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International Business

The Challenges of Globalization

NINTH EDITION

John J. Wild

Kenneth L. Wild





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International Business

The Challenges of Globalization

Ninth Edition
Global Edition

John J. Wild

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Dear Friends and Colleagues,

As we roll out the new edition of *International Business: The Challenges of Globalization*, we thank each of you who provided suggestions to enrich this textbook. This edition reflects the advice and wisdom of many dedicated reviewers and instructors. Together, we have created the most readable, concise, and innovative international business book available today.

As teachers, we know it is important to select the right book for your course. Instructors say this book's clear and lively writing style helps students learn international business. The book's streamlined and clutter-free design is a competitive advantage that will never be sacrificed.

The accompanying cutting-edge technology package also helps students to better understand international business. MyLab Management is an innovative set of course-management tools for delivering all or part of your course online, which makes it easy to add meaningful assessment to your course. Whether you're interested in testing your students on simple recall of concepts and theories or you'd like to gauge how well they can apply their new knowledge to real-world scenarios, MyLab Management offers a variety of activities that are applied and personalized with immediate feedback. You and your students will find these and other components of this book's learning system fun and easy to use.

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

John J. Wild

Kenneth L. Wild

Preface

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

This book is our means of traveling on an exciting tour through the study of international business. It motivates the reader by making international business challenging yet fun. It also embraces the central role of people and their cultures in international business. Each chapter is infused with real-world discussion, while underlying theory appears in the background where it belongs. Terminology is used consistently, and theories are explained in direct and concise terms. This book's visual style is innovative yet subtle and uses photos, illustrations, and features sparingly. The result is an easy-to-read and clutter-free design.

New to This Edition

- Learning Objectives for each chapter now appear in the margins of the text right next to where the corresponding material begins. This allows the reader to better follow the material presented in each chapter and increases student comprehension.
- New material in Chapter 1 includes coverage of highly useful capabilities we call employability skills. Where appropriate, the book presents material that helps students to develop critical thinking skills, refine their sense of business ethics and social responsibility, develop their communication skills, and expand their ability to apply and analyze knowledge.
- Chapter 1 topic of the world's largest companies and its accompanying Figure 1.1 has been updated, as is material on the most globalized nations and the timely and important topic of global inequality.
- The Manager's Briefcase feature in Chapter 1 appears earlier to emphasize the textbook's applied and managerial treatment of material.
- Presentation of national illiteracy rates and its accompanying Table 2.1 are updated to present the most recent data available.
- Figure 3.2 and its discussion reflect recent data on business software piracy rates around the world.
- The most recently available Human Development Index is presented in Table 4.1 along with its updated in-text explanation.
- Table 5.1 presents most recently available data on the world's top exporters and importers, by both US dollar value and share of the world total.
- Chapter 5 discussion of regional merchandise trade has been removed to present the material in a more streamlined and less complicated fashion.
- Chapter 6 contains an update to the discussion of the WTO Doha Round of negotiations.
- Figures 7.1 and 7.2 and their explanations update the annual value of foreign direct investment inflows and cross-border mergers and acquisitions, respectively.
- Chapter 8 presentation of regional trading blocs contains the latest available information on Britain's exit (Brexit) from the European Union, Venezuela's suspension from the Southern Common Market, and other events.
- Chapter 10 updates the discussion of exchange rates among major world currencies, value of the US dollar over time, and the addition of China's currency to the IMF's special drawing right (SDR).
- Table 12.1 updates the ranking of the world's top market research firms.

- Chapter 13 discussion of letter-of-credit financing and its related Figure 13.4 have been revised for precision and a smoother presentation.
- All chapter-opening company profiles and chapter-closing mini-cases are updated to reflect the most recent data and facts available at the time of publication.

Solving Teaching and Learning Challenges

Students who take the international business course can have difficulty seeing the relevance of certain key concepts to their lives and future careers. These topics can include political economy, trade theory, foreign exchange rates, and the international financial system. This can reduce the willingness of a student to prepare for class and be engaged in class.

We use the ever-present and salient subject of culture to present real-world examples and engaging features to bring international business to life and pique student interest. We present complex material in concrete, straightforward terms and illustrate it appropriately to make international business accessible for all students. This approach makes the material interesting and relevant and shows students the importance of these concepts to their future employability and careers. We use the following additional methods and resources to engage students with the content of international business:

Interactive Approach to International Business

Pearson’s MyLab Management is now fully integrated into the text. These features are outlined below. The online assessment activities enable you to quiz your students before class so you have more time in class to focus on areas that students find most challenging.

Watch It Cases expose students to life in other cultures by asking them to view a video clip on a key topic. Each video corresponds to the chapter material and is accompanied by multiple choice questions that reinforce student comprehension.

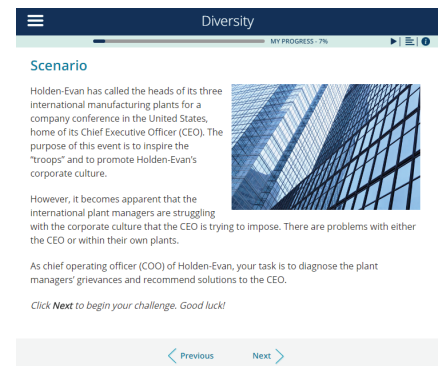
Quick Study Concept Checks appear at the end of each textbook section to verify that students have learned key terms and concepts before moving on. Students obtain immediate feedback on answers they provide in an online environment.

Making International Business Relevant

This textbook captures the real-world characteristics of international business today by emphasizing the importance of cultural influences, sustainable business practices, and managerial implications.

Culture Matters boxes present the relation between culture and a key chapter topic. For example, Chapter 2 presents the importance of businesspeople developing a global mindset and avoiding cultural bias. Another chapter presents the debate over globalization’s influence on culture, and another box shows how entrepreneurs succeed by exploiting their knowledge of local cultures.

Global Sustainability boxes present special topics related to economic, social, and environmental sustainability. Today, businesses know that flourishing



CULTURE MATTERS The Culture Debate

The debate about globalization’s influence on culture evokes strong opinions. Here are a few main arguments in this debate:

- **Material Desire.** Critics say globalization fosters the “Coca-Colonization” of nations through advertising campaigns that promote material desire. They also argue that global consumer-goods companies destroy cultural diversity (especially in developing nations) by putting local companies out of business.
- **Artistic Influence.** Evidence suggests, however, that the cultures of developing nations are thriving and that the influence of their music, art, and literature has grown (not shrunk) throughout the past century. African cultures, for example, have influenced the works of artists including Picasso, the Beatles, and Sting.
- **Western Values.** International businesses reach far and wide through the Internet, global media, increased business travel, and local marketing. Critics say local values and traditions are being replaced by US companies promoting “Western” values.

- **A Force for Good.** On the positive side, globalization tends to foster two important values: tolerance and diversity. Advocates say nations should be more tolerant of opposing viewpoints and should welcome diversity among their peoples. This view interprets globalization as a potent force for good in the world.
- **Deeper Values.** Globalization can cause consumer purchases and economic ideologies to converge, but these are rather superficial aspects of culture. Deeper values that embody the essence of cultures might be more resistant to a global consumer culture.
- **Want to Know More?** Visit the globalization page of the Global Policy Forum (www.globalpolicy.org), Globalization 101 (www.globalization101.org), or The Globalist (www.theglobalist.com).

Sources: “Economic Globalization and Culture: A Discussion with Dr. Francis Fukuyama,” Merrill Lynch Forum website (www.ml.com); “Globalization Issues,” The Globalization website (www.sociology.emory.edu/globalization/index.html); “Cultural Diversity in the Era of Globalization,” UNESCO Culture Sector website (www.unesco.org/culture).

GLOBAL SUSTAINABILITY Three Markets, Three Strategies

A company adapts its business strategy to the nuances of the market it enters. The world's population of 7.5 billion people lives in three different types of markets:

- **Developed Markets.** These include the world's established consumer markets, around *one billion* people. The population is solidly middle class, and people can consume almost any product desired. The infrastructure is highly developed and efficient.
- **Emerging Markets.** These markets, around *two billion* people, are racing to catch up to developed nations. The population is migrating to cities for better pay and is overloading cities' infrastructures. Rising incomes are increasing global demand for resources and basic products.
- **Traditional Markets.** Globalization has bypassed these markets, nearly *four billion* people. The population is mostly rural, the infrastructure is very poor, and there is little credit or collateral. People have almost no legal protections, and corruption prevails.

Like business strategy, sustainability strategies reflect local conditions. Examples of businesses working toward sustainability in these three markets include the following:

- **Toyota** focused on the environment in its *developed markets*. After extensively researching gas-electric hybrid technologies, Toyota launched the Prius. As *Motor Trend's* Car of the Year, the Prius drove Toyota's profits to record highs and gave it a "green" image.
- **Shree Cement** faced limited access to low-cost energy in India's *emerging market*, so it developed the world's most energy-efficient process for making its products. The world's leading cement companies now visit Shree to learn from its innovations in energy usage.
- **Blommer Chocolate** of the United States works closely with cocoa farmers in *traditional markets*. Blommer received the Rainforest Alliance's "Sustainable Standard-Setter" award for training farmers in safe farming practices, environmental stewardship, and HIV awareness.

Sources: Wang Wen, "Emerging Markets Are Set to Lead Globalisation," *Financial Times* (www.ft.com), April 10, 2017; Jeremy Jurgens and Knut Haanes, "Companies from Emerging Markets Are the New Sustainability Champions," *The Guardian* (www.guardian.co.uk), October 12, 2011; Stuart L. Hart, *Capitalism at the Crossroads, Third Edition* (Upper Saddle River, NJ: Wharton School Publishing, 2010); Daniel C. Esty and Andrew S. Winston, *Green to Gold* (New Haven, CT: Yale University Press, 2006).

MANAGER'S BRIEFCASE The Keys to Global Success

Making everything from 99-cent hamburgers (McDonald's) to \$150 million jumbo jets (Boeing), managers of global companies must overcome obstacles when competing in unfamiliar markets. Global managers acknowledge certain common threads in their approaches to management and offer the following advice:

- **Communicate Effectively** Cultural differences in business relationships and etiquette are central to global business and require cross-cultural competency. Effective global managers welcome uniqueness and ambiguity while demonstrating flexibility, respect, and empathy.
- **Know the Customer** Successful managers understand how a company's different products serve the needs of international customers. Then, they ensure that the company remains flexible and capable enough to customize products that meet those needs.

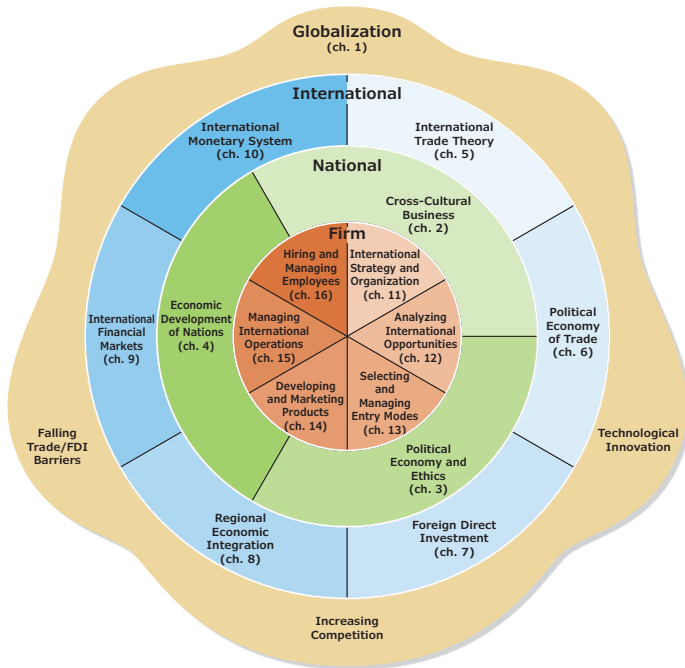
- **Emphasize Global Awareness** Good global managers integrate foreign markets into business strategy from the outset. They ensure that products and services are designed and built with global markets in mind, and not used as dumping grounds for the home market's outdated products.
- **Market Effectively** The world will beat a path to your door to buy your "better mousetrap" only if it knows about it. A poor marketing effort can cause great products to fade into obscurity while an international marketing blunder can bring unwanted media attention. Top global managers match quality products with excellent marketing.
- **Monitor Global Markets** Successful managers keep a watchful eye on business environments for shifting political, legal, and socioeconomic conditions. They make obtaining accurate information a top priority.

markets rely on strong economies, thriving societies, and healthy environments. Topics include the factors that contribute to sustainable development, and how companies can make their supply chains more environmentally friendly.

Manager's Briefcase boxes address issues facing companies active in international business. Issues presented can be relevant to entrepreneurs and small businesses or to the world's largest global companies. Topics include obtaining capital to finance international activities, getting paid for exports, and how to be mindful of personal security while abroad on business.

Uniquely Integrative

International business is not simply a collection of separate business functions and environmental forces. The model shown below (and detailed in Chapter 1) is a unique organizing framework that helps students to understand how the elements of international business are related. It depicts a dynamic, integrated system that weaves together national business environments, the international business environment, and international business management. It also shows that characteristics of globalization (new technologies and falling barriers to trade and investment) are causing greater competition.



Tools for Active Learning

Carefully chosen assignment materials span the full range of complexity to test students' knowledge and ability to apply key principles. Assignment materials are often experiential in nature to help students develop decision-making skills.

Talk About It questions raise important issues currently confronting entrepreneurs, international managers, policy makers, consumers, and others.

Ethical Challenge exercises ask students to assume the role of a manager, government official, or someone else and to make a decision based on the facts presented to them.

Teaming Up projects go beyond the text and require students to collaborate in teams to conduct interviews, research other countries, or hold in-class debates.

Market Entry Strategy Project is an interactive simulation that asks students to research a country as a future market for a new video game system. Working as part of a team, students research and analyze a country, and then recommend a course of action.

Practicing International Management cases ask students to analyze the responses of real-world companies to the issues, problems, and opportunities discussed in each chapter.

TALK ABOUT IT 1

Today, international businesspeople must think globally about production and sales opportunities. Many global managers will eventually find themselves living and working in other cultures, and entrepreneurs might find themselves taking flights to places they had never heard about.

- 1-1. What can companies do now to prepare their managers for international markets?
- 1-2. How can entrepreneurs and small businesses with limited resources prepare?

TALK ABOUT IT 2

In the past, national governments influenced the pace of globalization through agreements to lower barriers to international trade and investment.

- 1-3. Is rapid change now outpacing the capability of governments to manage the global economy?
- 1-4. Will national governments grow more or less important to international business in the future?

Ethical Challenge

You are the CEO of a global healthcare corporation looking at the possibility of entering some new emerging markets. Market size and potential is actually quite hard to judge, so you need to look at some other way of working out their potential. Ethically, you will avoid markets that seem to have political or social problems as you do not wish your corporation to be tainted with accusations that you are prepared to operate anywhere to make a profit.

- 12-5. Decisions made about markets are based on secondary data. What ethical issues does this present?
- 12-6. Is it ethical to be focused on issues such as economic freedom when considering a market?
- 12-7. What is “country risk,” and what types of factors are considered under this variable when assessing market potential? Is it a fair measurement?

Teaming Up

Imagine that you and several of your classmates own a company that manufactures cheap sunglasses. To lower production costs, you decide to move your factory from your developed country to a more cost-effective location.

- 1-8. Which elements of the national business environment might influence your decision of where to move production?
- 1-9. What aspects of the globalization of production and marketing do you expect will benefit your company after the move?

Market Entry Strategy Project

This exercise corresponds to the *MESP* online simulation. With several classmates, select a country that interests you. For the country your team researches, integrate your answers to the following questions into your completed *MESP* report.

- 1-10. Is the nation the home base of any large multinational companies?
- 1-11. How does globalization influence the country’s jobs and wages, its income inequality, and its culture, sovereignty, and physical environment?
- 1-12. How does the country rank in terms of its degree of globalization?
- 1-13. What benefits can the country offer to businesses seeking a new market or production base?

PRACTICING INTERNATIONAL MANAGEMENT CASE

Toyota’s Strategy for Production Efficiency

Toyota Motor Corporation (www.toyota-global.com) commonly appears in most rankings of the world’s most respected companies. One reason for Toyota’s strong showing in such rankings is that the company always seems to maintain profitability in the face of economic downturns and slack demand. Another reason is that leaders in a wide range of industries have high regard for Toyota’s management and production practices.

Toyota first began producing cars in 1937. In the mid-1950s, a machinist named Taiichi Ohno began developing a new concept of automobile production. Today, the approach known as the Toyota Production System (TPS) has been intensely studied and widely copied throughout the automobile industry. Ohno, who is addressed by fellow employees as *sensei* (“teacher and master”), followed the lead of the family that founded Toyota (spelled Toyoda) by exhibiting high regard for company employees. Ohno also believed that mass production of automobiles was obsolete and that a flexible production system that produced cars according to specific customer requests would be superior.

It was at Toyota that the well-known just-in-time approach to inventory management was developed and perfected. Implementing just-in-time required *kanban*, a simple system of colored paper cards that accompanied the parts as they progressed down the assembly line. *Kanban* eliminates inventory buildup by quickly telling the production personnel which parts are being used and which are not. The third pillar of the TPS was quality circles, groups of workers who discussed ways to improve the work process and make better cars. Finally, the entire system was based on *jidoka*, which literally means “automation.” As used at Toyota, however, the word expresses management’s faith in the worker as a human being and a thinker.

A simple example illustrates the benefits of Toyota’s system. Toyota dealerships found that customers kept returning their vehicles with leaking radiator hoses. When a team of workers at the US plant where the vehicle was made was asked to help find a solution, they found the problem was the clamp on the radiator hose. In assembly, the clamp is put over the hose, a pin on the side is pulled out, and the hose is secured. But sometimes the operator would

forget to pull out the pin. The hose would remain loose and would leak. The team installed a device next to the line that contains a funnel and electric eye. If a pin is not tossed into the funnel (passing the electric eye) every 60 seconds, the device senses that the operator must have forgotten to pull the pin and stops the line. As a result, a warranty problem at the dealerships was eliminated, customer dissatisfaction was reduced, and productivity was increased.

Nearly 50 years after the groundwork for the TPS was first laid, the results speak for themselves. Toyota’s superior approach to manufacturing has been estimated to yield a cost advantage of \$600 to \$700 per car due to more efficient production, plus another \$300 savings per car because fewer defects mean less warranty repair work. Ohno’s belief in flexible production can also be seen in the fact that Toyota’s Sienna minivan is produced on the same assembly line in Georgetown, Kentucky, as the company’s Camry models. The Sienna and Camry share the same basic chassis and 50 percent of their parts. Out of 300 different stations on the assembly line, Sienna models require different parts at only 26 stations. Toyota expects to build one Sienna for every three Camrys that come off the assembly line.

Thinking Globally

- 15-13. Chrysler engineers helped Toyota develop its Sienna minivan. In return, Toyota provided input on automobile production techniques to Chrysler. Why do you think Chrysler was willing to share its minivan know-how with a key competitor?
- 15-14. Considering financial, marketing, and human resource management issues, what other benefits do you think Toyota obtains from its production system?

Sources: Christoph Rauwald, “Toyota Loses Global Sales Crown to VW as US Trade Barriers Loom,” *Automotive News* (www.autonews.com), January 30, 2017; Hirokazu Takeuchi, Eiji Oono, and Norihiko Shimizu, “The Contradictions That Drive Toyota’s Success,” *Harvard Business Review*, June 2008, pp. 96–104; David Welch, “What Could Dull Toyota’s Edge?” *Bloomberg Businessweek*, April 28, 2008, p. 38.

MyLab Management

Reach every student by pairing this text with MyLab Management MyLab is the teaching and learning platform that empowers you to reach every student. By combining trusted author content with digital tools and a flexible platform, MyLab personalizes the learning experience and improves results for each student. Learn more about MyLab Management at www.pearson.com/mylab/management. This approach helps you reach students who have little international knowledge and experience.

Deliver trusted content You deserve teaching materials that meet your own high standards for your course. That’s why we partner with highly respected authors to develop interactive content and course-specific resources that you can trust—and that keep your students engaged. This material piques student interest and engages them with abstract topics, such as the global monetary system.

Empower each learner Each student learns at a different pace. Personalized learning pinpoints

the precise areas where each student needs practice, giving all students the support they need—when and where they need it—to be successful. This strategy helps students master difficult concepts, such as foreign exchange rates.

Teach your course your way Your course is unique. So whether you’d like to build your own assignments, teach multiple sections, or set prerequisites, MyLab gives you the flexibility to easily create *your* course to fit *your* needs. You can teach chapters or individual modules in the order you prefer, for example, by covering global economic topics before teaching culture.

Improve student results When you teach with MyLab, student performance improves. That’s why instructors have chosen MyLab for over 15 years, touching the lives of over 50 million students.

Developing Employability Skills

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

useful capabilities we call employability skills.

Critical thinking involves purposeful and goal-directed thinking used to define and solve problems, make decisions, or form judgments related to a set of circumstances. This textbook requires students to use critical thinking skills to, for example, study how a country designs its political, economic, and legal systems into a complex arrangement to achieve a specific set of priorities for the nation and its people.

Business ethics and social responsibility are sets of guiding principles that influence the way individuals and organizations behave within society. Throughout the book students encounter the issues of personal ethical responsibility and reasoning as they read how managers made ethical decisions under specific circumstances and how they fared.

Communication skills involve the use of oral, written, and nonverbal language, and technology to communicate ideas effectively and to listen effectively. This book teaches that articulating one’s thoughts and ideas in another language and culture must be done to not offend other’s values and beliefs. The reader will encounter many examples of appropriate communication and thoughtless communication.

Knowledge application and analysis refers to one's ability to learn a concept and appropriately apply that knowledge in another setting to achieve a higher level of understanding. Students will apply analytical reasoning and research skills in numerous assignments, projects, mini-cases, and, perhaps, the market entry strategy project developed for use with this textbook.

Instructor Teaching Resources

This program comes with the following teaching resources.

Supplements available to instructors at www.pearsonglobaleditions.com	Features of the Supplement
Instructor's Resource Manual authored by John Capela from St. Joseph's College, New York	<ul style="list-style-type: none"> • Chapter-by-chapter summaries • Examples and activities not in the main book • Learning outlines • Teaching tips • Solutions to all questions and problems in the book
Test Bank authored by John Capela from St. Joseph's College, New York	<p>1600 multiple-choice, true/false, short-answer, and graphing questions with these annotations:</p> <ul style="list-style-type: none"> • Difficulty level (1 for straight recall, 2 for some analysis, and 3 for complex analysis) • Answer • Skill • Learning outcome • AACSB learning standard (ethical understanding and reasoning; analytical thinking; information technology; diverse and multicultural work; reflective thinking; application of knowledge)
Computerized TestGen®	<p>TestGen allows instructors to:</p> <ul style="list-style-type: none"> • Customize, save, and generate classroom tests • Edit, add, or delete questions from the Test Item Files • Analyze test results • Organize a database of tests and student results
PowerPoints authored by Carol Heeter from Ivy Tech Community College	<p>Slides include all the figures, tables, maps, and equations in the textbook.</p> <p>PowerPoints meet accessibility standards for students with disabilities. Features include, but not limited to:</p> <ul style="list-style-type: none"> • Keyboard and screen reader access • Alternative text for images • High color contrast between background and foreground colors

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About the Authors

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

John J. Wild is a distinguished Professor of Business at the University of Wisconsin at Madison. He previously held appointments at the University of Manchester in England and at Michigan State University. He received his BBA, MS, and PhD degrees from the University of Wisconsin at Madison.

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The author of more than 60 publications, in addition to 5 best-selling textbooks, Professor Wild conducts research on a wide range of topics, including corporate governance, capital markets, and financial analysis and forecasting. He is an active member of several national and international organizations, including the Academy of International Business, and has served as associate editor and editorial board member for several prestigious journals.

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Having taught students of international business, marketing, and management at both the undergraduate and graduate levels, Dr. Wild is a dedicated contributor to international business education. An active member of several national and international organizations, including the Academy of International Business, Dr. Wild has spoken at major universities and at national and international conferences.

Dr. Wild's research covers a range of international business topics, including market entry modes, country risk in emerging markets, international growth strategies, and globalization of the world economy.

International Business

The Challenges of Globalization



Chapter One

Globalization

Learning Objectives

After studying this chapter, you should be able to

- 1.1 Identify the types of companies active in international business.
- 1.2 Explain globalization and how it affects markets and production.
- 1.3 Detail the forces that drive globalization.
- 1.4 Outline the debate about globalization's impact on jobs and wages.
- 1.5 Summarize the debate about income inequality.
- 1.6 Outline the debate about culture, sovereignty, and the environment.
- 1.7 Identify how this course will help you to develop skills for your career.

A Look at This Chapter

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

each main argument in the debate about globalization in detail. This chapter closes by describing how this course can help develop your employability skills and by explaining a model of an integrated global business environment.

A Look Ahead

Part 2, encompassing Chapters 2, 3, and 4, introduces us to the main features of national business environments. Chapter 2 describes important cultural differences among nations. Chapter 3 examines systems of political economy and philosophies of ethics and social responsibility. Chapter 4 presents issues regarding the economic development of nations.

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Ray-Ban: Looking Good Again

Milan, Italy—As World War II loomed, a medical equipment company named Bausch & Lomb was approached by the U.S. military to develop a pair of sunglasses for pilots that would block glare from the sun without obscuring vision. In 1937, these aviator-style sunglasses were sold to the public, marketed as having the ability to block UV rays—and thus the world’s most iconic brand of sunglasses got their name: Ray-Ban.

The brand received a lot of media coverage over the course of World War II, during which photographs of military personnel donning Ray-Bans became widely publicized, and it gained further global fame and appeal through Hollywood.

However, by 1999, the brand was on the brink of collapse. Outdated production methods led to poor quality, forcing low prices, and to low-end points of sale. In 1999, the brand was sold to Luxottica, for \$640 million.

Luxottica rescued Ray-Ban through globalization. Shifting production to its state-of-the-art facility in Italy helped Luxottica to gain access to suppliers who possessed higher-quality materials. Ray-Bans were sold at higher prices at higher-end department stores; this was achieved by leveraging Luxottica’s existing relationship with such vendors. The focus on utility turned into a focus on lifestyle fashion, offering more styles, prescription eyeglasses, and significant customizability.

Globalizing Ray-Ban has not been without its downsides. The brand’s desirability has given rise to piracy and to counterfeit Ray-Bans, and the business is further complicated by the inevitable seasonal demand for sunglasses and the impact this has on both production and income streams.

Nevertheless, Ray-Ban is still one of the most ubiquitous brands in fashion, with an estimated global market share of 5 percent. Aided by the high degree of standardization across its markets, globalization has enabled Ray-Ban and the Luxottica Group to produce and sell around the world while keeping production and marketing costs low, boosting its profitability and ultimately its success.¹



Aleksandrs Muiznieks/Shutterstock

Each of us experiences the results of international business transactions as we go about our daily routines. The General Electric (www.ge.com) alarm clock/radio that woke you this morning was made in *China*. The breaking news buzzing in your ears was produced by *Britain's* BBC radio (www.bbc.co.uk). You slip on your Adidas sandals (www.adidas.com) that were made in *Indonesia*, an Abercrombie & Fitch T-shirt (www.abercrombie.com) made in the *Northern Mariana Islands*, and American Eagle jeans (www.ae.com) made in *Mexico*. As you head out the door, you pull the battery charger off your Apple iPhone (www.apple.com), which was designed in the *United States* and assembled in *China* with parts from *Japan, South Korea, Taiwan*, and several other nations. You hop into your *Korean* Hyundai (www.hmmausa.com) that was made in *Alabama*, grab your iPod, and play a song by the *English* band Coldplay (www.coldplay.com). You drive to the local Starbucks (www.starbucks.com) to charge your own batteries with coffee brewed from beans harvested in *Colombia* and *Ethiopia*. Your day is just one hour old, but in a way, you've already taken a virtual trip around the world. A quick glance at the "Made in" tags on your jacket, backpack, watch, wallet, or other items with you right now will demonstrate the pervasiveness of international business transactions.

international business

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

imports

Goods and services purchased abroad and brought into a country.

exports

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

International business is any commercial transaction that crosses the borders of two or more nations. You don't have to set foot outside a small town to find evidence of international business. No matter where you live, you'll be surrounded by **imports**—goods and services purchased abroad and brought into a country. Your counterparts around the world will undoubtedly spend some part of their day using your nation's **exports**—goods and services sold abroad and sent out of a country. Every year, all the nations of the world export goods worth \$16.2 trillion and services worth \$4.7 trillion. This figure for merchandise exports is around 33 times the annual global revenue of Walmart Stores (www.walmart.com).²

People can view the role of international business in society very differently from each other, and they can approach globalization from very different perspectives. A businessperson might see globalization as an opportunity to source goods and services from lower-cost locations and to pry open new markets. An economist might see it as an opportunity to examine the impact of globalization on jobs and standards of living. An environmentalist might be concerned with how globalization affects our ecology. An anthropologist might want to examine the influence of globalization on the culture of a group of people. A political scientist might be concerned with the impact of globalization on the power of governments relative to that of multinational companies. And an employee might view globalization either as an opportunity for new work or as a threat to his or her current job. The different lenses through which we view events around us make globalization a rich and complex topic.

As technology drives down the cost of global communication and travel, globalization increasingly exposes us to the traits and practices of other cultures. Individuals and businesses on the other side of the world can sell us their products and purchase our own easily online. Globalization forces companies to grow more competitive in the face of greater rivalry, which has been brought about by lower barriers to trade and investment. By knitting the world more tightly together, globalization is altering our private lives and transforming the way companies do business. The process of globalization is continuing despite a recent slowdown in some areas of international business activity.³

We begin this chapter by examining the key players in international business. Then, we describe globalization's powerful influence on markets and production and explain the forces behind its expansion. Next, we cover each main point in the debate about globalization, including jobs, wages, inequality, culture, and more. Then, we describe employability skills this course can help you develop, such as critical thinking, ethics, communication, and knowledge application and analysis. We also explain why international business is special by presenting an integrated model of the global business environment. Finally, the appendix at the end of this chapter contains a world atlas to be used as a primer for this chapter's discussion and as a reference throughout the remainder of the book.

1.1 Key Players in International Business

1.1 Identify the types of companies active in international business.

Companies of all types and sizes and in all sorts of industries become involved in international business; yet, they vary in the extent of their involvement. A small shop owner might only import supplies from abroad, whereas a large company might have dozens of factories located

around the world. Large companies from the wealthiest nations still dominate international business. But firms from emerging markets (such as Brazil, China, India, and South Africa) now vigorously compete for global market share. Small and medium-sized companies are also increasingly active in international business, largely because of advances in technology.

Multinational Corporations

A **multinational corporation (MNC)** is a business that has direct investments (in the form of marketing or manufacturing subsidiaries) abroad in multiple countries. Multinationals generate significant jobs, investment, and tax revenue for the regions and nations they enter. Likewise, they can leave thousands of people out of work when they close or scale back operations. Mergers and acquisitions between multinationals are commonly worth billions of dollars and increasingly involve companies based in emerging markets.

multinational corporation (MNC)

Business that has direct investments abroad in multiple countries.

Some companies have more employees than the number of people living in many small countries and island nations. Walmart, for example, has 2.3 million employees. We see the enormous economic clout of multinational corporations when we compare the revenues of the Global 500 ranking of companies with the value of goods and services that countries generate. Figure 1.1 shows the world's 10 largest companies (measured in revenue) inserted into a ranking of nations according to their national output (measured in GDP). If Walmart (www.walmart.com) were a country, it would weigh in as a rich nation and rank just one place behind Sweden. Even the \$21 billion in revenue generated by the 500th largest firm in the world, Old Mutual (www.oldmutual.com), exceeds the annual output of many countries.⁴

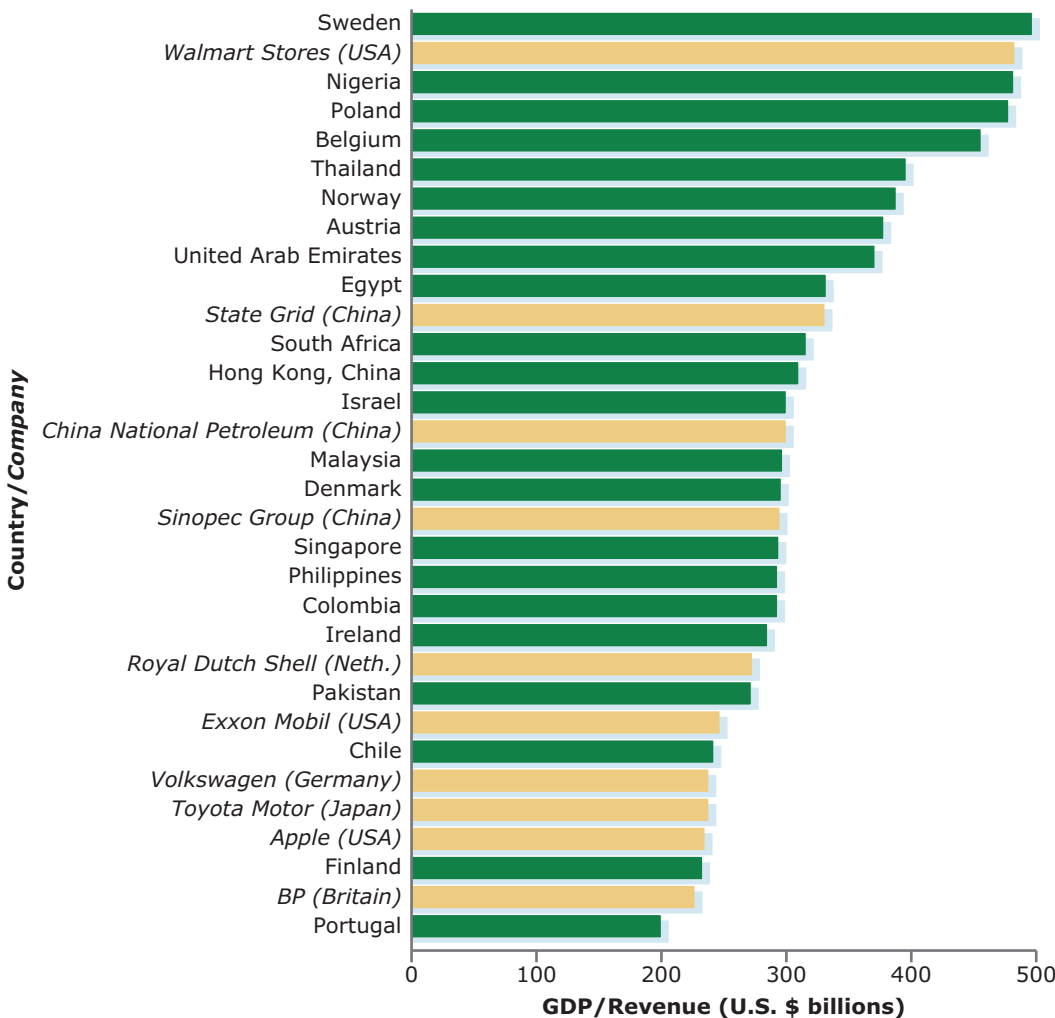


Figure 1.1
Comparing the World's Largest Companies with Select Countries

Source: Based on data obtained from "Fortune Global 500: The 500 Largest Corporations in the World," (www.fortune.com/global500), July 2016; World Bank data set (www.data.worldbank.org).

born global firm

Company that adopts a global perspective and engages in international business from or near its inception.

Entrepreneurs and Small Businesses

International business competition has given rise to a new entity, the **born global firm**—a company that adopts a global perspective and engages in international business from or near its inception. Many of these companies become international competitors in less than three years. Born global firms tend to have *innovative* cultures and *knowledge-based* organizational capabilities. In this age of globalization, companies are exporting earlier and growing faster, often with help from technology.

Small firms selling traditional products benefit from technology that lowers the costs and difficulties of global communication. Vellus Products (www.vellus.com) of Columbus, Ohio, makes and sells pet-grooming products. Some years ago, a dog breeder in Spain became Vellus's first distributor after the breeder received a request for more information about Vellus's products from a man in Bahrain. Sharon Kay Doherty, president of Vellus, says she was stunned that she could so easily process a transaction with someone so far away. Today Vellus has distributors in 35 countries. It is a truly born global business in that, soon after going international, Vellus earned more than half its revenues from international sales.⁵

Electronic distribution for firms that sell digitized products is an effective alternative to traditional distribution channels. Alessandro Naldi's Weekend in Italy website (en.firenze.waf.it) offers visitors more authentic Florentine products than they'll find in the scores of overpriced tourist shops in downtown Florence. A Florentine himself, Naldi established his site to sell high-quality, authentic Italian merchandise made only in the small factories of Tuscany. Weekend in Italy averages 200,000 visitors each month from places as far away as Australia, Canada, Japan, Mexico, and the United States.⁶ For additional insights into how small and large companies alike succeed in international markets, see the Manager's Briefcase, titled "The Keys to Global Success."

QUICK STUDY 1

1. What is the value of goods and services that all nations of the world export every year?
2. A business that has direct investments (in the form of marketing or manufacturing subsidiaries) abroad in multiple countries is called a *what*?
3. A born global firm engages in international business from or near its inception and does *what else*?

MANAGER'S BRIEFCASE

The Keys to Global Success

Making everything from 99-cent hamburgers (McDonald's) to \$150 million jumbo jets (Boeing), managers of global companies must overcome obstacles when competing in unfamiliar markets. Global managers acknowledge certain common threads in their approaches to management and offer the following advice:

- **Communicate Effectively** Cultural differences in business relationships and etiquette are central to global business and require cross-cultural competency. Effective global managers welcome uniqueness and ambiguity while demonstrating flexibility, respect, and empathy.
- **Know the Customer** Successful managers understand how a company's different products serve the needs of international customers. Then, they ensure that the company remains flexible and capable enough to customize products that meet those needs.
- **Emphasize Global Awareness** Good global managers integrate foreign markets into business strategy from the outset. They ensure that products and services are designed and built with global markets in mind, and not used as dumping grounds for the home market's outdated products.
- **Market Effectively** The world will beat a path to your door to buy your "better mousetrap" only if it knows about it. A poor marketing effort can cause great products to fade into obscurity while an international marketing blunder can bring unwanted media attention. Top global managers match quality products with excellent marketing.
- **Monitor Global Markets** Successful managers keep a watchful eye on business environments for shifting political, legal, and socioeconomic conditions. They make obtaining accurate information a top priority.



We see the result of embracing globalization in this photo of skyscrapers in the Lujiazui Financial and Trade Zone of the Pudong New Area in Shanghai, China. After years of stunning economic growth and expansion, Shanghai has emerged as a key city for companies entering China's marketplace. Pudong was developed to reinvigorate Shanghai as an international trade and financial center, and is now a modern, cosmopolitan district. How has globalization changed the economic landscape of your city and state?

Amanda Hall/Robertharding/Alamy Stock Photo

1.2 What Is Globalization?

Nations historically retained absolute control over the products, people, and capital crossing their borders. But today, economies are becoming increasingly intertwined. This greater interdependence means an increasingly freer flow of goods, services, money, people, and ideas across national borders. **Globalization** is the name we give to this trend toward greater economic, cultural, political, and technological interdependence among national institutions and economies. Globalization is characterized by *denationalization* (national boundaries becoming less relevant) and is different from *internationalization* (entities cooperating across national boundaries).

It is helpful to put today's globalization into context. The first age of globalization extended from the mid-1800s to the 1920s.⁷ In those days, labor was highly mobile, with 300,000 people leaving Europe each year in the 1800s and 1 million people leaving each year after 1900.⁸ Other than in wartime, nations did not even require passports for international travel before 1914. Like today, workers in wealthy nations feared they might lose their jobs to workers living in other high- and low-wage countries.

Trade and capital flowed more freely than ever during that first age of globalization. Huge companies from wealthy nations built facilities in distant lands to extract raw materials and to produce all sorts of goods. Large cargo ships plied the seas to deliver their manufactures to distant markets. The transatlantic cable (completed in 1866) allowed news between Europe and the United States to travel faster than ever before. The drivers of the first age of globalization included the steamship, telegraph, railroad, and, later, the telephone and airplane.

The first age of globalization was halted abruptly by the arrival of the First World War, the Russian Revolution, and the Great Depression. A backlash to fierce competition in trade and to unfettered immigration in the early 1900s helped to usher in high tariffs and barriers to immigration. The great flows of goods, capital, and people common before the First World War became a mere trickle. For 75 years from the start of the First World War to the end of the Cold War, the world remained divided. There was a geographic divide between East and West and an ideological divide between communism and capitalism. After the Second World War, the West experienced steady economic gains, but international flows of goods, capital, and people were confined to their respective capitalist and communist systems and geographies.

Fast-forward to 1989 and the collapse of the wall separating East and West Berlin. One by one, central and eastern European nations rejected communism and began marching toward democratic institutions and free-market economic systems. Although it took until the 1990s for

1.2 Explain globalization and how it affects markets and production.

globalization

Trend toward greater economic, cultural, political, and technological interdependence among national institutions and economies.

international capital flows, in absolute terms, to recover to levels seen prior to the First World War, the global economy had finally been *reborn*. The drivers of this second age of globalization include communication satellites, fiber optics, microchips, and the Internet.

Let's explore two areas of business in which globalization is having profound effects: the globalization of *markets* and *production*.

Globalization of Markets

Globalization of markets refers to the convergence in buyer preferences in markets around the world. This trend occurs in many product categories, including consumer goods, industrial products, and business services. Clothing retailer L.L. Bean (www.llbean.com), shoe producer Nike (www.nike.com), and electronics maker Vizio (www.vizio.com) are just three companies that sell *global products*—products marketed in all countries essentially without any changes. For example, the iPad qualifies as a global product because of its highly standardized features and because of Apple's global marketing strategy and globally recognized brand.

Global products and global competition characterize many industries and markets, including semiconductors (Intel, Philips), aircraft (Airbus, Boeing), construction equipment (Caterpillar, Mitsubishi), automobiles (Toyota, Volkswagen), financial services (Citicorp, HSBC), air travel (Lufthansa, Singapore Airlines), accounting services (Ernst & Young, KPMG), consumer goods (Procter & Gamble, Unilever), and fast food (KFC, McDonald's). The globalization of markets is important to international business because of the benefits it offers companies. Let's now look briefly at each of those benefits.

REDUCES MARKETING COSTS Companies that sell global products can reduce costs by *standardizing* certain marketing activities. A company selling a global consumer good, such as shampoo, can make an identical product for the global market and then simply design different packaging to account for the language spoken in each market. Companies can achieve further cost savings by keeping an ad's visual component the same for all markets but dubbing TV ads and translating print ads into local languages.

CREATES NEW MARKET OPPORTUNITIES A company that sells a global product can explore opportunities abroad if its home market is small or becomes saturated. China holds enormous potential for online business with more than 700 million Internet users, which is greater than the population of the entire United States. As time goes on, more and more people in China will go online to research and purchase products. The appeal of reaching such a vast audience drives firms from relatively small countries to explore doing business in the Chinese market.

LEVELS UNEVEN INCOME STREAMS A company that sells a product with universal, but seasonal, appeal can use international sales to level its income stream. By supplementing domestic sales with international sales, the company can reduce or eliminate wide variations in sales between seasons and steady its cash flow. For example, a firm that produces suntan and sunblock lotions can match product distribution with the summer seasons in the northern and southern hemispheres in alternating fashion—thereby steadying its income from these global, yet highly seasonal, products.

LOCAL BUYERS' NEEDS In the pursuit of the potential benefits of global markets, managers must constantly monitor the match between the firm's products and markets in order to not overlook the needs of buyers. The benefit of serving customers with an adapted product might outweigh the benefit of a standardized one. For instance, soft drinks, fast food, and other consumer goods are global products that continue to penetrate markets around the world. But sometimes these products require small modifications to better suit local tastes. In southern Japan, Coca-Cola (www.cocacola.com) sweetens its traditional formula to compete with the sweeter-tasting Pepsi (www.pepsi.com). In India, where cows are sacred and the consumption of beef is taboo, McDonald's (www.mcdonalds.com) markets the “Maharaja Mac”—two all-mutton patties on a sesame-seed bun with all the usual toppings.

sustainability

Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

GLOBAL SUSTAINABILITY Another need that multinationals must consider is the need among all the world's people for **sustainability**—development that meets the needs of the present without compromising the ability of future generations to meet their own needs.⁹ Most companies today operate in an environment of increased transparency and scrutiny regarding their business

GLOBAL SUSTAINABILITY Three Markets, Three Strategies

A company adapts its business strategy to the nuances of the market it enters. The world's population of 7.5 billion people lives in three different types of markets:

- **Developed Markets.** These include the world's established consumer markets, around *one billion* people. The population is solidly middle class, and people can consume almost any product desired. The infrastructure is highly developed and efficient.
- **Emerging Markets.** These markets, around *two billion* people, are racing to catch up to developed nations. The population is migrating to cities for better pay and is overloading cities' infrastructures. Rising incomes are increasing global demand for resources and basic products.
- **Traditional Markets.** Globalization has bypassed these markets, nearly *four billion* people. The population is mostly rural, the infrastructure is very poor, and there is little credit or collateral. People have almost no legal protections, and corruption prevails.

Like business strategy, sustainability strategies reflect local conditions. Examples of businesses working toward sustainability in these three markets include the following:

- **Toyota** focused on the environment in its *developed markets*. After extensively researching gas-electric hybrid technologies, Toyota launched the Prius. As *Motor Trend's* Car of the Year, the Prius drove Toyota's profits to record highs and gave it a "green" image.
- **Shree Cement** faced limited access to low-cost energy in India's *emerging market*, so it developed the world's most energy-efficient process for making its products. The world's leading cement companies now visit Shree to learn from its innovations in energy usage.
- **Blommer Chocolate** of the United States works closely with cocoa farmers in *traditional markets*. Blommer received the Rainforest Alliance's "Sustainable Standard-Setter" award for training farmers in safe farming practices, environmental stewardship, and HIV awareness.

Sources: Wang Wen, "Emerging Markets are Set to Lead Globalisation," *Financial Times* (www.ft.com), April 10, 2017; Jeremy Jurgens and Knut Haanæs, "Companies from Emerging Markets Are the New Sustainability Champions," *The Guardian* (www.guardian.co.uk), October 12, 2011; Stuart L. Hart, *Capitalism at the Crossroads, Third Edition* (Upper Saddle River, NJ: Wharton School Publishing, 2010); Daniel C. Esty and Andrew S. Winston, *Green to Gold* (New Haven, CT: Yale University Press, 2006).

activities. The rise of social media is partly responsible for this trend. Concerned individuals and nongovernmental organizations will very quickly use Internet media to call out any firm caught harming the environment or society.

For years, forward-looking businesses have employed the motto, "reduce, reuse, and recycle." The idea is to *reduce* the use of resources and waste, *reuse* resources with more than a single-use lifespan, and *recycle* what cannot be reduced or reused. The most dedicated managers and firms promote sustainable communities by adding to that motto, "redesign and reimagine." This means *redesigning* products and processes for sustainability and *reimagining* how a product is designed and used to lessen its environmental impact.¹⁰ To read more about the call for more sustainable business practices, see the Global Sustainability feature, "Three Markets, Three Strategies."

Globalization of Production

Globalization of production refers to the dispersal of production activities to locations that help a company achieve its cost-minimization or quality-maximization objectives for a good or service. This includes the sourcing of key production inputs (such as raw materials or products for assembly) as well as the international outsourcing of services. Let's now explore the benefits that companies obtain from the globalization of production.

ACCESS LOWER-COST WORKERS Global production activities allow companies to reduce overall production costs through access to low-cost labor. For decades, companies located their factories in low-wage nations in order to churn out all kinds of goods, including toys, small appliances, inexpensive electronics, and textiles. Yet whereas moving production to low-cost locales traditionally meant *production of goods* almost exclusively, it increasingly applies to the *production of services* such as accounting and research. Although most services must be produced where they are consumed, some services can be performed at remote locations where labor costs are lower. Many European and US businesses have moved their customer service and other nonessential operations to places as far away as India to slash costs by as much as 60 percent.

ACCESS TECHNICAL EXPERTISE Companies also produce goods and services abroad to benefit from technical know-how. Film Roman (www.filmroman.com) produces the TV series *The Simpsons*, but it provides key poses and step-by-step frame directions to AKOM Production Company (www.akomkorea.com) in Seoul, South Korea. AKOM then fills in the remaining poses and links them into an animated whole. But there are bumps along the way, says animation

director Mark Kirkland. In one middle-of-the-night phone call, Kirkland was explaining to the Koreans how to draw a shooting gun. “They don’t allow guns in Korea; it’s against the law,” says Kirkland. “So they were calling me [asking]: ‘How does a gun work?’” Kirkland and others put up with such cultural differences and phone calls at odd hours to tap a highly qualified pool of South Korean animators.¹¹

ACCESS PRODUCTION INPUTS Globalization of production allows companies to access resources that are unavailable or costlier at home. The quest for natural resources draws many companies into international markets. Japan, for example, is a small, densely populated island nation with very few natural resources of its own—especially forests. But Japan’s largest paper company, Nippon Seishi, does more than simply import wood pulp. The company owns huge forests and corresponding processing facilities in Australia, Canada, and the United States. This ownership not only gives the firm access to an essential resource but also gives it control over earlier stages in the papermaking process. As a result, the company is guaranteed a steady flow of its key ingredient (wood pulp) that is less subject to the swings in prices and supply associated with buying pulp on the open market. Likewise, to access cheaper energy resources used in manufacturing, a variety of Japanese firms are relocating production to China and Vietnam, where energy costs are lower than in Japan.

QUICK STUDY 2

1. Globalization causes the institutions and economies of nations to become *what*?
2. What *benefits* might companies obtain from the globalization of markets?
3. Sustainability is development that meets current needs without compromising *what*?

1.3 Forces Driving Globalization

1.3 Detail the forces that drive globalization.

Two main forces underlie the globalization of markets and production: *falling barriers to trade and investment* and *technological innovation*. These two features, more than anything else, are increasing competition among nations by leveling the global business playing field. Greater competition is driving companies worldwide into more direct confrontation *and* cooperation. Local industries, once isolated by time and distance, are increasingly accessible to large international companies based many thousands of miles away. Some small- and medium-sized local firms are compelled to cooperate with one another or with larger international firms to remain competitive. Other local businesses revitalize themselves in a bold attempt to survive the competitive onslaught. And on a global scale, consolidation is occurring as former competitors in many industries link up to challenge others on a worldwide basis. Let’s now explore the pivotal roles of these two forces driving globalization.

Falling Barriers to Trade and Investment

In 1947, political leaders of 23 nations (12 developed and 11 developing economies) made history when they created the **General Agreement on Tariffs and Trade (GATT)**—a treaty designed to promote free trade by reducing tariffs and nontariff barriers to international trade. *Tariffs* are essentially taxes levied on traded goods, and *nontariff barriers* are limits on the quantity of an imported product. The treaty was successful in its early years. After four decades, world merchandise trade had grown 20 times larger, and average tariffs had fallen from 40 percent to 5 percent.

Significant progress occurred again with a 1994 revision of the GATT treaty. Nations that had signed on to the treaty further reduced average tariffs on merchandise trade and lowered subsidies (government financial support) for agricultural products. The treaty’s revision also clearly defined *intellectual property rights*. This gave protection to copyrights (including computer programs, databases, sound recordings, and films), trademarks and service marks, and patents (including trade secrets and know-how). A major flaw of the original GATT was that it lacked the power to enforce world trade rules. Thus, the creation of the *World Trade Organization* was likely the greatest accomplishment of the GATT revision.

General Agreement on Tariffs and Trade (GATT)

Treaty designed to promote free trade by reducing both tariffs and nontariff barriers to international trade.



Today, companies can go almost anywhere in the world to tap favorable business climates. Here, an employee at an Asian subsidiary of a global television maker packages TVs headed for global export markets. US businesses use technology to subcontract work to Chinese companies that write computer code and then email their end product to the US clients. Companies use such tactics to lower costs, increase efficiency, and grow more competitive. How else might technology and global talent facilitate international business activity?

Albert Karimov/123RF.com

WORLD TRADE ORGANIZATION The World Trade Organization (WTO) is the international organization that enforces the rules of international trade. The three main goals of the WTO (www.wto.org) are to help the free flow of trade, help negotiate the further opening of markets, and settle trade disputes among its members. It is the power of the WTO to settle trade disputes that sets it apart from its predecessor, the GATT. The various WTO agreements are essentially contracts between member nations that commit them to maintaining fair and open trade policies. Offenders must realign their trade policies according to WTO guidelines or face fines and, perhaps, trade sanctions (penalties). Because of its ability to penalize offending nations, the WTO's dispute-settlement system truly is the spine of the global trading system. The WTO replaced the *institution* of GATT but absorbed all of the former GATT *agreements*. Thus, the GATT institution no longer officially exists. Today, the WTO recognizes 164 members and 21 "observers."

The WTO launched a new round of negotiations in Doha, Qatar, in late 2001. The renewed negotiations were designed to lower trade barriers further and to help poor nations, in particular. Agricultural subsidies that rich countries pay to their own farmers are worth \$1 billion per day—more than six times the value of their combined aid budgets to poor nations. Because 70 percent of poor nations' exports are agricultural products and textiles, wealthy nations had intended to further open these and other labor-intensive industries. Poor nations were encouraged to reduce tariffs among themselves and were supposed to receive help in integrating themselves into the global trading system.

Although the Doha round was to conclude by the end of 2004, negotiations are proceeding very slowly. By the middle of 2017, members had made limited progress on a late 2013 deal to improve "trade facilitation" by reducing red tape at borders and setting standards for customs and the movement of goods internationally. Although the agreement marked the first significant achievement for the Doha round, no agreement was reached on agricultural trade issues, tariffs, or quotas.¹²

OTHER INTERNATIONAL ORGANIZATIONS Two other institutions play leading roles in fostering globalization. The **World Bank** is an agency created to provide financing for national economic development efforts. The initial purpose of the World Bank (www.worldbank.org) was to finance European reconstruction following the Second World War. The bank later shifted its focus to the general financial needs of developing countries, and today it finances many economic development projects in Africa, South America, and Southeast Asia.

The **International Monetary Fund (IMF)** is an agency created to regulate fixed exchange rates and to enforce the rules of the international monetary system. Among the purposes of the

World Trade Organization (WTO)

International organization that enforces the rules of international trade.

World Bank

Agency created to provide financing for national economic development efforts.

International Monetary Fund

Agency created to regulate fixed exchange rates and to enforce the rules of the international monetary system.

IMF (www.imf.org) are promoting international monetary cooperation, facilitating the expansion and balanced growth of international trade, avoiding competitive exchange devaluation, and making financial resources temporarily available to members.

REGIONAL TRADE AGREEMENTS In addition to the WTO, smaller groups of nations are integrating their economies by fostering trade and boosting cross-border investment. For example, the *North American Free Trade Agreement (NAFTA)* gathers three nations (Canada, Mexico, and the United States) into a free-trade bloc. The more ambitious *European Union (EU)* combines 28 countries. The *Asia Pacific Economic Cooperation (APEC)* consists of 21 member economies committed to creating a free-trade zone around the Pacific. The aims of each of these smaller trade pacts are similar to those of the WTO but are regional in nature. Moreover, some nations encourage regional pacts because of recent resistance to worldwide trade agreements.

TRADE AND NATIONAL OUTPUT Together the WTO agreements and regional pacts have boosted world trade and cross-border investment significantly. Trade theory tells us that openness to trade helps a nation produce a greater amount of output. Map 1.1 illustrates that growth in national output over a recent 10-year period has been significantly positive. Economic growth has been greater in nations that have recently become more open to trade, such as China, India, and Russia, than it has been in many other countries. Much of South America is also growing rapidly, whereas Africa's experience is mixed.

Let's take a moment in our discussion to define a few terms that we will encounter time and again throughout this book. **Gross domestic product (GDP)** is the value of all goods and services produced by a domestic economy during a one-year period. We can speak in terms of world GDP when we sum all individual nations' GDP figures. GDP is a somewhat narrower figure than **gross national product (GNP)**—the value of all goods and services produced by a country's domestic and international activities during a one-year period. GNP includes a nation's income generated from exports, imports, and the international operations of its companies. A country's **GDP or GNP per capita** is simply its GDP or GNP divided by its population.

gross domestic product (GDP)

Value of all goods and services produced by a domestic economy during a one-year period.

gross national product (GNP)

Value of all goods and services produced by a country's domestic and international activities during a one-year period.

GDP or GNP per capita

Nation's GDP or GNP divided by its population.

e-business (e-commerce)

Use of computer networks to purchase, sell, or exchange products; to service customers; and to collaborate with partners.

Technological Innovation

Although falling barriers to trade and investment encourage globalization, technology is accelerating its pace. Innovations in information technology and transportation methods are making it easier, faster, and less costly to move data, goods, and equipment around the world. Consumers use technology to reach out to the world on the Internet—gathering and sending information and purchasing all kinds of goods and services. Companies use technology to acquire materials and products from distant lands and to sell goods and services abroad.

When businesses or consumers use technology to conduct transactions, they engage in **e-business (e-commerce)**—the use of computer networks to purchase, sell, or exchange products; to service customers; and to collaborate with partners. E-business is making it easier for companies to make their products abroad, not simply to import and export finished goods. Let's examine several innovations that have had a considerable impact on globalization.

EMAIL AND VIDEOCONFERENCING Operating across borders and time zones complicates the job of coordinating and controlling business activities. But technology can speed the flow of information and ease the tasks of coordination and control. Email is an indispensable tool that managers use to stay in contact with international operations and to respond quickly to important matters.

Videoconferencing allows managers in different locations to meet in virtual face-to-face meetings. Primary reasons for 25 percent to 30 percent annual growth in videoconferencing include the lower cost of bandwidth (communication channels) used to transmit information, the lower cost of equipment, and the rising cost of travel for businesses. Videoconferencing equipment can cost as little as several thousand dollars and as much as several hundred thousand dollars. A company that does not require ongoing video-conferencing can pay even less by renting the facilities and equipment of a local conference center. Those willing to videoconference on a computer, tablet, or smartphone (which includes most people today) can explore iMeet (www.imeet.com), which charges \$9 per month for its most basic service.¹³ And, of course, people with the simplest video conferencing needs can download and use Skype (www.skype.com), Apple's (www.apple.com) FaceTime, or Google's Hangouts (<https://hangouts.google.com>) applications free of charge.

THE INTERNET Companies use the Internet to quickly and inexpensively contact managers in distant locations—for example, to inquire about production runs, revise sales strategies, and check on distribution bottlenecks. They also use the Internet to achieve longer-term goals, such as sharpen their forecasting, lower their inventories, and improve communication with suppliers. The lower cost of reaching an international customer base especially benefits small firms, which were among the first to use the Internet as a global marketing tool. Additional gains arise from the ability of the Internet to cut postproduction costs by decreasing the number of intermediaries a product passes through on its way to the customer. Eliminating intermediaries greatly benefits online sellers of all sorts of products, including books, music, travel services, and software.

Some innovative companies use online competitions to attract fresh ideas from the brightest minds worldwide. InnoCentive (www.innocentive.com) connects companies and institutions seeking solutions to difficult problems by using a global network of 300,000 creative thinkers. These engineers, scientists, inventors, and businesspeople with expertise in life sciences, engineering, chemistry, math, computer science, and entrepreneurship compete to solve some of the world's toughest problems in return for significant financial awards. InnoCentive is open to anyone, is available in seven languages, and pays cash awards that range from \$5,000 to more than \$1 million.¹⁴

COMPANY INTRANETS AND EXTRANETS Internal company websites and information networks (*intranets*) give employees access to company data using personal computers. A particularly effective marketing tool on Volvo Car Corporation's (www.volvocars.com) intranet is a quarter-by-quarter database of marketing and sales information. The cycle begins when headquarters submits its corporate-wide marketing plan to Volvo's intranet. Marketing managers at each subsidiary worldwide then select those activities that apply to their own market, develop their marketing plan, and submit it to the database. This allows managers in every market to view every other subsidiary's marketing plan and to adapt relevant aspects to their own plan. In essence, the entire system acts as a tool for the sharing of best practices across all of Volvo's markets.

Extranets give distributors and suppliers access to a company's database so they can place orders or restock inventories electronically and automatically. These networks permit international companies (along with their suppliers and buyers) to respond to internal and external conditions more quickly and more appropriately.

ADVANCEMENTS IN TRANSPORTATION TECHNOLOGIES Retailers worldwide rely on imports to stock their storerooms with finished goods and to supply factories with raw materials and intermediate products. Innovation in the shipping industry is helping globalize markets and production by making shipping more efficient and dependable. In the past, a cargo ship would sit in port up to 10 days while it was unloaded one pallet at a time. But because cargo today is loaded onto a ship in 20- and 40-foot containers that are unloaded quickly at the destination onto railcars or truck chassis, a 700-foot cargo ship is routinely unloaded in just 15 hours.

Operation of cargo ships is now simpler and safer because of computerized charts that pinpoint a ship's movements on the high seas using Global Positioning System (GPS) satellites. Combining GPS with radio frequency identification (RFID) technology allows continuous monitoring of individual containers from port of departure to destination. RFID can tell whether a container's doors are opened and closed on its journey and can send an alert if a container deviates from its planned route.

These types of advancements allowed Hewlett-Packard (www.hp.com) to seize the rewards of globalization when it built a new low-cost computer server for businesses. HP dispersed its design and production activities throughout a specialized manufacturing system across five Pacific Rim nations and India. This helped the company minimize labor costs, taxes, and shipping delays yet maximize productivity when designing, building, and distributing its new product. Companies use such innovative production and distribution techniques to squeeze inefficiencies out of their international operations and boost their competitiveness.

 **MyLab Management Watch It** Save the Children Social Networking

Apply what you have learned about the use of technology in management. If your instructor has assigned this, go to www.pearson.com/mylab/management to watch a video case about how a not-for-profit enterprise uses social media to achieve its goals and answer questions.

Map 1.1

Growth in National Output





ATLANTIC OCEAN

PACIFIC OCEAN

INDIAN OCEAN

AUSTRALIA

NEW ZEALAND

Map labels include: NORWAY, SWEDEN, FINLAND, ESTONIA, LATVIA, LITHUANIA, POLAND, BELARUS, UKRAINE, RUSSIA, GEORGIA, ARMENIA, AZERBAIJAN, TURKMENISTAN, UZBEKISTAN, KYRGYZSTAN, TAJIKISTAN, MONGOLIA, CHINA, NORTH KOREA, SOUTH KOREA, JAPAN, GERMANY, CZECH REPUBLIC, SLOVAKIA, HUNGARY, MOLDOVA, ROMANIA, SERBIA, BOSNIA AND HERZEGOVINA, MONTENEGRO, BULGARIA, MACEDONIA, ITALY, ALBANIA, GREECE, TURKEY, SYRIA, LEBANON, ISRAEL, JORDAN, IRAQ, KUWAIT, IRAN, AFGHANISTAN, PAKISTAN, NEPAL, BHUTAN, INDIA, BANGLADESH, MYANMAR (BURMA), LAOS, THAILAND, VIETNAM, CAMBODIA, PHILIPPINES, MALAYSIA, SINGAPORE, BRUNEI, INDONESIA, PAPUA NEW GUINEA, SOLOMON ISLANDS, VANUATU, FIJI, NEW CALEDONIA, AUSTRALIA, SOUTH AFRICA, LIBYA, EGYPT, SAUDI ARABIA, OMAN, UNITED ARAB EMIRATES, QATAR, SUDAN, SOUTH SUDAN, ERITREA, YEMEN, DJIBOUTI, SOMALIA, ETHIOPIA, KENYA, RWANDA, BURUNDI, TANZANIA, ANGOLA, ZAMBIA, MALAWI, MOZAMBIQUE, ZIMBABWE, BOTSWANA, NAMIBIA, SWAZILAND, MADAGASCAR, MAURITIUS, REUNION, SOUTH AFRICA, LESOTHO.

TABLE 1.1 Globalization's Top 10

Country	Rank			
	Overall	Economic	Social	Political
Netherlands	1	4	4	5
Ireland	2	2	3	25
Belgium	3	6	6	3
Austria	4	16	5	7
Switzerland	5	22	2	10
Denmark	6	15	9	11
Sweden	7	17	16	4
United Kingdom	8	20	13	6
France	9	30	11	1
Hungary	10	7	23	23

Source: Based on the 2017 KOF Index of Globalization (www.globalization.kof.ethz.ch), April 20, 2017.

Measuring Globalization

Although we intuitively feel that our world is becoming smaller, researchers have created ways to measure the extent of globalization scientifically. One index of globalization is that created by the KOF Swiss Economic Institute (www.kof.ethz.ch). This index ranks nations on 23 variables within three dimensions: economic globalization (trade and investment volumes, trade and capital restrictions), social globalization (dissemination of information and ideas), and political globalization (political cooperation with other countries).¹⁵

By incorporating a wide variety of variables, the globalization index attempts to cut through cycles occurring in any single category and to capture the broad nature of globalization. Table 1.1 shows the 10 highest-ranking nations according to the KOF Index of Globalization. European nations occupy all top 10 positions, with smaller nations clearly dominating the rankings. The United States appears in 27th place overall, and ranks 54th in economic globalization, 30th in social globalization, and 19th in political globalization. Large nations often do not make it into the higher ranks of globalization indices because a large home market means they tend to depend less on external trade and investment.

The world's least-globalized nations account for about half the world's population and are found in Africa, East Asia, South Asia, Latin America, and the Middle East. Some of the least-globalized nations are characterized by never-ending political unrest and corruption (Bangladesh, Indonesia, and Venezuela). Other nations with large agricultural sectors face trade barriers in developed countries and are subject to highly volatile prices on commodity markets (Brazil, China, and India). Still others are heavily dependent on oil exports but are plagued by erratic prices in energy markets (Iran and Venezuela). Kenya has suffered from recurring droughts, terrorism, and burdensome visa regulations that hurt tourism. Finally, Turkey and Egypt, along with the entire Middle East, suffer from continued concerns about violence and social unrest, high barriers to trade and investment, and heavy government involvement in the economy. To deepen their global links, these nations will need to make great strides forward in their economic, social, and political environments.

QUICK STUDY 3

1. What global organizations have helped expand globalization?
2. What technological innovations are helping to propel globalization?
3. What nation ranks high in terms of globalization?

1.4 Debate about Jobs and Wages

So far, we have read how globalization benefits companies and nations. But not everyone views globalization as having only positive effects. The following pages explain the main debates about globalization. Opposing sides in each debate tend to hold up results of social and economic studies that support their arguments. But many organizations that publish studies about globalization have political agendas, which can make objective consideration of their findings difficult. A group's aims can influence the selection of the data to analyze, the time period to study, the nations to examine, and so forth.

Be that as it may, we open our coverage of the globalization debate with an important topic for both developed and developing countries—the effect of globalization on jobs and wages. We begin with the arguments of those against globalization and then turn our attention to how supporters of globalization respond.

Against Globalization

Groups opposed to globalization blame it for eroding standards of living and ruining ways of life. Specifically, they say globalization *eliminates jobs* and *lowers wages* in developed nations and *exploits workers* in developing countries. Let's explore each of these arguments.

ELIMINATES JOBS IN DEVELOPED NATIONS Some groups claim that *globalization eliminates manufacturing jobs in developed nations*. They criticize the practice of sending good-paying manufacturing jobs abroad to developing countries where wages are a fraction of the cost for international firms. They argue that a label reading “Made in China” translates to “Not Made Here.” Critics admit that importing products from China (or another low-wage nation) lowers consumer prices for televisions, sporting goods, and so on, but say this is little consolation for workers who lose their jobs.

To illustrate their argument, globalization critics point to the activities of large retailers such as Amazon (www.amazon.com) and Walmart (www.walmart.com). It is difficult to overstate the power of these retail giants and symbols of globalization. Some say that by relentlessly pursuing low-cost goods, these retailers force their suppliers to move to China and other low-wage nations.

LOWERS WAGES IN DEVELOPED NATIONS Opposition groups say *globalization causes worker dislocation that gradually lowers wages*. They allege that when a manufacturing job is lost in a wealthy nation, the new job (assuming new work is found) pays less than the previous one. Those opposed to globalization say this decreases employee loyalty, employee morale, and job security. They say this causes people to fear globalization and any additional lowering of trade barriers.

Large retailers also come under fire in this discussion. Globalization critics say powerful retailers continually force manufacturers in low-wage nations to accept lower profits so that the retailers can slash prices to consumers. Critics charge that these business practices force down wages and working conditions worldwide.

EXPLOITS WORKERS IN DEVELOPING NATIONS Critics charge that *globalization and international outsourcing exploit workers in low-wage nations*. One notable critic of globalization, Naomi Klein, vehemently opposes the outsourced call center jobs of Western companies. Klein says these jobs force young Asians to disguise their nationality, adopt fake Midwestern accents, and work nights when their US customers are awake halfway around the world.¹⁶

Figure 1.2 illustrates that Western firms can outsource such work to emerging markets for a fraction of what they pay at home. As long as such economic disparities exist, international outsourcing will continue to be popular. The salary of a programmer in the United States is nearly four times that of one in some eastern European nations, including Lithuania.

Globalization critics also say companies locate operations to developing nations where labor regulations are least restrictive and, therefore, least costly. They argue that this diminishes labor's bargaining power and labor laws in all countries as nations compete to attract international firms.

For Globalization

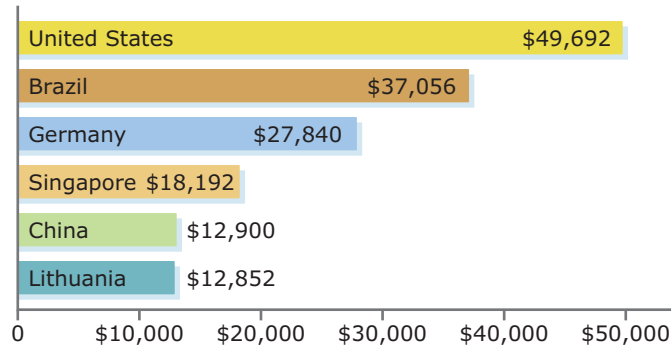
Supporters of globalization credit it with improving standards of living and making possible new ways of life. They argue that globalization *increases wealth and efficiency in all nations*, *generates labor market flexibility in developed nations*, and *advances the economies of developing nations*. Let's examine each of these arguments.

1.4 Outline the debate about globalization's impact on jobs and wages.

Figure 1.2 Comparing Salaries of Information Technology Workers

Source: Based on data obtained from the International Average Salary Income Database (www.worldsalaries.org).

Average annual net income of an Information Technology worker living in:



INCREASES WEALTH AND EFFICIENCY IN ALL NATIONS Globalization supporters believe *globalization increases wealth and efficiency in both developed and developing nations*. They argue that openness to international trade increases national production (by increasing efficiency) and raises per capita income (by passing savings on to consumers). For instance, by squeezing inefficiencies out of the retail supply chain, powerful global retailers help restrain inflation and boost productivity. Some economists predict that removing all remaining barriers to free trade would significantly boost worldwide income and greatly benefit developing nations.

GENERATES LABOR MARKET FLEXIBILITY IN DEVELOPED NATIONS Globalization supporters believe *globalization creates positive benefits by generating labor market flexibility in developed nations*. Some claim that there are benefits from worker dislocation, or “churning” as it is called when there is widespread job turnover throughout an economy. Flexible labor markets allow workers to be redeployed rapidly to sectors of the economy where they are highly valued and in demand. This also allows employees, particularly young workers, to change jobs easily with few negative effects. For instance, a young person can gain experience and skills with an initial employer and then move to a different job that provides a better match between employee and employer.

ADVANCES THE ECONOMIES OF DEVELOPING NATIONS Those in favor of globalization argue that *globalization and international outsourcing help to advance developing nations’ economies*. India initially became attractive as a location for software-writing operations because of its low-cost, well-trained, English-speaking technicians. Later, young graduates who would not become doctors and lawyers found bright futures in telephone call centers that provide all sorts of customer services. More recently, jobs in business-process outsourcing (including financial, accounting, payroll, and benefits services) is elevating living standards in India.

Today, the relentless march of globalization is bringing call center jobs to the Philippines. Young Filipinos possess an excellent education, a solid grasp of the English language and US culture, and a neutral accent. In fact, top Indian firms, such as Wipro (www.wipro.com), have substantial operations in the Philippines and happily pay as much or more than what they would pay workers in India. The work is not considered low-paying by any means, and instead represents a solid, middle-class job.

The International Labor Organization (www.ilo.org) found no evidence that nations with a strong union presence suffered any loss of investment in their *export-processing zones (EPZs)*—special regions that allow tariff-free importing and exporting. And the World Bank found that the higher occupational safety and health conditions an EPZ had in place, the greater the amount of foreign investment it attracted.¹⁷ The evidence suggests that economic openness and foreign investment advances the economies of developing nations.

Summary of the Jobs and Wages Debate

All parties appear to agree that globalization eliminates some jobs in a nation but creates jobs in other sectors of the nation’s economy. Yet, although some people lose their jobs and find new employment, it can be very difficult for others to find new work. The real point of difference between the two sides in the debate, it seems, is whether overall gains that (might or might not) accrue to *national economies* are worth the lost livelihoods that *individuals* (might or might not) suffer. Those in favor of globalization say individual pain is worth the collective gain, whereas those against globalization say it is not.