PART ONE

ENVIRONMENTAL FOUNDATION

Chapter 1

GLOBALIZATION AND INTERNATIONAL LINKAGES

OBJECTIVES OF THE CHAPTER

Globalization has and continues to have profound impacts on international management. In nearly every country around the world, increasing numbers of large, medium, and even small corporations are going international, and a growing percentage of company revenue is derived from overseas markets. Yet, the financial crisis and global economic recession present challenges for governments, corporations, and communities around the world, causing some to question the current system for regulating and overseeing international trade, investments, and global financial flows. Nonetheless, international management—the process of applying management concepts and techniques in a multinational environment—continues to gain importance.

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

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

The World of *International Management*

An Interconnected World

We live in a world interconnected by social media. Today, the population of Facebook active users is greater than the population of the United States (400 million versus 312 million). Businesses can gain a competitive edge by seizing the opportunities inherent in this new global society of online social networks.

Facebook and Social Media Networks

Facebook's statistics underscore how social media can connect people across the globe:

- 50 percent of active users log onto Facebook in any given day.
- The average user has 130 friends.
- The average user is connected to 60 pages, groups, and events.
- The average user creates 70 pieces of content each month.
- More than 25 billion pieces of content (web links, news stories, blog posts, photo albums, etc.) are shared each month.
- People spend over 500 billion minutes per month on Facebook.
- About 70 percent of Facebook users are outside the United States.
- More than 70 translations are available on Facebook.

Two-thirds of comScore's U.S. top websites and half of comScore's Global top 100 websites have integrated with Facebook. On March 15, 2010, Heather Dougherty of Hitwise Intelligence reported that Facebook outpaced Google to become the most visited website in the U.S. during the previous week. That same day, Daniel Nations

of About.com released a ranking of the top 10 most popular social networks:

- Faceboook with 133,623,529 unique visits.
- MySpace with 50,615,444 unique visits.
- Twitter with 23,573,178 unique visits.
- Linkedin with 15,475,890 unique visits.
- Classmates with 14,613,381 unique visits.
- MyLife with 8,736,352 unique visits.
- Ning with 6,120,667 unique visits.
- LiveJournal with 3,834,155 unique visits.
- Tagged with 3,800,325 unique visits.
- Last.fm with 3,473,978 unique visits.

Certainly, social networks are a part of many people's lives. Yet, how does the virtual world of social media networks connect to the world of international business?

Procter & Gamble's Future Friendly Facebook Initiative

Procter & Gamble (P&G) owns several of the most recognizable brands on the planet. According to P&G's website, "Four billion times a day, P&G brands touch the lives of people around the world." P&G recently launched Future Friendly, which is "a program that empowers consumers to save energy, save water, and reduce waste." To promote its conservation initiative, P&G enlisted the help of Facebook.

On April 19, 2010, P&G unveiled a Billion Acts of Green™ Facebook application which allows people to "make a pledge to lessen their environmental impact and promote environmentally beneficial habits to friends and family via social media channels." This social media application enables users to share their "act of green" pledges with their Facebook network. As of June 11, 2010, there were 39,302,676 acts of green pledged.

Through its use of Facebook, P&G can connect with millions of people around the world at little cost to support its conservation efforts and enhance its brand.

Social Media Change How We Do Business

In his book *Socialnomics: How Social Media Transforms the Way We Live and Do Business*, Erik Qualman writes, "Social media platforms like Facebook, YouTube, and Twitter are fundamentally changing the way businesses and consumers behave, connecting hundreds of millions of people to each other via instant communication." In essence, social media is reshaping how "consumers and companies communicate and interact with each other."

Social media has changed how consumers search for products and services. Qualman gives the example of a woman who wants to take a vacation to South America, but she is not sure which country she wants to visit. In the past, she would have typed in "South American vacation" to Google, which would have brought her to travel websites such as TripAdvisor. After hours of research, she would have picked a destination. Then, after more research, she would pick a place to stay. With social media, this woman's vacation planning becomes streamlined. When she types "South American vacation" into a social network, she finds that five of her friends have taken a trip to South America in the last year. She notices that two of her friends highly recommended their vacations to Chile with GoAhead Tours. She clicks on a link to GoAhead Tours and books her vacation. In a social network, online word of mouth among friends carries great weight for consumers. With the data available from their friends about products and services, consumers know what they want without traditional marketing campaigns.

This trend means that marketers must be responsive to social networks. For example, an organization that gives travel tours has a group on Facebook. A marketer at that organization could create a Facebook application that allows its group members to select "places I'd like to visit." Let's say that 25 percent of group members who use the application choose Victoria Falls as a place they would like to visit. The organization could develop a tour to Victoria Falls, and then could send a message to all of its Facebook group members to notify them about this new tour. In this way, a social network serves as an inexpensive, effective means of marketing directly to a business's target audience.

Social Media and Diplomacy

In February 2010, Washington sent an unconventional delegation to Moscow, which included the creator of Twitter, the chief executive of eBay, and the actor Ashton Kutcher. One of the delegation's goals was "to persuade Russia's thriving online social networks to take up social causes like

fighting corruption or human trafficking," according to Jared Cohen who serves on Secretary of State Hillary Clinton's policy planning staff. In Russia, the average adult spends 6.6 hours a month on social networking sites, based on comScore market research. This act of diplomacy by Washington underscores how important social networks have become in our world today, a world in which Twitter has helped mobilize people to fight for freedom from corruption.

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

Social networks have rapidly diffused from the United States and Europe to every region of the world, underscoring the inexorable nature of globalization. As individuals who share interests and preferences link up, they are afforded opportunities to connect in ways that were unimaginable just a decade ago. Facebook, Myspace, Twitter, Linkedin, and others are all providing communication platforms for individuals and groups in disparate—and even isolated—locations around the world. Such networks also offer myriad business opportunities for companies large and small to identify and target discrete groups of consumers or other business partners. These networks are revolutionizing the nature of management—including international management—by allowing producers and consumers to interact directly without the usual intermediaries. Networks and the individuals who make them up are bringing populations of the world closer together and further accelerating the already rapid pace of globalization and integration.

In this chapter, we examine the globalization phenomenon, the growing integration among countries and regions, the changing balance of global economic power, and examples of different economic systems. As you read this chapter, keep in mind that although there are periodic setbacks, such as the recession of 2008–2009, globalization is moving at a rapid pace and that all nations, including the United States, as well as individual companies and their managers, are going to have to keep a close watch on the current environment if they hope to be competitive in the years ahead.

Introduction

management
Process of completing activities efficiently and effectively with and through other people.

international management
Process of applying management concepts and techniques in a multinational environment and adapting management practices to different economic, political, and cultural contexts.

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

Management is the process of completing activities with and through other people. **International management** is the process of applying management concepts and techniques in a multinational environment and adapting management practices to different economic, political, and cultural contexts. Many managers practice some level of international management in today's increasingly diverse organizations. International management is distinct from other forms of management in that knowledge and insights about global issues and specific cultures are a requisite for success. Today more firms than ever are earning some of their revenue from international operations, even nascent organizations as illustrated in The World of International Management about the new social media that opened the chapter.

Many of these companies are multinational corporations (MNCs). An **MNC** is a firm that has operations in more than one country, international sales, and a mix of nationalities among managers and owners. In recent years such well-known American MNCs as Avon Products, Chevron, Citicorp, Coca-Cola, Colgate Palmolive, Du Pont, ExxonMobil, Eastman Kodak, Gillette, Hewlett-Packard, McDonald's, Motorola, Ralston Purina, Texaco, the 3M Company, and Xerox have all earned more annual revenue in the international arena than they have stateside. GE, one of the world's largest companies, with 2007 revenue of more than $170 billion, saw its overseas revenue exceed domestic sales in 2007. Sales to developing markets alone are expected to reach $50 billion by 2014. Table 1–1 lists the world's top nonfinancial companies ranked by foreign assets in 2007.

Table 1–1
The World's Top Nonfinancial MNCs, Ranked by Foreign Assets, 2007
(in millions of dollars)

Rank	Company Name	Home Economy	Foreign Assets	Total Assets	Foreign Sales	Total Sales
1	General Electric	United States	$420,300	$795,337	$86,519	$172,738
2	Vodafone Group Plc	United Kingdom	230,600	254,948	60,317	71,070
3	Royal Dutch/ Shell Group	Netherlands/ United Kingdom	196,828	269,470	207,317	355,782
4	British Petroleum Company Plc	United Kingdom	185,323	236,076	223,216	284,365
5	ExxonMobil	United States	174,726	242,082	269,184	390,328
6	Toyota Motor Corporation	Japan	153,406	284,722	145,815	230,607
7	Total	France	143,814	167,144	177,835	233,699
8	Electricité De France	France	128,971	274,031	40,343	87,792
9	Ford Motor Company	United States	127,854	276,459	91,581	172,455
10	E.ON AG	Germany	123,443	202,111	41,391	101,179

Source: UNCTAD *World Investment Report 2009,* Annex Table A.I.9.

In addition, companies from developing economies, such as India, Brazil, and China, are providing formidable competition to their North American, European, and Japanese counterparts. Names like Cemex, Embraer, Haier, Lenovo, LG Electronics, Ping An, Rambaxy, Telefonica, Santander, Reliance, Samsung, Grupo Televisa, Tata, and Infosys are becoming well-known global brands. Globalization and the rise of emerging markets' MNCs have brought prosperity to many previously underdeveloped parts of the world, notably the emerging markets of Asia. In 2009, sales of automobiles in China outpaced those in the U.S. for the first time. Vehicle sales in the country jumped to a record 13.6 million units in 2009, according to the China Association of Automobile Manufacturers, far ahead of the 10.4 million cars and light trucks sold in the U.S.[1] Moreover, a number of Chinese auto companies are becoming global players via increased exports, foreign investments, and international acquisitions, including the purchase by Geely of ailing General Motors unit Volvo.

In a striking move, Cisco Systems, one of the world's largest producers of network equipment, such as routers, announced it would establish a "Globalization Center East" in Bangalore, India. This center will include all the corporate and operational functions of U.S. headquarters, which will be mirrored in India. Under this plan, which includes an investment of over $1.1 billion, one-fifth of Cisco's senior management will move to Bangalore.[2,3] IBM, another American archetype, had about 400,000 employees globally in 2009, with only about 115,000 in the U.S., fewer than in India, with about 200,000 employees. And HSBC, the London-based global bank, announced in 2009 that it was moving its chief executive, Michael Geoghegan, to Hong Kong, so that he could focus on HSBC's increasingly important emerging markets business.[4]

These trends reflect the reality that firms are finding they must develop international management expertise, especially expertise relevant to the increasingly important developing and emerging markets of the world. Managers from today's MNCs must learn to work effectively with those from many different countries. Moreover, more and more small and medium-sized businesses will find that they are being affected by internationalization. Many of these companies will be doing business abroad, and those that do not will find themselves doing business with MNCs operating locally. Table 1–2 lists the world's top nonfinancial companies from *developing* countries ranked by foreign assets in 2007.

Table 1–2
The World's Top Nonfinancial MNCs from Developing Countries, Ranked by Foreign Assets, 2007
(in millions of dollars)

Rank	Company Name	Home Economy	Foreign Assets	Total Assets	Foreign Sales	Total Sales
1	Hutchison Whampoa Limited	Hong Kong/ China	$83,411	$102,445	$33,260	$39,579
2	Cemex S.A.	Mexico	44,269	49,908	18,007	21,780
3	LG Corp.	Republic of Korea	30,505	57,772	50,353	81,496
4	Samsung Electronics Co., Ltd.	Republic of Korea	29,173	99,749	82,650	105,232
5	Petronas–Petroleum National BhD	Malaysia	27,431	102,616	27,219	67,473
6	Hyundai Motor Company	Republic of Korea	25,939	89,571	33,692	74,353
7	CITIC Group	China	25,514	180,945	3,287	14,970
8	Singtel Ltd.	Singapore	21,159	24,087	7,102	10,300
9	Tata Steel Ltd.	India	20,720	31,715	28,254	33,372
10	China Ocean Shipping Company	China	20,181	29,194	10,109	21,701

Source: UNCTAD *World Investment Report 2009,* Annex Table A.I.11.

Globalization and Internationalization

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

Globalization, Antiglobalization, and Global Pressures

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

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

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

Globalization can be defined as the process of social, political, economic, cultural, and technological integration among countries around the world. Globalization is distinct from internationalization in that internationalization is the process of a business crossing national and cultural borders, while globalization is the vision of creating one world unit, a single market entity. Evidence of globalization can be seen in increased levels of trade, capital flows, and migration. Globalization has been facilitated by technological advances in transnational communications, transport, and travel. Thomas Friedman, in his book *The World Is Flat,* identified 10 "flatteners" that have hastened the globalization trend, including the fall of the Berlin Wall, **offshoring,** and **outsourcing,** which have combined to dramatically intensify the effects of increasing global linkages.[5] Hence, in recent years, globalization has accelerated, creating both opportunities and challenges to global business and international management.

On the plus side, global trade and investment continue to grow, bringing wealth, jobs, and technology to many regions around the world. While some emerging countries have not benefited from globalization and integration, the emergence of MNCs from developing countries reflects the increasing inclusion of all regions of the world in the benefits of globalization. Yet, as the pace of global integration quickens, so have the cries against globalization and the emergence of new concerns over mounting global pressures.[6] These pressures can be seen in protests at the meetings of the World Trade

Tracing the Roots of Modern Globalization

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

Middle Eastern Intercontinental Trade

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

Trans-Saharan Cross-Continental Trade

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

China as an Ancient Global Trading Initiator

In 1421, a fleet of over 3,750 vessels set sail from China to cultivate trade around the world for the emperor. The voyage reflected the emperor's desire to collect tribute in exchange for trading privileges with China and China's protection. The Chinese, like modern-day multinationals, sought to extend their economic reach while recognizing principles of economic equity and fair trade. In the course of their global trading, the Chinese introduced uniform container measurements to enable merchants to transact business using common weight and dimension measurement systems. Like the early Egyptians and later the Romans, they used coinage as an intermediary form of value exchange or specie, thus eliminating complicated barter transactions.

European Trade Imperative

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

Globalization in U.S. History

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

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

Organization (WTO), International Monetary Fund (IMF), and other global bodies and in the growing calls by developing countries to make the global trading system more responsive to their economic and social needs. These groups are especially concerned about rising inequities between incomes, and nongovernmental organizations (NGOs) have become more active in expressing concerns about the potential shortcomings of economic globalization.[7]

Who benefits from globalization? Proponents believe that everyone benefits from globalization, as evidenced in lower prices, greater availability of goods, better jobs, and access to technology. Theoretically, individuals in established markets will strive for better education and training to be prepared for future positions, while citizens in emerging markets and underdeveloped countries will reap the benefits of large amounts of capital flowing into those countries which will stimulate growth and development. Critics disagree, noting that the high number of jobs moving abroad as a result of the *offshoring* of business services jobs to lower-wage countries does not inherently create greater opportunities at home and that the main winners of globalization are the company executives. Proponents claim that job losses are a natural consequence of economic and technological change and that offshoring actually improves the competitiveness of American companies and increases the size of the overall economic pie.[8] Critics point out that growing trade deficits and slow wage growth are damaging economies and that globalization may be moving too fast for some emerging markets, which could result in economic collapse. Moreover, critics argue that when production moves to countries to take advantage of lower labor costs or less regulated environments, it creates a “race to the bottom” in which companies and countries place downward pressure on wages and working conditions.[9]

India is one country at the center of the globalization debate. As noted above, India has been the beneficiary of significant foreign investment, especially in services such as software and IT. Limited clean water, power, paved roadways, and modern bridges, however, are making it increasingly difficult for companies to expand. There have even been instances of substantial losses for companies using India as an offshore base, such as occurred when Nokia Corp. experienced the destruction of thousands of cellular phones due to a lack of storage space at an airport during a rainstorm. With India’s public debt at more than 80 percent of GDP, the country now stands where China did a decade ago. It is possible that India will follow in China’s footsteps and continue rapid growth in incomes and wealth; however, it is also possible that the challenges India faces are greater than the country’s capacity to respond to them.[10]

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

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

A Closer Look

Outsourcing and Offshoring

The concepts of outsourcing and offshoring are not new, but these practices are growing at an extreme rate. *Offshoring* refers to the process by which companies undertake some activities at offshore locations instead of in their countries of origin. *Outsourcing* is the subcontracting or contracting out of activities to external organizations that had previously been performed within the firm and is a wholly different phenomenon. Often the two combine to create "offshore outsourcing." Offshoring began with manufacturing operations. Globalization jump-started the extension of offshore outsourcing of services, including call centers, R&D, information services, and even legal work. During 2006, Du Pont hired attorneys in Manila to oversee documentation in preparation for legal cases. The company hopes to save an estimated $6 million in legal spending by moving offshore and cutting documentation by 40 to 60 percent once everything is scanned and digitally saved. This is a risky venture as legal practices are not the same across countries, and the documents may be too sensitive to rely on assembly-line lawyers. It also raises the question as to whether or not there are limitations to offshore outsourcing. Many companies, including Deutsche Bank, spread offshore outsourcing opportunities across multiple countries such as India and Russia for economic or political reasons. The advantages, concerns, and issues with offshoring span a variety of subjects. Throughout the text we will revisit the idea of offshore outsourcing as it is relevant. Here in Chapter 1 we see how skeptics of globalization wonder if there are benefits to offshore outsourcing, while in Chapter 2 we see how these are related to technology, and finally in Chapter 14 we see how offshore practices affect human resource management and the global distribution of work.

Source: Pete Engardio and Assif Shameen, "Let's Offshore the Lawyers," *BusinessWeek,* September 18, 2006, p. 42; and Tony Hallett and Andy McCue, "Why Deutsche Bank Spreads Its Outsourcing," *BusinessWeek,* March 15, 2007.

benefits of globalization and adapt and adjust their strategies and approaches to these differences.

Global and Regional Integration

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

Over the past six decades, succeeding rounds of global trade negotiations have resulted in dramatically reduced tariff and nontariff barriers among countries. Table 1–3 shows the history of these negotiation rounds, their primary focus, and the number of countries involved. These efforts reached their crest in 1994 with the conclusion of the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) and the creation of the **World Trade Organization (WTO)** to oversee the conduct of trade around the world. The WTO is the global organization of countries that oversees rules and regulations for international trade and investment, including agriculture, intellectual property, services, competition, and subsidies. Recently, however, the momentum of global trade agreements has slowed. In December 1999, trade ministers from around the world met in Seattle to launch a new round of global trade talks. In what later became known as the "Battle in Seattle," protesters disrupted the meeting, and representatives of developing countries who felt their views were being left out of the discussion succeeded in ending the discussions early and postponing a new round of trade talks. Two years later, in November 2001, the members of the WTO met again and successfully launched a new round of negotiations at Doha, Qatar, to be known as the "Development Round," reflecting the recognition by members that trade agreements needed to explicitly consider the needs of and impact on developing countries.[11] However, after a lack of consensus among WTO members regarding agricultural subsidies and the issues of competition and government procurement, progress slowed. At a meeting in Cancún in September 2003, a group of 20-plus developing nations, led by

World Trade Organization (WTO)
The global organization of countries that oversees rules and regulations for international trade and investment.

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

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

Source: Understanding the WTO (Geneva: World Trade Organization, 2008), http://www.wto.org/english/thewto_e/whatis_e/tif_e/understanding_e.pdf.

Brazil and India, united to press developed countries such as the United States, the European Union (EU), and Japan to reduce barriers to agricultural imports. Failure to reach agreement resulted in another setback, and although there have been attempts to restart the negotiations, they have remained stalled, especially in light of rising protectionism in the wake of the global economic crisis.[12]

Partly as a result of the slow progress in multilateral trade negotiations, the United States and many other countries have pursued bilateral and regional trade agreements. The United States, Canada, and Mexico make up the **North American Free Trade Agreement (NAFTA),** which in essence has removed all barriers to trade among these countries and created a huge North American market. A number of economic developments have occurred because of this agreement which are designed to promote commerce in the region. Some of the more important developments include (1) the elimination of tariffs as well as import and export quotas; (2) the opening of government procurement markets to companies in the other two nations; (3) an increase in the opportunity to make investments in each other's country; (4) an increase in the ease of travel between countries; and (5) the removal of restrictions on agricultural products, auto parts, and energy goods. Many of these provisions were implemented gradually. For example, in the case of Mexico, quotas on Mexican products in the textile and apparel sectors were phased out over time, and customs duties on all textile products were eliminated over 10 years. Negotiations between NAFTA members and many Latin American countries, such as Chile, have concluded, and others are ongoing. Moreover, other regional and bilateral trade agreements, including the U.S.–Singapore Free Trade Agreement, concluded in May 2003, and the U.S.–Central American Free Trade Agreement (CAFTA), later renamed CAFTA-DR to reflect the inclusion of the Dominican Republic in the agreement and concluded in May 2004, were negotiated in the same spirit as NAFTA. The U.S. Congress approved the CAFTA-DR in July 2005, and the president signed it into law on August 2, 2005. The export zone created will be the United States' second largest free-trade zone in Latin America after Mexico. The United States is implementing the CAFTA-DR on a rolling basis as countries make sufficient progress to complete their commitments under the agreement. The agreement first entered into force between the United States and El Salvador on March 1, 2006, followed by Honduras and Nicaragua on April 1, 2006, Guatemala on July 1, 2006,

North American Free Trade Agreement (NAFTA)
A free-trade agreement between the United States, Canada, and Mexico that has removed most barriers to trade and investment.

and the Dominican Republic on March 1, 2007. Implementation by Costa Rica was delayed by an election and referendum; however, the agreement finally entered into force for Costa Rica on January 1, 2009.[13]

In addition, the 34 democratically elected governments of the Western Hemisphere had worked toward an agreement that was supposed to create the world's largest free-trade region by January 2005 as part of the **Free Trade Agreement of the Americas (FTAA).**[14] These negotiations, however, like those under the WTO, have stalled due to differences between developing countries, like Brazil, and developed nations, like the United States. Agreements like NAFTA and CAFTA not only reduce barriers to trade but also require additional domestic legal and business reforms in developing nations to protect property rights. Most of these agreements now include supplemental commitments on labor and the environment to encourage countries to upgrade their working conditions and environmental protections, although some critics believe the agreements do not go far enough in ensuring worker rights and environmental standards. Partly due to the stalled progress with the WTO and FTAA, the United States has pursued bilateral trade agreements with a range of countries, including Australia, Bahrain, Chile, Colombia, Israel, Jordan, Malaysia, Morocco, Oman, Panama, Peru, and Singapore.[15]

Free Trade Agreement of the Americas (FTAA)
A proposed free-trade agreement among the 34 democratically governed countries of the Western Hemisphere.

Economic activity in Latin America continues to be volatile. Despite the continuing political and economic setbacks these countries periodically experience, economic and export growth continue in Brazil, Chile, and Mexico. In addition, while outside MNCs continually target this geographic area, there also is a great deal of cross-border investment between Latin American countries. Regional trade agreements are helping in this cross-border process, including NAFTA, which ties the Mexican economy more closely to the United States. The CAFTA agreement, signed August 5, 2006, between the United States and Central American countries presents new opportunities for bolstering trade, investment, services, and working conditions in the region. Within South America there are Mercosur, a common market created by Argentina, Brazil, Paraguay, and Uruguay, and the Andean Common Market, a subregional free-trade compact that is designed to promote economic and social integration and cooperation between Bolivia, Colombia, Ecuador, Peru, and Venezuela.

The **European Union (EU)** has made significant progress over the past decade in becoming a unified market. In 2003 it consisted of 15 nations: Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, the Netherlands, Ireland, Italy, Luxembourg, Portugal, Spain, and Sweden. In May 2004, 10 additional countries joined the EU: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. On January 1, 2007, Romania and Bulgaria acceded to the EU, bringing current membership to 27 countries. Not only have most trade barriers between the members been removed, but a subset of European countries have adopted a unified currency called the *euro*. As a result, it is now possible for customers to compare prices between most countries and for business firms to lower their costs by conducting business in one, uniform currency. With access to the entire pan-European market, large MNCs can now achieve the operational scale and scope necessary to reduce costs and increase efficiencies. Even though long-standing cultural differences remain, the EU is more integrated as a single market than NAFTA, CAFTA, or the allied Asian countries. With many additional countries poised to join the EU, the resulting pan-European market will be one that no major MNC can afford to ignore.

European Union
A political and economic community consisting of 27 member states.

Although Japan has experienced economic problems since the early 1990s, it continues to be one of the primary economic forces in the Pacific Rim. Japanese MNCs want to take advantage of the huge, underdeveloped Asian markets. At the same time, China continues to be a major economic force, with some predictions that it will surpass the United States as the largest economy in the world by 2035.[16] Although all the economies in Asia are now feeling the impact of the economic uncertainty of the post-9/11 era and the Asian economic crisis of the late 1990s, Hong Kong, Taiwan, South

Korea, and Singapore have been doing relatively well, and the Southeast Asia countries of Malaysia, Thailand, Indonesia, and even Vietnam are bouncing back to become major export-driven economies. The Association of Southeast Asian Nations (ASEAN), made up of Indonesia, Malaysia, the Philippines, Singapore, Brunei, Thailand, and in recent years Cambodia, Myanmar, and Vietnam, is advancing trade and economic integration and now poses challenges to China as a region of relatively low cost production and export.

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

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

The Shifting Balance of Economic Power in the Global Economy

Economic integration and the rapid growth of emerging markets are creating a shifting international economic landscape. Specifically, the developing and emerging countries of the world are now predicted to occupy increasingly dominant roles in the global economic system. In a widely cited report, Goldman Sachs argued that the economic potential of Brazil, Russia, India, and China (the "BRIC" economies) is such that they may become among the four most dominant economies by the year 2050, with China surpassing the United States in output by 2035. The Goldman Sachs global economics team released a follow-up report to its initial BRIC study in 2004, taking the analysis a step further by focusing on the impact that the growth of these four economies will have on global markets. In this report, they estimated that the BRIC economies' share of world growth could rise from 20 percent in 2003 to more than 40 percent in 2025. Also, their total weight in the world economy would rise from approximately 10 percent in 2004 to more than 20 percent in 2025. Furthermore, between 2005 and 2015 over 800 million people in these countries will have crossed the annual income threshold of $3,000. In 2025, it is calculated that approximately 200 million people in these economies will have annual incomes above $15,000. Therefore, the huge pickup in demand will not be restricted to basic goods but will impact higher-priced branded goods as well.[17]

The Economist Intelligence Unit has undertaken similar analyses, the result of which appear in summary form in Tables 1–4 and 1–5. Table 1–4 shows the world's largest economies in 2005 and 2020 (projected) using (current) market exchange rates. By this calculation, the United States would remain the largest global economic power by 2020, with China moving ahead of Japan as the second largest and India moving up to number seven. Viewing the data on a purchasing power parity (PPP) basis, a method which adjusts GDP to account for different prices in countries, a more dramatic picture is presented. Using this method, China would surpass the United States as the largest world economic power by 2020, and India would rank third. In both the Goldman

Table 1–4
The World's Largest Economies 2005 and 2020 (Projected) Measured by GDP at Market Exchange Rates
(in millions of dollars)

	2005		2020	
	GDP	Rank	GDP	Rank
United States	12,457	1	28,830	1
Japan	4,617	2	6,862	3
Germany	2,829	3	4,980	4
China	2,225	4	10,130	2
United Kingdom	2,213	5	4,203	5
France	2,132	6	3,536	6
Italy	1,720	7	2,543	10
Canada	1,122	8	2,206	11
Spain	1,119	9	2,146	12
South Korea	804	10	2,607	9
Brazil	787	11	1,600	13
India	759	12	3,228	7
Mexico	752	13	1,450	14
Russia	749	14	2,692	8

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Table 1–5
The World's Largest Economies 2005 and 2020 (Projected) Measured by GDP at Purchasing Power Parity
(in millions of dollars)

	2005		2020	
	GDP	Rank	GDP	Rank
United States	12,457	1	28,830	2
China	8,200	2	29,590	1
Japan	4,008	3	6,795	4
India	3,718	4	13,363	3
Germany	2,426	5	4,857	5
United Kingdom	1,962	6	4,189	6
France	1,905	7	3,831	7
Brazil	1,636	8	3,823	8
Italy	1,630	9	2,884	10
Russia	1,542	10	3,793	9
Spain	1,151	11	2,427	14
Canada	1,071	12	2,423	15
South Korea	1,067	13	2,837	11
Mexico	1,059	14	2,459	13

Source: From *Foresight 2020: Economic, Industry and Corporate Trends.* Copyright © 2006 The Economist Intelligence Unit. Reprinted with permission of The Economist Intelligence Unit via Copyright Clearance Center.

Table 1–6
Countries Expected to Contribute Most to Global Growth 2006–2020
(percent contribution)

Country	
China	26.7
United States	15.9
India	12.2
Brazil	2.4
Russia	2.3
Indonesia	2.3
South Korea	2.1
United Kingdom	1.9

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Sachs and EIU scenarios, global growth over the next decade is heavily supported by Asia, as seen in Table 1–6. In addition, China and India will remain the most populous countries in the world in 2050, although India will surpass China as the most populous (Table 1–7).

Most African countries have not, to date, fully benefited from globalization. However, recent increases in the price of commodities, such as oil and gas, agricultural products, and mineral and mining products, have helped boost incomes and wealth in the African continent. Moreover, rapid population growth in many African countries, similar to growth in India and China in earlier periods, may suggest that African countries could constitute the next wave of dynamic emerging markets.

Table 1–7
Changing Global Demographics: Developing Countries on the Rise (ranked by size)

	1950	2007	2050
1	China	China	India
2	Soviet Union	India	China
3	India	United States	United States
4	United States	Indonesia	Indonesia
5	Japan	Brazil	Ethiopia
6	Indonesia	Pakistan	Pakistan
7	Germany	Bangladesh	Nigeria
8	Brazil	Nigeria	Brazil
9	United Kingdom	Russia	Bangladesh
10	Italy	Japan	Congo
11	France	Mexico	Philippines
12	Bangladesh	Philippines	Mexico

Source: U.S. Census Bureau (IDB), 2009.

Global trade and investment continues to grow at a healthy rate, outpacing domestic growth in most countries. According to the World Trade Organization, merchandise exports fell 23 percent to $12.15 trillion and commercial services exports declined 13 percent to $3.31 trillion in 2009. This was the first time the change in commercial services declined since 1983.[18] **Foreign direct investment (FDI)**—the term used to indicate the amount invested in property, plant, and equipment in another country—also has been growing at a healthy rate. Global FDI inflows were an estimated at $896 billion in 2009, almost 50 percent less than $1.7 trillion in inflows in 2008. Interestingly, in 2009 Hong Kong received more FDI than Germany, and China received nearly five times as much as Canada, showing the shifting balance of economic influence among developed and developing countries. Table 1–8 shows trade flows among major world regions in both absolute and percentage terms. Tables 1–9 and 1–10 show FDI inflows and outflows by leading developed and emerging economies. The drop in FDI inflows and outflows in 2009 due to the global recession is striking. In nearly every major world region, FDI fell substantially, with some regions, such as North America, experiencing even greater drops.

foreign direct investment (FDI)
Investment in property, plant, or equipment in another country.

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

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

1. Where is the parent company of Braun household appliances (electric shavers, coffee makers, etc.) located?
   a. Switzerland *b.* Germany *c.* the United States *d.* Japan
2. The BIC pen company is
   a. Japanese *b.* British *c.* U.S.-based *d.* French
3. The company that owns Jaguar is based in
   a. Germany *b.* the U.S. *c.* the U.K. *d.* India
4. RCA television sets are produced by a company based in
   a. France *b.* the United States *c.* Malaysia *d.* Taiwan
5. The firm that owns Green Giant vegetables is
   a. U.S.-based *b.* Canadian *c.* British *d.* Italian
6. The owners of Godiva chocolate are
   a. U.S.-based *b.* Swiss *c.* Dutch *d.* Swedish
7. The company that produces Vaseline is
   a. French *b.* Anglo-Dutch *c.* German *d.* U.S.-based
8. Wrangler jeans are made by a company that is
   a. Japanese *b.* Taiwanese *c.* British *d.* U.S.-based
9. The company that owns Holiday Inn is headquartered in
   a. Saudi Arabia *b.* France *c.* the United States *d.* Britain
10. Tropicana orange juice is owned by a company that is headquartered in
    a. Mexico *b.* Canada *c.* the United States *d.* Japan

Table 1–8
World Merchandise Trade by Region and Selected Country, 2009
(in US$ billions and percentages)

	Exports					Imports				
	Value	Annual Percentage Change				Value	Annual Percentage Change			
	2009	2005–09	2007	2008	2009	2009	2005–09	2007	2008	2009
World	12,147	4	16	15	−23	12,385	4	15	16	−24
North America	1,602	2	11	11	−21	2,177	−1	6	8	−25
United States	1,057	4	12	12	−18	1,604	−2	5	7	−26
Canada	316	−3	8	9	−31	330	1	9	7	−21
Mexico	230	2	9	7	−21	242	1	10	10	−24
South and Central America	461	6	14	21	−24	444	10	25	30	−25
Brazil	153	7	17	23	−23	134	15	32	44	−27
Other South and Central America	308	6	13	20	−24	311	9	23	25	−25
Europe	4,995	3	16	11	−23	5,142	3	16	12	−25
European Union (27)	4,567	3	16	11	−23	4,714	3	16	12	−25
Germany	1,121	4	19	9	−22	931	5	16	12	−21
France	475	1	11	9	−21	551	2	14	14	−22
Netherlands	499	5	19	16	−22	446	5	18	18	−23
United Kingdom	351	−2	−2	5	−24	480	−2	4	2	−24
Italy	405	2	20	8	−25	410	2	16	8	−26
Commonwealth of Independent States (CIS)	452	7	21	35	−36	332	11	35	32	−33
Russian Federation	304	6	17	33	−36	192	11	36	31	−34
Africa	379	5	18	28	−32	400	12	23	27	−16
South Africa	63	5	20	16	−22	72	4	12	12	−28
Africa less South Africa	317	5	17	31	−33	328	14	27	32	−13
Oil exporters	204	3	17	34	−40	129	16	29	39	−11
Non oil exporters	113	9	16	23	−17	199	13	27	28	−14
Middle East	691	6	16	33	−33	493	10	25	28	−18
Asia	3,566	6	16	15	−18	3,397	6	15	21	−21
China	1,202	12	26	17	−16	1,006	11	21	18	−11
Japan	581	−1	10	9	−26	551	2	7	23	−28
India	155	12	23	30	−20	244	14	29	40	−24
Newly industrialized economies (4)	853	4	11	10	−17	834	4	11	17	−24
Memorandum items:										
Developing economies	4,697	7	17	19	−22	4,432	8	19	22	−20
MERCOSUR	217	7	18	24	−22	186	13	31	41	−28
ASEAN	814	6	12	14	−18	724	5	13	21	−23
EU (27) extra-trade	1,525	4	17	13	−21	1,672	3	16	17	−27
Least Developed Countries (LDCs)	125	11	25	32	−27	144	13	24	29	−11

Source: WTO Press Release 598, March 26, 2010, Appendix Table 1, http://www.wto.org/english/news_e/pres10_e/pr598_e.htm.

Table 1–9
World Foreign Direct Investment Inflows
(in US$ millions)

	2008	2009
Asia and Australasia	$390,727	$261,790
East-central Europe	56,389	27,092
Economies in transition	140,187	70,630
G7	615,955	284,411
Latin America	105,021	59,166
North America	360,824	137,897
Sub-Saharan Africa	13,281	8,684
Western Europe	435,096	317,751

Table 1–10
World Foreign Direct Investment Outflows
(in US$ millions)

	2008	2009
Asia and Australasia	$353,926	$281,602
East-central Europe	7,017	6,569
Economies in transition	60,656	52,913
G7	1,089,270	532,012
Latin America	33,422	11,118
North America	389,462	194,966
Sub-Saharan Africa	1,793	1,640
Western Europe	958,934	505,040

Source: Economic Intelligence Unit 2010.

Global Economic Systems

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

Market Economy

A *market economy* exists when private enterprise reserves the right to own property and monitor the production and distribution of goods and services while the state simply supports competition and efficient practices. Management is particularly effective here since private ownership provides local evaluation and understanding, opposed to a nationally standardized archetype. This model contains the least restriction as the allocation of resources is roughly determined by the law of demand. Individuals within the community disclose wants, needs, and desires to which businesses may appropriately respond. A general balance between supply and demand sustains prices, while an imbalance creates a price fluctuation. In other words, if demand for a good or service exceeds supply, the price will inevitably rise, while an excess supply over consumer demand will result in a price decrease.[19]

Since the interaction of the community and firms guides the system, organizations must be as versatile as the individual consumer. Competition is fervently encouraged to promote innovation, economic growth, high quality, and efficiency. The focus on how to

best serve the customer is necessary for optimal growth as it ensures a greater penetration of niche markets.[20] The government may prohibit such things as monopolies or restrictive business practices in order to maintain the integrity of the economy. Monopolies are a danger to this system because they tend to stifle economic growth and consumer choice with their power to determine supply. Factors such as efficiency of production and quality and pricing of goods can be chosen arbitrarily by monopolies, leaving consumers without a choice and at the mercy of big business.

Command Economy

A *command economy* is comparable to a monopoly in the sense that the organization, in this case the government, has explicit control over the price and supply of a good or service. The particular goods and services offered are not necessarily in response to consumers' stated needs but are determined by the theoretical advancement of society. Businesses in this model are owned by the state to ensure that investments and other business practices are done in the best interest of the nation despite the often contradictory outcomes. Management within this model ignores demographic information. Government subsidies provide firms with enough security so they cannot go out of business, which simply encourages a lack of efficiency or incentive to monitor costs. Devoid of private ownership, a command economy creates an environment where little motivation exists to improve customer service or introduce innovative ideas.[21]

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

Mixed Economy

A *mixed economy* is a combination of a market and a command economy. While some sectors of this system reflect private ownership and the freedom and flexibility of the law of demand, other sectors are subject to government planning. The balance allows competition to thrive while the government can extend assistance to individuals or companies. Regulations concerning minimum wage standards, social security, environmental protection, and the advancement of civil rights may raise the standard of living and ensure that those who are elderly, sick, or have limited skills are taken care of. Ownership of organizations seen as critical to the nation may be transferred to the state to subsidize costs and allow the firms to flourish.[22]

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

Economic Performance and Issues of Major Regions

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

Established Economies

North America As noted earlier, North America constitutes one of the four largest trading blocs in the world. The combined purchasing power of the United States, Canada, and Mexico is more than $12 trillion. Even though there will be more and more integration

both globally and regionally as time goes on, effective international management still requires knowledge of individual countries.

The free-market-based economy of this region allows considerable freedom in decision-making processes of private firms. This allows for greater flexibility and low barriers for other countries to establish business. Despite factors such as the Iraq War beginning in 2003, Hurricane Katrina in 2005, and high oil prices through 2005 and 2006, the U.S. economy continues to grow. U.S. MNCs have holdings throughout the world, and foreign firms are welcomed as investors in the U.S. market. U.S. firms maintain particularly dominant global positions in technology-intensive industries, including computing (hardware and services), telecommunications, media, and biotechnology. At the same time, foreign MNCs are finding the United States to be a lucrative market for expansion. Many foreign automobile producers, such as BMW, Honda, Hyundai, Nissan, and Toyota, have established a major manufacturing presence in the United States. Given the near collapse of the "domestic" automotive industries, North American automotive production will come increasingly from these foreign "transplants."

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

By the early 1990s Mexico had recovered from its economic problems of the previous decade and had become the strongest economy in Latin America. In 1994, Mexico became part of NAFTA, and it appeared to be on the verge of becoming the major economic power in Latin America. Yet, an assassination that year and related economic crisis underscored that Mexico was still a developing country with considerable economic volatility. Mexico now has free-trade agreements with over 50 countries, including Guatemala, Honduras, El Salvador, the EU, the European Free Trade Area, and Japan.[23] In 2000 the 71-year hold of the Institutional Revolutionary Party on the presidency of the country came to an end, and many investors believe that the administration of Vicente Fox and his successor, Felipe Calderon, have been especially probusiness. Calderon has been battling Mexico's narcotics gangs which, unfortunately, have been responsible for an ongoing epidemic of violence and casualties, including those of innocent civilians.

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

maquiladora
Factory, mostly located in Mexican border towns, that imports materials and equipment on a duty- and tariff-free basis for assembly or manufacturing and re-export.

The EU The ultimate objective of the EU is to eliminate all trade barriers among member countries (like between the states in the United States). This economic community eventually will have common custom duties as well as unified industrial and commercial policies regarding countries outside the union. Another goal that has finally largely become a reality is a single currency and a regional central bank. Since 2007, 27 countries comprise the EU, with 13 having adopted the euro. Another 11 countries, having joined the EU in either 2004 or 2007, are legally bound to adopt the euro upon meeting the monetary convergence criteria.[24]

Such developments will allow companies based in EU nations that are able to manufacture high-quality, low-cost goods to ship them anywhere within the EU without paying duties or being subjected to quotas. This helps explain why many North American and Pacific Rim firms have established operations in Europe; however, all these outside firms are finding their success tempered by the necessity to address local cultural differences.

The challenge for the future of the EU is to absorb its eastern neighbors, the former communist-bloc countries. This could result in a giant, single European market. In fact, a unified Europe could become the largest economic market in terms of purchasing power in the world. In 2004 alone, Poland, the Czech Republic, and Hungary all joined the EU, improving economic growth, inflation, and employment rates throughout. Such a development is not lost on Asian and U.S. firms, which are working to gain a stronger foothold in Eastern European countries as well as the existing EU. In recent years, foreign governments have been very active in helping to stimulate and develop the market economies of Central and Eastern Europe to enhance their economic growth as well as world peace.

In 2009 and 2010, the EU faced one of the most severe challenges of its short tenure. Several European governments, including Greece, Portugal, Spain, and Ireland, found themselves with dangerously large deficits that resulted from both structural conditions (stagnant population growth, overly generous pension systems, early retirements) and shorter-term economic pressures. These conditions placed pressure on the euro, the currency adopted by most EU countries, and forced a substantial rescue package led by Germany and France.[25]

Japan During the 1970s and 1980s, Japan's economic success had been without precedent. The country had a huge positive trade balance, the yen was strong, and the Japanese became recognized as the world leaders in manufacturing and consumer goods.

Analysts ascribe Japan's phenomenal success to a number of factors. Some areas that have received a lot of attention are the Japanese cultural values supporting a strong work ethic and group/team effort, consensus decision making, the motivational effects of guaranteed lifetime employment, and the overall commitment that Japanese workers have to their organizations. However, at least some of these assumptions about the Japanese workforce have turned out to be more myth than reality, and some of the former strengths have become weaknesses in the new economy. For example, consensus decision making turns out to be too time-consuming in the new speed-based economy. Also, there has been a steady decline in Japan's overseas investments since the 1990s due to a slowing Japanese economy, poor management decisions, and competition from emerging economies, such as China.

Some of the early success of the Japanese economy can be attributed to the **Ministry of International Trade and Industry (MITI).** This is a governmental agency that identifies and ranks national commercial pursuits and guides the distribution of national resources to meet these goals. In recent years, MITI has given primary attention to the so-called ABCD industries: automation, biotechnology, computers, and data processing.

Another major reason for Japanese success may be the use of **keiretsus.** This Japanese term stands for the large, vertically integrated corporations whose holdings supply much of the assistance needed in providing goods and services to end users. Being able to draw from the resources of the other parts of the keiretsu, a Japanese MNC often can get things done more quickly and profitably than its international competitors.

Despite setbacks, Japan remains a formidable international competitor and is well poised in all three major economic regions: the Pacific Rim, North America, and Europe.

Ministry of International Trade and Industry (MITI)
A Japanese government agency that identifies and ranks national commercial pursuits and guides the distribution of national resources to meet these goals.

keiretsu
An organizational arrangement in Japan in which a large group of vertically integrated companies bound together by cross-ownership, interlocking directorates, and social ties provide goods and services to end users.

International Management in Action

Recognizing Cultural Differences

www.usrbc.org, www.careerwatch.com

One objective of multicultural research is to learn more about the customs, cultures, and work habits of people in other countries. After all, a business can hardly expect to capture an overseas market without knowledge of the types of goods and services the people there want to buy. Equally important is the need to know the management styles that will be effective in running a foreign operation. Sometimes this information can change quite rapidly. For example, as Russia continues to move from a central to a market economy, management is constantly changing as the country attempts to adjust to increased exposure in the global environment. Russia entered into a strategic partnership with the United States in 2002. However, while U.S. perspectives of "partnerships" are flexible they are generally seen as inherently having some hierarchical structure. Russia, on the other hand, sees "partnerships" as entailing equality, especially in the decision-making process. This may be a part of the reason Russia formed a strategic partnership with China in 2005, since both countries emerged from a communist regime and can understand similar struggles. Regardless, as Russia moves to privatize its organizations, the new partnership may pose a threat to the Americas and the West if efforts to understand each other and work together are abandoned.

It is evident that the United States and Russia differ on many horizons. Russian management is still based on authoritarian styles, where the managerial role is to pass orders down the chain of command, and there is little sense of responsibility, open communication, or voice in the decision-making process. Furthermore, while 64 percent of U.S. employees see retirement as an opportunity for a new chapter in life, only 15 percent of Russian employees feel that way, and another 23 percent see retirement as "the beginning of the end." Despite such differences, there are points of similarity that a U.S. firm can use as leverage when considering opening a business in Russia. About 46 percent of employees in both the United States and Russia would prefer a work schedule that fluctuates between work and leisure, mirroring a pattern of recurring sabbaticals. Also, Russia currently has a post–Cold War mentality, much like the United States experienced after the Great Depression of the 1930s. Looking back at history and incorporating the evolutionary knowledge can assist in understanding emerging economies.

These examples show the importance of studying international management and learning via systematic analysis of culture and history and firsthand information how managers in other countries really do behave toward their employees and their work. Such analysis is critical in a firm's ensuring a strong foothold in effective international management.

Emerging Economies

In contrast to the fully developed countries of North America, Europe, and Asia are the less developed countries (LDCs) around the world. An LDC typically is characterized by two or more of the following: low GDP, slow (or negative) GDP growth per capita, high unemployment, high international debt, a large population, and a workforce that is either unskilled or semiskilled. In some cases, such as in the Middle East, there also is considerable government intervention in economic affairs. Emerging markets are developing economies that exhibit sustained economic reform and growth.

Central and Eastern Europe In 1991, the Soviet Union ceased to exist. Each of the individual republics that made up the U.S.S.R. in turn declared their independence and now are attempting to shift from a centrally planned to a market-based economy. The Russian Republic has the largest population, territory, and influence, but others, such as Ukraine, also are industrialized and potentially important in the global economy. Of most importance to the study of international management are the Russian economic reforms, the dismantling of Russian price controls (allowing supply and demand to determine prices), and privatization (converting the old communist-style public enterprises to private ownership).

Russia's economy continues to grow as poverty declines and the middle class expands. Direct investment in Russia, along with its membership in the International Monetary Fund (IMF), is helping to raise GDP and decrease inflation, offsetting the hyperinflation created from the initial attempt at transitioning to a market-based economy. In addition, the Group of Seven (the United States, Germany, France, England, Canada, Japan, and Italy) has pledged billions of dollars for humanitarian and other types

of assistance. So while the Russian economy likely will have a number of years of painfully slow economic recovery and many recurrent problems, most economic experts predict that if the Russians can hold things together politically and maintain social order, the situation could improve in the long run.

Although these economic reforms are being implemented slowly, there are significant problems in Russia associated with growing crime of all kinds as well as political uncertainty. Many foreign investors feel that the risk is still too high. Russia is such a large market, however, and has so much potential for the future that many MNCs feel they must get involved, especially with a promising rise in GDP. There also has been a movement toward teaching Western-style business courses, as well as MBA programs, in all the Central European countries, creating a greater preparation for trends in globalization.

In Hungary, state-owned hotels have been privatized, and Western firms, attracted by the low cost of highly skilled, professional labor, have been entering into joint ventures with local companies. MNCs also have been making direct investments, as in the case of General Electric's purchase of Tungsram, the giant Hungarian electric company. Another example is Britain's Telfos Holdings, which paid $19 million for 51 percent of Ganz, a Hungarian locomotive and rolling stock manufacturer. Still others include Suzuki's investment of $110 million in a partnership arrangement to produce cars with local manufacturer Autokonzern, Ford Motor's construction of a new $80 million car component plant, and Italy's Ilwa's $25 million purchase of the Salgotarjau Iron Works.

Poland had a head start on the other former communist-bloc countries. General political elections were held in June 1989, and the first noncommunist government was established well before the fall of the Berlin Wall. In 1990, the Communist Polish United Workers Party dissolved, and Lech Walesa was elected president. Earlier than its neighbors, Poland instituted radical economic reforms (characterized as "shock therapy"). Although the relatively swift transition to a market economy has been very difficult for the Polish people, with very high inflation initially, continuing unemployment, and the decline of public services, Poland's economy has done relatively well. However, political instability and risk, large external debts, a deteriorating infrastructure, and only modest education levels have led to continuing economic problems.

Although Russia, the Czech Republic, Hungary, and Poland receive the most media coverage and are among the largest of the former communist countries, others also are struggling to right their economic ships. A small but particularly interesting example is Albania. Ruled ruthlessly by the Stalinist-style dictator Enver Hoxha for over four decades following World War II, Albania was the last, but most devastated, Eastern European country to abandon communism and institute radical economic reforms. At the beginning of the 1990s, Albania started from zero. Industrial output initially fell over 60 percent, and inflation reached 40 percent monthly. Today, Albania still struggles but is slowly making progress.

The key for Albania and the other Eastern European countries is to maintain the social order, establish the rule of law, rebuild the collapsed infrastructure, and get factories and other value-added, job-producing firms up and running. Foreign investment must be forthcoming for these countries to join the global economy. A key challenge for Albania and the other "have-not" Eastern European countries will be to make themselves less risky and more attractive for international business.

China China's GDP has remained strong, growing at 12 percent in 2007, 9 percent in 2008, and 11.5 percent in 2009, despite the global economic crisis. In the first quarter of 2010, GDP grew at a blistering 11.7 percent, causing some concerns that the Chinese government had provided too much liquidity to the economy during the global economic downturn when it sponsored a nearly $600 billion stimulus program. China faces other formidable challenges, including a massive savings glut in the corporate sector, the globalization of manufacturing networks, vast developmental needs, and the requirement for 15–20 million new jobs annually to avoid joblessness and social unrest.[26]

China also remains a major risk for investors. The one country, two systems (communism and capitalism) balance is a delicate one to maintain, and foreign businesses are

often caught in the middle. Most MNCs find it very difficult to do business in and with China. Concerns about undervaluation of China's currency, the remnimbi (also know as the yuan), and continued policies that favor domestic companies over foreign ones, make China a complicated and high-risk venture.[27] Even so, MNCs know that China with its 1.3 billion people will be a major world market and that they must have a presence there.

Trade relations between China and developed countries and regions, such as the United States and the EU, remain tense. In early 2010, a senior Chinese official said that China would not bow to pressure from the United States to revalue its currency, which many in the United States argue is kept artificially low, giving China an unfair advantage in selling its exports. The official, Ma Zhaoxu, a Foreign Ministry spokesman, said at a news conference that "wrongful accusations and pressure will not help solve this issue."[28]

Other Emerging Markets of Asia In addition to Japan and China, there are a number of other important economies in the region, including South Korea, Hong Kong, Singapore, and Taiwan. Together, the countries of the ASEAN bloc are also fueling growth and development in the region.

In South Korea, the major conglomerates, called **chaebols,** include such internationally known firms as Samsung, Daewoo, Hyundai, and the LG Group. Many key managers in these huge firms have attended universities in the West, where in addition to their academic programs they learned western culture, customs, and language. Now they are able to use this information to help formulate competitive international strategies for their firms. This will be very helpful for South Korea, which has shifted to privatizing a wide range of industries and withdrawing some of the restrictions on overall foreign ownership. Like other Asian economies, Korea has done reasonably well throughout the recession of 2008–2009, with a solid economy with moderate growth, moderate inflation, low unemployment, an export surplus, and fairly equal distribution of income.

chaebols
Very large, family-held Korean conglomerates that have considerable political and economic power.

Bordering southeast China and now part of the People's Republic of China (PRC), Hong Kong has been the headquarters for some of the most successful multinational operations in Asia. Although it can rely heavily on southeast China for manufacturing, there is still uncertainty about the future and the role that the Chinese government intends to play in local governance.

Singapore is a major success story. Its solid foundation leaves only the question of how to continue expanding in the face of increasing international competition. To date, however, Singapore has emerged as an urban planner's ideal model and the leader and financial center of Southeast Asia.

Taiwan has progressed from a labor-intensive economy to one that is dominated by more technologically sophisticated industries, including banking, electricity generation, petroleum refining, and computers. Although its economy has also been hit by the downturn in Asia, it continues to steadily grow.

Besides South Korea, Singapore, and Taiwan, other countries of Southeast Asia are also becoming dynamic platforms for growth and development. Thailand, Malaysia, Indonesia, and now Vietnam (see In the International Spotlight at the end of Chapter 2) have developed economically with a relatively large population base and inexpensive labor despite the lack of considerable natural resources. These countries have been known to have social stability, but in the aftermath of the recent economic crisis there has been considerable turmoil in this part of the world. This instability first occurred in Indonesia, the fourth most populous country in the world, and more recently in Thailand, where supporters of exiled former Prime Minister Thaksin, who left the country in the face of corruption charges, engaged in sometimes violent protests that have caused real concern over the stability of the country. Nevertheless, these export-driven Southeast Asian countries remain attractive to outside investors.

India With a population of about 1 billion and growing, India has traditionally had more than its share of political and economic problems. The recent trend of locating software and other higher-value-added services has helped to bolster a large middle- and

upper-class market for goods and services and a GDP that is quickly reaching the level of China. India may soon be viewed as a fully developed country if it can withstand the intense growth period.

For a number of reasons, India is attractive to multinationals, especially U.S. and British firms. Many Indian people speak English, are very well educated, and are known for advanced information technology expertise. Also, the Indian government is providing funds for economic development. For example, India is expanding its telecommunication systems and increasing the number of phone lines fivefold, a market that AT&T is vigorously pursuing. Many frustrations remain in doing business in India (see In the International Spotlight at the end of this chapter), but there is little question that the country will receive increased attention in the years ahead.

Developing Economies on the Verge

Around the world there are many economies that can be considered developing (what might formally have been termed "less developed" or in some cases "least developed") that are worthy of attention and understanding. Some of these economies are on the verge of emerging as impressive contributors to global growth and development.

South America Over the years, countries in South America have had difficult economic problems. They have accumulated heavy foreign debt obligations and experienced severe inflation. Although most have tried to implement economic reforms reducing their debt, periodic economic instability and the emergence of populist leaders have had an impact on the attractiveness of countries in this region.

Brazil's economy has evolved into a flourishing system. Through 2009, GDP continued to rise, inflation decreased, and employment increased. This economy outweighs that of any other South American country and is quickly becoming a worldwide presence. Brazil continues to attract outside investors, partly drawn to opportunities created by Brazil's privatization of power, telecommunications, and other infrastructure sectors. (See the International Management in Action box: Brazilian Economic Reform.) Power companies such as AES and General Electric have constructed more than $20 billion worth of electricity plants throughout the country. At the same time, many other well-known companies have set up operations in Brazil, including Arby's, JCPenney, Kentucky Fried Chicken, McDonald's, and Walmart.[29] All this international business activity should spell success. Brazil has benefited from one of the most stable governments throughout Latin America, which has helped secure the country's place today as the undisputed economic leader of South America.

Chile's market-based economic growth has fluctuated between 3 and 6 percent over the last decade, creating uncertainty in its future. Despite this, Chile attracts a lot of foreign direct investment, mainly dealing with gas, water, electricity, and mining. It continues to participate in globalization by engaging in further trade agreements, including those with Mercosur, China, India, the EU, South Korea, and Mexico.[30]

Argentina has one of the strongest economies overall with abundant natural resources, a highly literate population, an export-oriented agricultural sector, and a diversified industrial base; however, it has suffered the recurring economic problems of inflation, external debt, capital flight, and budget deficits. While the economy continues to fluctuate, Argentina's economy shrank by 5.7 percent in 2008 and .01 percent in 2009 due to the global recession and political instability in the country.

Despite the ups and downs, a major development in South America is the growth of intercountry trade, spurred on by the progress toward free-market policies. For example, beginning in 1995, 90 percent of trade among Mercosur members was duty-free. At the same time, South American countries are increasingly looking to do business with the United States. In fact, a survey of businesspeople from Argentina, Brazil, Chile, Colombia, and Venezuela found that the U.S. market, on average, was more important for them than any other. Some of these countries, however, also are looking outside the

International Management in Action

Brazilian Economic Reform

http://en.wikipedia.org/wiki/Economic_history_of_Brazil
http://www.wto.org/english/tratop_e/tpr_e/tp312_e.htm

Over the past two decades, Brazil's economic reform and progress have been nothing short of spectacular. Beginning with a comprehensive privatization program in the early and mid-1990s under which dozens of state-owned enterprises were sold to commercial interests, Brazil has transformed itself from a relatively closed and frequently unstable economy to one of the global leading "BRIC" countries and the anchor of South American economic development. Brazil's reform, which has included macroeconomic stabilization, liberalization of import and export restrictions, and improved fiscal and monetary management, reflects a definitive break from past inward-looking policies that characterized much of Latin America in the 1960s and 1970s. A critical milestone was the introduction of the Plano Real ("Real Plan"), instituted in the spring of 1994, which sought to break inflationary expectations by pegging the real to the U.S. dollar. Inflation was brought down to single digit annual figures, but not fast enough to avoid substantial real exchange rate appreciation during the transition phase of the Plano Real. This appreciation meant that Brazilian goods were now more expensive relative to goods from other countries, which contributed to large current account deficits. However, no shortage of foreign currency ensued because of the financial community's renewed interest in Brazilian markets as inflation rates stabilized and memories of the debt crisis of the 1980s faded.

The Real Plan successfully eliminated inflation, after many failed attempts to control it. Almost 25 million people turned into consumers. The maintenance of large current account deficits via capital account surpluses became problematic as investors became more risk averse to emerging market exposure as a consequence of the Asian financial crisis in 1997 and the Russian bond default in August 1998. After crafting a fiscal adjustment program and pledging progress on structural reform, Brazil received a $41.5 billion IMF-led international support program in November 1998. In January 1999, the Brazilian Central Bank announced that the real would no longer be pegged to the U.S. dollar. This devaluation helped moderate the downturn in economic growth in 1999 that investors had expressed concerns about over the summer of 1998. Brazil's debt to GDP ratio of 48 percent for 1999 beat the IMF target and helped reassure investors that Brazil will maintain tight fiscal and monetary policy even with a floating currency.

The economy grew 4.4 percent in 2000, but problems in Argentina in 2001, and growing concerns that the presidential candidate considered most likely to win, leftist Luis Inácio Lula da Silva, would default on the debt, triggered a confidence crisis that caused the economy to decelerate. Poverty was down to near 16 percent.

In 2002, Luis Inácio Lula da Silva won the presidential elections, and he was re-elected in 2006. During his government, the economy began to grow more rapidly. In 2004 Brazil saw promising growth of 5.7 percent in GDP; following in 2005 with 3.2 percent growth; in 2006, 4.0 percent; in 2007, 6.1 percent; and in 2008, 5.1 percent growth. Although the financial crisis caused some slowdown in Brazil's economy, it has weathered the period much better than nearly every other economy in the Western Hemisphere. Indeed, confidence in Brazil's economic performance, and the relatively smooth Presidential election and transition in 2010, have resulted in an appreciation of the real in relation to other global currencies, a dramatic turnaround from an earlier era when currency concerns were almost always on the side of depreciation.

Although Brazil remains the world's largest exporter of several agricultural products including beef, chicken, coffee, orange juice, and sugar, the country's international trade and investment relationships have diversified considerably to include manufacturing and services.

Brazil has become the second-biggest destination for foreign direct investment into developing countries after China. For the past two years, Brazil has been the world's fastest-growing car market. Vale (VALE) has become one of the world's biggest mining companies and exports virtually all of its iron ore production to China. Embraer (ERJ) jet, the global leader in small and medium-sized airplanes, is now the world's third-largest manufacturer of passenger jets after Boeing and Airbus. Petrobras is one of the world's largest oil and gas companies and has recently discovered major deposits of both oil and gas off the Brazilian coast. Odebrecht is a Brazilian business conglomerate in the fields of Engineering and Construction and Chemicals and Petrochemicals and is responsible for building a number of large infrastructure projects around the world, including roads, bridges, mass transit systems, more than 30 airports, and sports stadiums such as Florida International University's FIU stadium.

Americas for growth opportunities. Mercosur continues talks with the EU to create free trade between the two blocs, and Chile has joined the Asia-Pacific Economic Cooperation group.[31] These developments help illustrate the economic dynamism of South America and, especially in light of Asia's recent economic problems, explain why so many multinationals are interested in doing business with this part of the world.

Middle East and Central Asia Israel, the Arab countries, Iran, Turkey, and the Central Asian countries of the former Soviet Union are considered by the World Bank to be LDCs.

Because of their oil, however, some of these countries are considered to be economically rich. Recently, this region has been in the world news because of the wars and terrorism concerns in the aftermath of the September 11, 2001, terrorist attack on the United States. However, these countries continue to try to balance geopolitical/religious forces with economic viability and activity in the international business arena. Students of international management should have a working knowledge of these countries' customs, culture, and management practices since most industrial nations rely, at least to some degree, on imported oil and since many people around the world work for international, and specifically Arab, employers.

The Arab and Central Asian countries rely almost exclusively on oil production. The price of oil greatly fluctuates, and the Organization of Petroleum Exporting Countries (OPEC) has trouble holding together its cartel. In recent years the price has been relatively high, and world demand is likely to keep it there. Arab countries have invested billions of dollars in U.S. property and businesses. Many people around the world, including those in the West, work for Arab employers. For example, the bankrupt United Press International was purchased by the Middle East Broadcasting Centre, a London-based MNC owned by the Saudis.

Africa Even though they have considerable natural resources, many African nations remain very poor and undeveloped, and international trade is only beginning to serve as a major source of income. One major problem of doing business in the African continent is the overwhelming diversity of approximately 800 million people, divided into 3,000 tribes, that speak 1,000 languages and dialects. Also, political instability is pervasive, and this instability generates substantial risks for foreign investors.

In recent years, Africa, especially sub-Saharan Africa, has had a number of severe problems. In addition to tragic tribal wars, there has been the spread of terrible diseases such as AIDS and Ebola. In 2002–2003, the WTO agreed to relax intellectual property rights (IPR) rules to allow for greater and less costly access by African countries to antiviral AIDS medications (see the In-Depth Integrative Case at the end of Part One of this text). While globalization has opened up new markets for developed countries, developing nations in Africa lack the institutions, infrastructure, and economic capacity to take full advantage of globalization. Other big problems include poverty, malnutrition, illiteracy, corruption, social breakdown, vanishing resources, overcrowded cities, drought, and homeless refugees. There is still hope in the future for Africa despite this bleak situation, because the potential of African countries remains virtually untapped. Not only are there considerable natural resources, but the diversity itself can also be used to advantage. For example, many African people are familiar with the European cultures and languages of the former colonial powers (e.g., English, French, Dutch, and Portuguese), and this can serve them well in international business as they strive for continued growth. Uncertain times are ahead, but a growing number of MNCs are attempting to make headway in this vast continent. Also, the spirit of these emerging countries has not been broken. There are continuing efforts to stimulate economic growth. Examples of what can be done include Togo, which has sold off many of its state-owned operations and leased a steel-rolling mill to a U.S. investor, and Guinea, which has sold off some of its state-owned enterprises and cut its civil service force by 30 percent. A special case is South Africa, where apartheid, the former white government's policies of racial segregation and oppression, has been dismantled and the healing process is progressing. Long-jailed former black president Nelson Mandela is recognized as a world leader. These significant developments have led to an increasing number of the world's MNCs returning to South Africa; however, there continue to be both social and economic problems that, despite Mandela's and his successors' best efforts, signal uncertain times for the years ahead. One major initiative is the country's Black Economic Empowerment (BEE) program, designed to reintegrate the disenfranchised majority into business and economic life.

Africa's economic growth and dynamism have accelerated in recent years. Real GDP rose by 4.9 percent a year from 2000 through 2008, more than twice its pace in the 1980s and 90s. Telecommunications, banking, and retailing are all flourishing. Many African economies saw their growth accelerate in 2006–2008 due in part to higher

commodity prices. While growth in Sub-Saharan Africa slowed from 5.5 percent in 2008 to 2.1 percent in 2009, the World Bank predicts that output will pick up again in 2010 and 2011 (see Table 1–11). McKinsey, the global consultancy, has found that the rate of return on foreign investment in Africa is actually higher than any other region, offering positive prospects for this historically struggling region.[32]

Table 1–11
Overview of the World Economic Outlook; Projections
(percentage change, unless otherwise noted)

	Year over Year				Q4 over Q4		
			Projections		Estimates	Projections	
	2008	2009	2010	2011	2009	2010	2011
World Output	3.0	−0.6	4.2	4.3	1.7	3.9	4.5
Advanced Economies	0.5	−3.2	2.3	2.4	−0.5	2.2	2.5
United States	0.2	−2.4	3.1	2.6	0.1	2.8	2.4
Euro Area	0.6	−4.1	1.0	1.5	−2.2	1.2	1.8
Germany	1.2	−5.0	1.2	1.7	−2.4	1.2	2.1
France	0.3	−2.2	1.5	1.8	−0.3	1.5	1.9
Italy	−1.3	−5.0	0.8	1.2	−3.0	1.4	1.3
Spain	0.9	−3.6	−0.4	0.9	−3.1	−0.1	1.8
Japan	−1.2	−5.2	1.9	2.0	−1.4	1.6	2.3
United Kingdom	0.5	−4.9	1.3	2.5	−3.1	2.3	2.6
Canada	0.4	−2.6	3.1	3.2	−1.2	3.4	3.3
Other Advanced Economies	1.7	−1.1	3.7	3.9	3.2	2.8	4.4
Newly Industrialized Asian Economies	1.8	−0.9	5.2	4.9	6.1	3.4	5.9
Emerging and Developing Economies	6.1	2.4	6.3	6.5	5.2	6.3	7.3
Central and Eastern Europe	3.0	−3.7	2.8	3.4	1.9	1.3	4.1
Commonwealth of Independent States	5.5	−6.6	4.0	3.6	...	...	...
Russia	5.6	−7.9	4.0	3.3	−3.8	1.7	4.2
Excluding Russia	5.3	−3.5	3.9	4.5	...	...	...
Developing Asia	7.9	6.6	8.7	8.7	8.6	8.9	9.1
China	9.6	8.7	10.0	9.9	10.7	9.4	10.1
India	7.3	5.7	8.8	8.4	6.0	10.9	8.2
ASEAN	4.7	1.7	5.4	5.6	5.0	4.2	6.2
Middle East and North Africa	5.1	2.4	4.5	4.8	...	...	...
Sub-Saharan Africa	5.5	2.1	4.7	5.9	...	...	...
Western Hemisphere	4.3	−1.8	4.0	4.0	...	...	...
Brazil	5.1	−0.2	5.5	4.1	4.3	4.2	4.2
Mexico	1.5	−6.5	4.2	4.5	−2.4	2.3	5.5
Memorandum							
European Union	0.9	−4.1	1.0	1.8	−2.2	1.3	2.0
World Growth Based on Market Exchange Rates	1.8	−2.0	3.2	3.4	...	...	...
World Trade Volume (goods and services)	2.8	−10.7	7.0	6.1	...	...	...
Imports							
Advanced Economies	0.6	−12.0	5.4	4.6	...	...	...
Emerging and Developing Economies	8.5	−8.4	9.7	8.2	...	...	...
Exports							
Advanced Economies	1.9	−11.7	6.6	5.0	...	...	...
Emerging and Developing Economies	4.0	−8.2	8.3	8.4	...	...	...

Source: IMF World Economic Outlook, April 2010.

Table 1–12
World's Most Competitive Nations, 2010

Country	Rank
Singapore	1
Hong Kong	2
USA	3
Switzerland	4
Australia	5
Sweden	6
Canada	7
Taiwan	8
Norway	9
Malaysia	10

Source: World Competitive Scoreboard, 2010.

Table 1–11 shows economic growth rates and projections for major world regions and countries from 2008 to 2011. Of note is the fact that a number of emerging regions and countries are growing faster than developed countries; notably, China, India, and other Asian economies. Table 1–12 ranks the top 10 countries globally on their "competitiveness" as reported by the World Economic Forum. For 2010, Singapore and Hong Kong were ranked first and second, respectively, and Malaysia moved into the top 10 for the first time. Table 1–13 ranks emerging markets according to several key indicators.

The World of International Management—Revisited

In the World of International Management at the start of the chapter you read about how social networks are revolutionizing the nature of international management by allowing producers and consumers to interact directly. Networks are bringing populations of the world closer together. Having read this chapter, you should now be more cognizant of the impacts of globalization and many international linkages among countries, firms, and societies on international management. Although controversial, globalization appears unstoppable. The creation of free-trade agreements worldwide has helped to trigger economic gains in many developing nations. The consolidation and expansion of the EU will continue to open up borders and make it easier and more cost-effective for exporters from less developed countries to do business there. In Asia, formerly closed economies such as India and China have opened up, and other emerging Asian countries such as South Korea, Singapore, Malaysia, and Thailand have begun to bounce back from the economic crises of the late 1990s. In some instances, investment in developing countries has aided in their ability to gain a substantial foothold in the global market. Continued efforts to privatize, deregulate, and liberalize many industries will increase consumer choice and lower prices as competition increases. The rapid growth of social media networks around the world is but one reflection of the interconnected nature of global economies and individuals. In some ways, social media are transcending traditional barriers and impediments to global integration; however, differences in economic systems and approaches persist, making international management an ongoing challenge.

In light of these developments, answer the following questions: (1) What are some of the pros and cons of globalization and free trade? (2) How might the rise of social media result in closer connections (and fewer conflicts) among nations? (3) Which regions of the world are most likely to benefit from globalization and integration in the years to come, and which may experience dislocations?

Table 1–13

Market Potential Indicators Ranking for Emerging Markets, 2009

Countries	Market Size		Market Growth Rate		Market Intensity		Market Consumption Capacity		Commercial Infra-structure		Economic Freedom		Market Receptivity		Country Risk		Overall Index	
	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index	Rank	Index
Singapore	26	1	12	28	2	73	15	57	3	94	6	77	1	100	1	100	1	100
China	1	100	1	100	26	1	13	60	19	34	26	1	18	4	10	55	2	97
Hong Kong	24	1	14	27	1	100	18	48	1	100	2	93	2	69	2	89	3	93
Korea, South	7	10	23	12	6	64	1	100	4	92	5	77	8	15	6	67	4	69
Czech Rep.	22	1	21	17	15	45	2	94	2	94	3	85	9	14	3	77	5	61
Israel	23	1	24	12	3	68	9	74	7	70	7	77	4	23	4	74	6	54
Poland	15	4	13	27	7	63	5	78	6	78	8	70	15	6	8	61	7	53
Hungary	25	1	26	1	4	67	3	90	5	82	4	81	5	16	15	43	8	48
Russia	3	25	8	38	21	29	8	75	8	65	24	7	21	3	12	48	9	40
Malaysia	19	3	17	26	22	27	10	73	9	64	16	45	3	24	9	55	10	36
India	2	38	3	54	23	25	11	60	25	2	17	44	24	3	23	24	11	36
Turkey	8	7	9	38	5	66	14	58	12	49	13	51	19	4	19	35	12	33
Chile	21	2	15	27	12	49	23	24	13	49	1	100	10	13	7	63	13	33
Mexico	6	10	22	16	10	58	22	38	15	46	10	63	6	15	11	51	14	31
Saudi Arabia	13	4	7	39	25	12	7	75	10	59	23	19	11	12	5	72	15	31
Brazil	4	21	11	29	17	44	24	20	14	47	12	54	25	1	14	46	16	26
Egypt	14	4	6	40	11	54	6	75	20	32	22	19	13	6	20	34	17	24
Argentina	12	4	4	53	13	47	20	42	11	56	15	46	20	3	24	14	18	23
Thailand	16	4	10	31	24	22	17	52	16	46	20	38	7	15	17	40	19	18
Pakistan	10	6	5	52	8	61	4	79	24	4	21	28	26	1	26	1	20	17
Peru	20	2	2	56	18	42	21	39	26	1	11	61	17	5	16	40	21	16
Indonesia	5	11	16	26	20	37	16	55	21	30	18	43	22	3	21	27	22	15
Philippines	11	5	25	12	9	59	19	48	22	26	19	38	16	6	22	25	23	8
Venezuela	17	3	18	24	19	37	12	60	18	41	25	5	12	7	25	13	24	3
South Africa	9	6	19	21	16	45	26	1	23	13	9	65	14	6	13	47	25	2
Colombia	18	3	20	17	14	46	25	9	17	41	14	47	23	3	18	35	26	1

Source: GlobalEdge Market Potential Index for Emerging Markets 2009, http://globaledge.msu.edu/resourcedesk/mpi/.

SUMMARY OF KEY POINTS

1. Globalization—the process of increased integration among countries—continues at an accelerated pace. More and more companies—including those from developing countries—are going global, creating opportunities and challenges for the global economy and international management. Globalization has become controversial in some quarters due to perceptions that the distributions of its benefits are uneven and due to the questions raised by offshoring. There have emerged sharp critics of globalization among academics, NGOs, and the developing world, yet the pace of globalization and integration continues unabated.
2. Economic integration is most pronounced in the triad of North America, Europe, and the Pacific Rim. The North American Free Trade Agreement (NAFTA) is turning the region into one giant market. In South America, there is an increasing amount of intercountry trade, sparked by Mercosur. Additionally, trade agreements such as the Central American Free Trade Agreement (CAFTA) are linking countries of the Western Hemisphere together. In Europe, the expansion of the original countries of the European Union (EU) is creating a larger and more diverse union, with dramatic transformation of Central and Eastern European countries such as the Czech Republic, Poland, and Hungary. Asia is another major regional power, as reflected in the rapid growth shown not only by Japan but also the economies of China, India, and other emerging markets. Countries in Africa and the Middle East continue to face complex problems but still hold economic promise for the future. Emerging markets in all regions present both opportunities and challenges for international managers.
3. Different growth rates and shifting demographics are dramatically altering the distribution of economic power around the world. Notably, China's rapid growth will make it the largest economic power in the world by midcentury, if not before. India will be the most populous country in the world, and other emerging markets will also become important players. International trade and investment have been increasing dramatically over the years. Major multinational corporations (MNCs) have holdings throughout the world, from North America to Europe to the Pacific Rim to Africa. Some of these holdings are a result of direct investment; others are partnership arrangements with local firms. Small firms also are finding that they must seek out international markets to survive in the future. MNCs from emerging markets are growing rapidly and expanding their global reach. The internationalization of nearly all business has arrived.
4. Different economic systems characterize different countries and regions. These systems, which include market, command, and mixed economies, are represented in different nations and have changed as economic conditions have evolved.

KEY TERMS

chaebols, *23*
European Union, *11*
foreign direct investment (FDI), *15*
Free Trade Agreement of the Americas (FTAA), *11*
globalization, *6*
international management, *4*
keiretsu, *20*
management, *4*
maquiladora, *19*
Ministry of International Trade and Industry (MITI), *20*
MNC, *4*
North American Free Trade Agreement (NAFTA), *10*
offshoring, *6*
outsourcing, *6*
World Trade Organization (WTO), *9*

REVIEW AND DISCUSSION QUESTIONS

1. How has globalization affected different world regions? What are some of the benefits and costs of globalization for different sectors of society (companies, workers, communities)?
2. How has NAFTA affected the economies of North America and the EU affected Europe? What importance do these economic pacts have for international managers in North America, Europe, and Asia?
3. Why are Russia and Eastern Europe of interest to international managers? Identify and describe some reasons for such interest.
4. Many MNCs have secured a foothold in Asia, and many more are looking to develop business relations there. Why does this region of the world hold such interest for international management? Identify and describe some reasons for such interest.

5. Why would MNCs be interested in South America, India, the Middle East and Central Asia, and Africa, the less developed and emerging countries of the world? Would MNCs be better off focusing their efforts on more industrialized regions? Explain.
6. MNCs from emerging markets (India, China, Brazil) are beginning to challenge the dominance of developed country MNCs. How might MNCs from North America, Europe, and Japan respond to these challenges?

ANSWERS TO THE IN-CHAPTER QUIZ

1. **c.** Procter & Gamble, a U.S.-based MNC that bought Gillette some years back owns the Braun company.
2. **d.** BIC SA is a French company.
3. **d.** Tata Motors, a division of the Indian conglomerate the Tata Group, purchased Jaguar, Land Rover, and related brands from Ford in 2008.
4. **a.** Thomson SA of France produces RCA televisions.
5. **a.** Britain's Grand Metropolitan PLC also sold the Green Giant product line to the Pillsbury Company of the United States.
6. **a.** Godiva chocolate is owned by Campbell Soup, an American firm.
7. **b.** Vaseline is manufactured by the Anglo-Dutch MNC Unilever PLC.
8. **d.** Wrangler jeans are made by the VF Corporation based in the United States.
9. **d.** Holiday Inn is owned by Britain's Bass PLC, recently renamed Six Continents.
10. **c.** Tropicana orange juice was purchased by U.S.-based PepsiCo.

INTERNET EXERCISE: FRANCHISE OPPORTUNITIES AT McDONALD'S

One of the best-known franchise operations in the world is McDonald's, and in recent years, the company has been working to expand its international presence. Why? Because the U.S. market is becoming saturated, and the major growth opportunities lie in the international arena. Visit the McDonald's website www.mcdonalds.com, and find out what is going on in the company. Begin by perusing the latest annual report, and see how well the company is doing both domestically and internationally. Then, turn to the franchise information that is provided, and find out how much it would cost to set up a franchise in the following countries: Belgium, Brazil, South Korea, Mexico, Slovenia, and Turkey. Which seems the most attractive international investment? In addition to this group, in what other countries is the firm seeking franchisees? Would any of these seem particularly attractive to you as investor? Which ones? Why?

Then, based on this assignment and the chapter material, answer these last three questions: (1) Will the fact that the euro has become the standard currency in the EU help or hinder a new McDonald's franchisee in Europe? (2) If there are exciting worldwide opportunities, why does McDonald's not exploit these itself instead of looking for franchisees? (3) What is the logic in McDonald's expansion strategy?

In The International Spotlight

India

India is located in southern Asia, with the Bay of Bengal on the east and the Arabian Sea on the west. One-sixth of the world's population (approximately 1.16 billion people) lives within the country's 1.27 million square miles. Though Hindi is the dominant language in terms of number of speakers (it is the mother tongue to over 40 percent of Indians), India is essentially a multilingual nation with more than 10 other languages spoken by 20 million people or more. Most states are divided along linguistic lines, with different states accepting different "official" languages (one each). English serves as the national language among the educated Indians. The Indian economy derives only a quarter of its output from agriculture, with services contributing almost 55 percent. However, more than 70 percent of Indians are directly or indirectly dependent on agriculture. Three-quarters of Indians live in over 600,000 villages. Many of these communities lack infrastructure such as roads, power, and telecommunications. Hence, India's rural population presents a huge untapped potential for many marketers. The country has operated as a democratic republic since its independence in 1947. At that time, India was born of the partition of the former British Indian empire into the new countries of India and Pakistan. This division has been a source of many problems through the years. For example, much to the dismay of the world community, both countries have had nuclear tests in a cold war atmosphere. Also, many millions of Indians still live at the lowest level of subsistence, and per capita income is very low. India's misaligned central and local public finances have contributed to an overall fiscal deficit of more than 10 percent of GDP.

In the past, doing business in India has been quite difficult. For example, it took PepsiCo three years just to set up a soft drink concentrate factory, and Gillette, the U.S. razor blade company, had to wait eight years for its application to enter the market to be accepted.

In recent years, the government has been relaxing its bureaucratic rules, particularly those relating to foreign investments. In 2000, foreign direct investment exceeded $3 billion and by 2009 had reached $27 billion, making India the third highest recipient of FDI in the world. Although much of this investment has historically come from the United Kingdom and the United States, many Asian investors are also viewing India as an attractive location for new business investment. One reason for this change is that the government realizes many MNCs are making a critical choice: India or China? Additionally, foreign investments are having a very positive effect on the Indian economy. In 2006, GDP increased by more than 8 percent, although slowed to 7.3 and 5.7 percent in 2008 and 2009, respectively. Growth is predicted to accelerate again in 2010 and 2011.

With the disbandment of the "License Raj," a socialist-inspired system that made government permits mandatory for almost every aspect of business, the climate for foreign investment has improved markedly. Coca-Cola was able to get permission for a 100-percent-owned unit in India in eight weeks, and Motorola received clearance in two days to add a new product line. Other companies that have reported rapid progress include DaimlerChrysler, Procter & Gamble, and Whirlpool.

In addition, there are other attractions: (1) a large number of highly educated people, especially in areas such as medicine, engineering, and computer science; (2) widespread use of English, long accepted as the international language of business; and (3) low wages and salaries, which often are 10 to 30 percent of those in the world's economic superpowers. While these factors will continue to have a positive impact, the growing debate over jobs outsourced from the United States could dampen some of the impressive growth prospect for India. Also, the election upset of May 2004, in which the opposition National Congress Party defeated the ruling BJP Party, suggests Indians are concerned about attention to social needs, not just economic growth. However, the Congress-led coalition under Prime Minister Manmohan Singh has continued economic reforms as well. When terrorists who perpetrated violent attacks in Mumbai in November 2008, were traced to a Pakistani organization, there was concern that India's already delicate relationship with its northern neighbor would unravel. To date, the two countries appear to be committed to working toward stability across their long border and broader cooperation. Elections in May 2009 further solidified the Congress Party's coalition as the solid leader of the government.

http://www.infoplease.com/ipa/A0107629.html

Questions

1. What is the climate for doing business in India? Is it supportive of foreign investment?
2. How important is a highly educated human resource pool for MNCs wanting to invest in India? Is it more important for some businesses than for others?
3. Given the low per capita income of the country, why would you still argue for India to be an excellent place to do business in the coming years?

You Be the International Management Consultant

Here Comes the Competition

The Wadson Company is a management research firm headquartered in New Jersey. The company was recently hired by a large conglomerate with a wide range of products, from toys to electronics to financial services. This conglomerate wants Wadson to help identify an acquisition target. The conglomerate is willing to spend up to $2.5 billion to buy a major company anywhere in the world.

One of the things the research firm did was to identify the amount of foreign direct investment in the United States by overseas companies. The research group also compiled a list of major acquisitions by non-U.S. companies. It gathered these data to show the conglomerate the types of industries and companies that are currently attractive to the international buyers. “If we know what outside firms are buying,” the head of the research firm noted, “this can help us identify similar overseas businesses that may also have strong growth potential. In this way, we will not confine our list of recommendations to U.S. firms only.” In terms of direct foreign investment by industry, the researchers found that the greatest investment was being made in manufacturing (almost $100 billion). Then, in descending order, came wholesale trade, petroleum, real estate, and insurance.

On the basis of this information, the conglomerate has decided to purchase a European firm. “The best acquisitions in the United States have already been picked,” the president told the board of directors. “However, I’m convinced that there are highly profitable enterprises in Europe that are ripe for the taking. I’d particularly like to focus my attention on the UK and Germany.” The board gave the president its full support, and the research firm will begin focusing on potential European targets within the next 30 days.

Questions

1. Is Europe likely to be a good area for direct investment during the years ahead?
2. Why is so much foreign money being invested in U.S. manufacturing? Based on your conclusions, what advice would be in order for the conglomerate?
3. If the conglomerate currently does not do business in Europe, what types of problems is it likely to face?