in countries, a more dramatic picture is presented. Using this method, both China and India would surpass the United States as the largest world economic power by 2050. In both the Goldman Sachs and PricewaterhouseCoopers scenarios, global growth over the next decade, and the next 30 years, is heavily supported by Asia, as seen in Table 1-7. In addition, China and India will remain the most populous countries in the world in 2050, although India will surpass China as the most populous (Table 1-8).

Increasing amounts of foreign direct investment (FDI) and a rapidly growing population suggest that African countries could constitute the next wave of dynamic emerging markets. However, most of the region has not, to date, fully benefited from globalization. Although global exports of oil and metal products have boosted incomes and wealth on the African continent over the last 20 years, the region remains highly dependent on commodity prices. As a result, external factors, such as the slowing of growth in China, can have a significant impact on economic growth in Africa. Transitioning the economy to more non-oil industries will be vital to strengthening Africa for the long term.⁶³

Emerging nations, as a whole, have experienced unprecedented GDP growth in the decade since the global recession. It is important to note, however, that as developing economies mature, their growth rates will likely begin to slow. China provides a good example of this. Following years of double-digit economic expansion from the early 1990s through the mid-2010s, China's GDP growth has stabilized to less than 7 percent annually in the past few years. While emerging markets still hold the most potential for growth in the coming years, the rapid rate of expansion that was experienced over the last decade may prove difficult to match.⁶⁴

Global trade and investment continue to grow at a healthy rate, outpacing domestic growth in most countries. According to the World Trade Organization, in 2017 merchandise exports reached \$17.5 trillion and commercial services exports reached \$6.8 trillion.⁶⁵ **Foreign direct investment (FDI)**—the term used to indicate the amount invested in property, plant, and equipment in another country—has slowed somewhat in recent years. However, it is important to note that most of the decrease in FDI investment is occurring

foreign direct investment (FDI)

Investment in property, plant, or equipment in another country.

Table 1–4
Population, GDP, and GDP per Capita of G-7, BRIC, and N-11 Countries, 2000, 2010, and 2023 (projected)

Country	2000			2010			2023 (projected)		
	Population (millions)	GDP (billions)	GDP (per cap.)	Population (millions)	GDP (billions)	GDP (per cap.)	Population (millions)	GDP (billions)	GDP (per cap.)
G7									
Canada	31	\$ 742	\$24,220	34	\$ 1,613	\$47,513	39	\$ 2,434	\$62,610
France	59	1,372	23,313	63	2,652	42,249	67	3,586	53,839
Germany	81	1,955	24,004	80	3,423	42,642	83	5,272	63,728
Italy	57	1,145	20,113	60	2,129	35,658	61	2,554	42,133
Japan	127	4,888	38,536	128	5,700	44,674	124	5,962	48,036
United Kingdom	59	1,651	28,038	63	2,444	38,935	68	3,477	51,114
United States	282	10,285	36,433	310	14,964	48,311	342	24,537	71,805
Total/average	696	\$22,038	\$1,655	737	\$32,926	\$4,682	783	\$47,822	\$61,095
BRICs									
Brazil	173	\$ 655	\$ 3,779	195	\$ 2,208	\$11,292	216	\$ 2,717	\$12,576
China	1,267	1,215	959	1,341	6,066	4,524	1,421	21,574	15,183
India	1,030	477	463	1,201	1,708	1,423	1,424	4,663	3,274
Russia	146	279	1,906	143	1,638	11,445	143	1,974	13,787
Total/average	2,617	\$ 2,626	\$ 1,004	2,880	\$11,621	\$ 4,035	3,204	\$30,928	\$ 9,651
Next-11									
Bangladesh	132	\$ 55	\$ 412	151	\$ 122	\$ 808	174	\$ 444	\$ 2,559
Egypt	64	105	1,643	79	230	2,922	109	—	—
Indonesia	206	179	870	238	755	3,178	283	1,549	5,480
Iran	64	366	5,698	74	482	6,505	87	472	5,450
Mexico	101	708	7,016	114	1,058	9,258	130	1,586	12,161
Nigeria	119	68	570	156	369	2,365	222	874	3,936
Pakistan	137	80	583	172	177	1,032	221	—	—
Philippines	77	81	1,052	93	200	2,155	119	523	4,410
South Korea	47	562	11,948	50	1,094	22,087	53	2,155	40,867
Turkey	65	273	4,219	74	772	10,476	87	1,224	14,083
Vietnam	78	31	402	87	113	1,297	99	374	3,773
Total/average	1,090	\$ 2,507	\$ 2,301	1,286	\$ 5,373	\$ 4,176	1,582	\$ 9,201	\$ 7,345

Source: "World Economic Outlook Database," International Monetary Fund, April 2018.

Table 1–5
The World's Largest Economies 2020 and 2050 (Projected)
Measured by GDP at Market Exchange Rates
 (in trillions of dollars)

	2020		2050	
	GDP	Rank	GDP	Rank
United States	20.1	1	34.1	2
China	16.0	2	49.9	1
Japan	4.8	3	6.8	5
Germany	3.7	4	6.1	7
India	3.6	5	28.0	3
United Kingdom	2.8	6	5.4	9
France	2.7	7	4.7	11
Italy	2.0	8	3.1	16
Brazil	1.9	9	6.5	6
South Korea	1.7	10	3.5	13
Canada	1.7	11	3.1	17
Russia	1.4	12	5.1	10
Spain	1.4	13	2.7	20
Australia	1.4	14	2.6	22

Source: "The Long View: How Will the Economic Global Order Change by 2050?"
 PricewaterhouseCoopers LLP, 2017.

Table 1–6
The World's Largest Economies 2020 and 2050 (Projected)
Measured by GDP at Purchasing Power Parity
 (in trillions of dollars)

	2020		2050	
	GDP	Rank	GDP	Rank
China	26.9	1	58.5	1
United States	20.1	2	34.1	3
India	11.8	3	44.1	2
Japan	5.0	4	6.8	8
Germany	4.2	5	6.1	9
Russia	3.9	6	7.1	6
Indonesia	3.8	7	10.5	4
Brazil	3.3	8	7.5	5
United Kingdom	3.0	9	5.4	10
France	2.9	10	4.7	12
Mexico	2.6	11	6.9	7
Italy	2.3	12	3.1	21
South Korea	2.2	13	3.5	18
Turkey	2.2	14	5.2	11

Source: "The Long View: How Will the Economic Global Order Change by 2050?"
 PricewaterhouseCoopers LLP, 2017.

Table 1–7
Cities Expected to Experience the Highest Rate of GDP Growth
2019–2035
 (GDP contribution in billions)

City	Country	GDP Growth (% year over year)
Bengaluru	India	8.5
Dhaka	Bangladesh	7.6
Mumbai	India	6.6
Delhi	India	6.5
Shenzhen	China	5.3
Jakarta	Indonesia	5.2
Manila	Philippines	5.2
Tianjin	China	5.1
Shanghai	China	5.0
Chongqing	China	4.9

Source: "Global Cities 2018." Oxford Economics, November 2018.

Table 1–8
Changing Global Demographics: Developing Countries on the Rise
(ranked by size)

	1950	2020	2050
1	China	China	India
2	Soviet Union	India	China
3	India	United States	Nigeria
4	United States	Indonesia	United States
5	Japan	Brazil	Indonesia
6	Indonesia	Pakistan	Pakistan
7	Germany	Nigeria	Brazil
8	Brazil	Bangladesh	Bangladesh
9	United Kingdom	Russia	Congo
10	Italy	Mexico	Ethiopia
11	France	Japan	Mexico
12	Bangladesh	Ethiopia	Egypt

Source: "World Population Prospects: The 2017 Revision." U.S. Department of Economic and Social Affairs, 2017.

among developed economies.⁶⁶ Table 1-9 shows trade flows among major world countries in both absolute and percentage terms. Table 1-10 and Table 1-11 show FDI inflows and outflows by leading developed and emerging economies.

As nations become more affluent, they begin looking for countries with economic growth potential where they can invest. Over the last two decades, for example, Japanese MNCs have invested not only in their Asian neighbors but also in the United States and the EU. European MNCs, meanwhile, have made large financial commitments in Japan and, more recently, in China and India because they see Asia as having continued growth potential. American multinationals have followed a similar approach in regard to both Europe and Asia.

Table 1–9
World Merchandise Trade by Selected Country, 2018
(in US\$ billions and percentages)

	Exports					Imports				
	Values	Annual Percentage Change				Values	Annual Percentage Change			
		2018	2017	2016	2015		2018	2017	2016	2015
World	19,475	10	11	–3	–13	19,867	10	11	–3	–13
North America										–5
United States	1,664	8	7	–3	–7	2,614	9	7	–3	–4
Canada	450	7	8	–5	–14	469	6	7	–4	–10
Mexico	451	10	10	–2	–4	477	10	9	–2	–2
South and Central America										–16
Brazil	240	10	18	–3	–15	189	20	10	–20	–25
Europe										–13
Germany	1,561	8	9	1	–11	1,286	11	11	0	–13
France	582	9	7	–1	–13	673	9	9	0	–15
Netherlands	723	11	14	0	–15	646	12	14	–1	–14
United Kingdom	486	10	9	–11	–9	674	5	1	2	–9
Italy	547	8	10	1	–13	501	11	11	–1	–14
Russian Federation	444	26	25	–17	–31	249	5	24	–1	–37
Asia										–14
China	2,487	10	8	–8	–3	2,136	16	16	–6	–14
Japan	738	6	8	3	–9	749	11	11	–6	–20
India	326	9	13	–1	–17	511	14	24	–8	–15

Sources: "Global Trade Growth Loses Momentum as Trade Tensions Persist." WTO Press Release, April 2019. https://www.wto.org/english/news_e/pres19_e/pr837_e.htm; "Strong Trade Growth in 2018 Rests on Policy Choices." WTO Press Release, April 2018. https://www.wto.org/english/news_e/pres18_e/pr820_e.htm.

Table 1–10
Foreign Direct Investment Inflows, by Region
(in US\$ billions)

	2017	2016	2015
Developed economies	\$712.4	\$1,133.2	\$1,141.3
Developing economies	670.7	670.2	744.0
Africa	41.8	53.2	56.6
East and Southeast Asia	398.3	390.4	435.1
South Asia	52.0	54.2	51.2
West Asia	25.5	30.8	30.2
Latin America and the Caribbean	151.3	139.7	169.2
Transition economies	46.8	64.1	36.0

Source: "World Investment Report 2018." United Nations Conference on Trade and Development, 2018.

Table 1–11
Foreign Direct Investment Outflows, by Region
(in US\$ billions)

	2017	2016	2015
Developed economies	\$1,009.2	\$1,041.5	\$1,183.6
Developing economies	380.8	406.7	406.2
Africa	12.1	11.2	10.8
East and Southeast Asia	305.3	341.7	310.2
South Asia	11.6	5.5	7.8
West Asia	33.3	37.5	40.7
Latin America and the Caribbean	17.3	9.3	35.6
Transition economies	40.0	25.2	32.1

Source: "World Investment Report 2018." United Nations Conference on Trade and Development, 2018.

Apple Inc. and the Impact of a “Trade War”

Following its 2016 presidential election, the United States, which has traditionally been among the most consistent promoters of globalization and free trade, began to adopt a more protectionist trade policy. Throughout the election campaign, then-candidate Donald Trump promised to implement tariffs and other retaliatory trade measures against the import of foreign goods. Just days after President Trump’s inauguration in January 2017, the U.S. officially withdrew from the Trans-Pacific Partnership, and on May 18, 2017, the U.S. announced its intention to negotiate the terms and conditions of the North American Free Trade Agreement. Tariffs became a reality in January 2018, when the Trump administration imposed its first set of taxes on imported solar panels and washing machines. Additional tariffs on steel and aluminum, along with tariffs on nearly 1,300 additional Chinese imports, followed in March. In response, the Chinese government imposed tariffs of its own on specific U.S. imports. Economists feared that a “trade war,” or an economic conflict in which countries progressively raise tariffs on each other’s imports in an effort to discourage the purchase of those goods in their marketplace, was unfolding between the U.S. and China.

Apple Inc. Takes Action

Arguably no company has more to lose in a trade dispute between the U.S. and China than Apple Inc. In 2018, Apple was the most valuable company in the world—an achievement that largely resulted from its complex operations in both countries. Although the initial tariffs did not directly impact Apple’s products, CEO Tim Cook preemptively took action in an attempt to protect the company’s sales in both markets. In March 2018, Cook spoke out at a Beijing summit meeting to call for “calmer heads” between the two countries, and in May 2018, he traveled to the White House to directly reiterate Apple’s dependence on the Chinese market to President Trump.

Apple’s best-selling and most profitable product, the iPhone, generated sales of US\$166.7 billion in 2018. This accounted for nearly two-thirds of Apple’s total revenue. Although the iPhone is designed in California, it is

assembled in China and therefore is a Chinese export. President Trump has assured Apple that its products will not be subject to tariffs on U.S. soil, and the 2018 implementation of U.S. tariffs on imported goods from China did not include iPhones. However, if the trade war continues to escalate, virtually all imports from China, including the iPhone, could be subject to significant tariffs, eventually squeezing profitability.

Apple’s supply chain further complicates its situation. The company sources materials from suppliers that span the globe, including 359 locations from within China and 66 from within the U.S. As a result, not only are the final assembled products potentially subject to future U.S. tariffs, but the raw materials that are exported from the U.S. to its Chinese manufacturing facilities could also face Chinese tariffs. Additionally, China could take other trade-restrictive actions, such as imposing a limit on the sales of Apple products within China or restricting the company’s production and assembly facilities. If these actions were taken by the Chinese government, Apple would be forced to reconfigure its supply chain, train new employees, and develop new facilities—requiring a significant amount of time and resources, and likely resulting in decreased net profits.

As Apple’s situation highlights, “trade wars” and protectionist policies can have a substantial impact on MNCs. Although globalization has been largely beneficial for companies and consumers, including improved profit margins and higher-quality products, it has also opened up MNCs to more political risk. Even with the most careful planning, government policy can limit the ability of companies to source materials, manufacture their goods, and sell their products in the market.

Sources: Jack Nicas and Paul Mozur, “In China Trade War, Apple Worries It Will Be Collateral Damage,” *New York Times*, June 18, 2018, <https://www.nytimes.com/2018/06/18/technology/apple-tim-cook-china.html>; Tripp Mickle, “Apple Vulnerable in U.S.-China Trade Showdown,” *Wall Street Journal*, July 24, 2018, <https://www.wsj.com/articles/apples-china-ties-make-it-vulnerable-if-trade-fight-gets-worse-1532430003>; Tripp Mickle, “Apple Avoids U.S. Tariffs on Smartwatches, Earbuds,” *Wall Street Journal*, September 17, 2018, <https://www.wsj.com/articles/for-apple-u-s-china-trade-fight-grows-riskier-1537188213>.

The following quiz illustrates how transnational today’s MNCs have become. This trend is not restricted to firms in North America, Europe, or Asia. An emerging global community is becoming increasingly interdependent economically. Take the quiz and see how well you do by checking the answers given at the end of the chapter. However, although there may be a totally integrated global market in the near future, at present, regionalization, as represented by North America, Europe, Asia, and the less developed countries, is most descriptive of the world economy.

1. Where is the parent company of Braun household appliances (electric shavers, coffee makers, etc.) located?
 - a. Italy
 - b. Germany
 - c. the U.S.
 - d. Japan

2. Computer company Lenovo, best known for producing the Thinkpad laptop, was founded in which country?
 a. Japanese b. Mexico c. the U.S. d. China
3. The company that owns Jaguar is based in
 a. Germany. b. the U.S. c. the U.K. d. India.
4. Frozen food distributor Schwan's Co. is now majority owned by a parent company located in
 a. South Korea. b. the U.S. c. France. d. Switzerland.
5. The firm that owns Green Giant vegetables is
 a. U.S.-based. b. Canadian. c. British. d. Italian.
6. The owners of Godiva chocolate are
 a. U.S.-based. b. Swiss. c. Dutch. d. Turkish.
7. The company that produces Vaseline is
 a. French. b. Anglo-Dutch. c. German. d. U.S.-based.
8. The company that bought General Electric Appliances is headquartered in
 a. France. b. China. c. Japan. d. Germany.
9. The company that owns Holiday Inn is headquartered in
 a. Saudi Arabia. b. France. c. the U.S. d. the U.K.
10. Tropicana orange juice is owned by a company that is headquartered in
 a. Mexico. b. Canada. c. the U.S. d. Japan.

■ Global Economic Systems

The evolution of global economies has resulted in three main systems: market economies, command economies, and mixed economies. Recognizing opportunities in global expansion includes understanding the differences in these systems, as they affect issues such as consumer choice and managerial behavior.

Market Economy

A *market economy* exists when private enterprise reserves the right to own property and monitor the production and distribution of goods and services while the state simply supports competition and efficient practices. Management is particularly effective here, since private ownership provides local evaluation and understanding, opposed to a nationally standardized archetype. This model contains the least restriction, as the allocation of resources is roughly determined by the law of demand. Individuals within the community disclose wants, needs, and desires, to which businesses may appropriately respond. A general balance between supply and demand sustains prices, while an imbalance creates a price fluctuation. In other words, if demand for a good or service exceeds supply, the price will inevitably rise, while an excess supply over consumer demand will result in a price decrease.

Since the interaction of the community and firms guides the system, organizations must be as versatile as the individual consumer. Competition is fervently encouraged to promote innovation, economic growth, high quality, and efficiency. The focus on how to best serve the customer is necessary for optimal growth, as it ensures a greater penetration of niche markets.⁶⁷ The government may prohibit such things as monopolies or restrictive business practices in order to maintain the integrity of the economy. Monopolies are a danger to this system because they tend to stifle economic growth and consumer choice with their power to determine supply. Factors such as efficiency of production and quality and pricing of goods can be chosen arbitrarily by monopolies, leaving consumers without a choice and at the mercy of big business.

Command Economy

A *command economy* is comparable to a monopoly in the sense that the organization—in this case, the government—has explicit control over the price and supply of a good or service. The particular goods and services offered are not necessarily in response to consumers' stated needs but are determined by the theoretical advancement of society. Businesses in this model are owned by the state to ensure that investments and other business practices are done in the best interest of the nation despite the often contradictory outcomes. Management within this model ignores demographic information. Government subsidies provide firms with enough security, so they cannot go out of business, which simply encourages a lack of efficiency or incentive to monitor costs. Devoid of private ownership, a command economy creates an environment where little motivation exists to improve customer service or introduce innovative ideas.⁶⁸

History confirms the inefficiency and economic stagnation of this system with the dramatic decline of communism in the 1980s. Communist countries believe that the goals of the so-called people take precedence over individualism. While the communist model once dominated countries such as Ethiopia, Bulgaria, Hungary, Poland, and the former U.S.S.R., it survives only in North Korea, Cuba, Laos, Vietnam (see In the International Spotlight at the end of Chapter 12), and China today, in various degrees or forms. A desire to compete effectively in the global economy has resulted in the attempt to move away from the communist model, especially in China, which will be considered in greater depth later in the chapter.

Mixed Economy

A *mixed economy* is a combination of a market and a command economy. While some sectors of this system reflect private ownership and the freedom and flexibility of the law of demand, other sectors are subject to government planning. The balance allows competition to thrive, while the government can extend assistance to individuals or companies. Regulations concerning minimum wage standards, social security, environmental protection, and the advancement of civil rights may raise the standard of living and ensure that those who are elderly, are sick, or have limited skills are taken care of. Ownership of organizations seen as critical to the nation may be transferred to the state to subsidize costs and allow the firms to flourish.⁶⁹

In the next section we discuss general developments in key world regions reflective of these economic systems and the impact of these developments on international management.

■ Economic Performance and Issues of Major Regions

From a vantage point of development, performance, and growth, the world's economies can be evaluated as established economies, emerging economies, and developing economies (some of which may soon become emerging).

Established Economies

North America As noted earlier, North America constitutes one of the four largest trading blocs in the world. The combined purchasing power of the United States, Canada, and Mexico is more than \$24 trillion.⁷⁰ Even though there will be more and more integration both globally and regionally as time goes on, effective international management still requires a knowledge of individual countries.

The free-market-based economy of this region allows considerable freedom in the decision-making processes of private firms. This allows for greater flexibility and low barriers for other countries to establish business. Despite increased protectionist policies in recent years, including the implementation of tariffs under the Trump administration, the

U.S. remains one of the most welcoming environments to foreign investors. U.S. MNCs also maintain holdings throughout the world. U.S. firms hold dominant global positions in technology-intensive industries, including computing (hardware and services), telecommunications, media, and biotechnology. At the same time, foreign MNCs are finding the United States to be a lucrative market for expansion. Many foreign automobile producers, such as BMW, Honda, Subaru, Nissan, Mazda, and Toyota, have established a major manufacturing presence in the United States. In fact, by 2018, foreign automakers had produced more cars in the U.S. than domestic car companies.⁷¹

Canada is the United States' largest trading partner, a position it has held for many years. The United States also has considerable foreign direct investment in Canada. This helps explain why most of the largest foreign-owned companies in Canada are totally or heavily U.S.-owned. The legal and business environments in Canada are similar to those in the United States, and the similarity helps promote trade between the two countries. Geography, language, and culture also help, as does NAFTA/USMCA, which has assisted Canadian firms in becoming more competitive worldwide. They have had to go head to head with their U.S. and Mexican competitors as trade barriers have been removed, resulting in greater efficiency and market prowess on the part of the Canadian firms, which must compete successfully or go out of business. In recent years, Canadian firms have begun investing heavily in the United States while gaining international investment from both the United States and elsewhere. Canadian firms also do business in many other countries, including Mexico, the U.K., Germany, and Japan, where they find ready markets for Canada's vast natural resources, including lumber, natural gas, crude petroleum, and agricultural products.

By the early 1990s, Mexico had recovered from its economic problems of the previous decade and had become the strongest economy in Latin America. In 1994, Mexico became part of NAFTA, and it appeared to be on the verge of becoming the major economic power in Latin America. Yet, an assassination that year and a related economic crisis underscored that Mexico was still a developing country with considerable economic volatility. Mexico now has free trade agreements with 46 countries, more than any other nation, including agreements with Panama, the Unifying Free Trade Agreement with Central America, the EU, the European Free Trade Area, and the CPTPP. More than 90 percent of Mexico's trade occurs under free trade agreements.⁷² The presidential administrations of Vicente Fox, Felipe Calderon, and Enrique Peña Nieto (elected in 2000, 2006, and 2012, respectively) were seen as especially pro-business by many investors. Vicente Fox focused his economic efforts on lowering inflation and job creation, and Felipe Calderon battled Mexico's narcotics gangs while aiming to attract foreign investments. Enrique Peña Nieto, despite uncertainty from some, continued to advance many pro-business initiatives, such as expanding the Mexican auto industry, opening the oil industry to the private sector, and forcing greater competition in telecommunications.^{73,74} It is unclear whether President Andrés Manuel López Obrador, elected in 2018 and a past critic of big business and energy privatization, will continue the investment-friendly policies of his predecessors.

Because of NAFTA/USMCA, Mexican businesses are finding themselves able to take advantage of the U.S. market by producing goods for that market that the U.S. previously purchased from Asia. Mexican firms are now able to produce products at highly competitive prices, thanks to lower-cost labor and proximity to the American market. Location has helped hold down transportation costs and allows for fast delivery. This development has been facilitated by the **maquiladora** system, under which materials and equipment can be imported on a duty- and tariff-free basis for assembly or manufacturing and re-export mostly in Mexican border towns. Mexican firms, taking advantage of a new arrangement the government has negotiated with the EU, can also now export goods into the European community without having to pay a tariff. The country's trade with both the EU and Asia is on the rise, which is important to Mexico, as it wants to reduce its overreliance on the U.S. market (see In the International Spotlight at the end of Chapter 9).

maquiladora

A factory, the majority of which are located in Mexican border towns, that imports materials and equipment on a duty- and tariff-free basis for assembly or manufacturing and re-export.