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INTERNATIONAL BUSINESS

97/98



INTERNATIONAL BUSINESS 97/98

Sixth Edition



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Dr. Fred Maidment

Park College

Dr. Fred Maidment is associate professor and department chair of the Department of Business Education at Park College. He received his bachelor's degree from New York University in 1970 and his master's degree from Bernard M. Baruch College of the City University of New York. In 1983 he received his doctorate from the University of South Carolina. His research interests include training and development in industry. He resides in Kansas City, Missouri, with his wife and children.

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Members of the Advisory Board are instrumental in the final selection of articles for each edition of ANNUAL EDITIONS. Their review of articles for content, level, currentness, and appropriateness provides critical direction to the editor and staff. We think that you will find their careful consideration well reflected in this volume.

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To the Reader

In publishing ANNUAL EDITIONS we recognize the enormous role played by the magazines, newspapers, and journals of the *public press* in providing current, first-rate educational information in a broad spectrum of interest areas. Many of these articles are appropriate for students, researchers, and professionals seeking accurate, current material to help bridge the gap between principles and theories and the real world. These articles, however, become more useful for study when those of lasting value are carefully *collected, organized, indexed, and reproduced* in a *low-cost format*, which provides easy and permanent access when the material is needed. That is the role played by ANNUAL EDITIONS. Under the direction of each volume's *academic editor*, who is an expert in the subject area, and with the guidance of an *Advisory Board*, each year we seek to provide in each ANNUAL EDITION a current, well-balanced, carefully selected collection of the best of the public press for your study and enjoyment. We think that you will find this volume useful, and we hope that you will take a moment to let us know what you think.

When the first edition of *Annual Editions: International Business* was being compiled a few years ago, the world was extremely unstable. Power in the Soviet Union was very much in question. Hardliners had conducted a coup against the reform government. On August 19, 1991, Russian president Boris Yeltsin jumped on a tank outside the Russian parliament building and denounced the coup leaders, galvanizing the people to take back their government. On that same day, I was writing the introductory essay for the section of this book that included articles on the Soviet Union. In fact, I was typing the essay at the very moment when the news bulletin reporting Yeltsin's act came over the radio. Needless to say, I had to rewrite the essay.

With the subsequent dissolution of the Soviet Union and the turn to capitalism by its newly independent states, many new opportunities for international business have opened. In the future, virtually all countries and all organizations will be engaged in doing business with other organizations outside of their home countries. Students of business administration and, indeed, all people involved in business need to be aware of the new international environment. They need to recognize the opportunities and the problems associated with doing business outside of their home markets. They need to understand that the same types of opportunities await all who engage in business.

Business must respond to this change in the environment by keeping an open mind about the opportunities available to it on a global basis. The articles that have been chosen for *Annual Editions: International Business 97/98* comprise a cross section of the current literature on the subject. The collection addresses the various aspects of international business, with emphasis on the foundations and environment of international trade and on

how corporations respond to and deal with this environment. To this editor, the general tone of the articles seems to be growing more optimistic than it was a few years ago. This trend has been borne out in this latest edition. No one claims that all the news is good (because it is not) or that all the problems have been solved (because they never will be), but there has been a change. Most of the literature seems to be more hopeful and less bleak and foreboding than it was at the start of the decade. There is more talk about opportunity and success and less talk about problems and failure. A new era seems to be dawning.

This anthology contains a number of features designed to make it useful for people interested in international business. These features include a *topic guide* for locating articles on specific subjects and a *table of contents* with abstracts that summarize each article and draw attention to key words in bold italics. The volume is organized into four units dealing with specific interrelated topics in international business. Each unit begins with an overview that provides the necessary background information to allow the reader to place a selection in the context of the book. Important topics are emphasized, and challenge questions address major themes.

We would like to know what you think about our book. Please take a few minutes to complete and return the postage-paid article rating form in the back of the volume. We need your advice and assistance to help to improve future editions of *Annual Editions: International Business*.



Fred Maidment
Editor

UNIT 1



The Nature of International Business

Seven selections describe the dynamics of today's international business community.

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A. INTRODUCTION TO INTERNATIONAL BUSINESS

1. **Global Growth Is on a Tear**, Louis S. Richman, *Fortune*, March 20, 1995. 6
Economies are expanding all over the world, especially in countries that are not among the industrial elite. Louis Richman discusses what this means.
2. **American Isolationism versus the Global Economy**, Murray Weidenbaum, *Vital Speeches of the Day*, January 15, 1996. 12
Murray Weidenbaum is chairman of the Center for the Study of American Business at Washington University in St. Louis. In this speech before the 14th Annual Monetary and Trade Conference in Philadelphia, he outlines eight basic points that illustrate the changing global environment for decision makers in both the public and private sectors.

B. INTERNATIONAL TRADE AND FOREIGN INVESTMENT

3. **Is America Abandoning Multilateral Trade?** Jeffrey E. Garten, *Foreign Affairs*, November/December 1995. 16
The U.S. government is taking a more aggressive stance in *opening world markets*. Sometimes this involves intense and overt bilateral actions, and some government leaders of other countries are complaining. Jeffrey Garten contends that the U.S. objective has always been increased multinational trade and that the United States continues to strive to achieve this goal.
4. **Second Thoughts on Going Global**, *Business Week*, March 13, 1995. 22
Many companies have been burned when they have entered risky *emerging markets*. But, as this article discusses, many firms are staying in the global arena.

C. ECONOMIC THEORIES ON INTERNATIONAL TRADE, DEVELOPMENT, AND INVESTMENT

5. **The New World Economic Order**, Nilly Ostro-Landau and Hugh D. Menzies, *International Business*, November 1995. 24
How is the relationship between governments and multinational corporations changing now that the cold war is over? Outlines of *the new world economic order* are starting to appear and are discussed in this article.
6. **European Power Brokers**, Udayan Gupta, *International Business*, October 1995. 31
The United States has many high technology start-up firms that are *searching for capital and markets*. These firms are finding that capital and those markets with the help of European partners.
7. **The Barefoot Bank with Cheek**, David Bornstein, *The Atlantic Monthly*, December 1995. 35
Is it possible to provide banking services, successfully, to the poorest of the poor? That is what the Grameen Bank in Bangladesh has done for two decades. There are lessons here to be learned by developed countries when *dealing with the problem of poverty*.

UNIT 2



The International Environment: Organizations and Monetary Systems

Four articles examine international organizations, the international monetary system, and the finance of international businesses.

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A. INTERNATIONAL ORGANIZATIONS

8. From GATT to WTO: The Institutionalization of World Trade, Salil S. Pitroda, *Harvard International Review*, Spring 1995. 42

The international trade order is changing. The new *World Trade Organization (WTO)*, designed to pick up where the General Agreement on Tariffs and Trade (GATT) left off, is described by Salil Pitroda.

9. Challenges in Managing Technology in Transnational Multipartner Networks, John W. Medcof, *Business Horizons*, January/February 1996. 46

As more and more companies seek partners to do business, the relationships that these arrangements create are becoming more important. These networks are difficult to manage, even more so on the global level. John Medcof writes about ways to get the most out of the *multipartner network*.

B. INTERNATIONAL MONETARY SYSTEM AND BALANCE OF PAYMENTS

10. Implementing the Single Banking Market in Europe, Gary C. Zimmerman, *Economic Review (Federal Reserve Bank of San Francisco)*, Number 3, 1995. 54

As the *European Economic Community* moves toward economic if not political integration over the next several years, the banking system is going to be a key player. Gary Zimmerman evaluates progress in making banking Europe-wide so as to increase the pace of commerce on the Continent.

11. International Banking: Coping with the Ups and Downs, Martin Giles, *The Economist*, April 27, 1996. 71

As trade expands, so does banking. But banks, especially large banks, are in a unique position when they are threatened with insolvency. The reasons for this are explored in this article.

Overview 74

A. FINANCIAL FORCES

12. European Monetary Reform: Pitfalls of Central Planning, Kevin Dowd, *USA Today Magazine (Society for the Advancement of Education)*, March 1995. 76

The *European Community (EC)* is trying to use central planning to regulate the free markets of Europe, and it is having problems.

13. Asia Sets a New Challenge, Henny Sender, *Far Eastern Economic Review*, May 2, 1996. 80

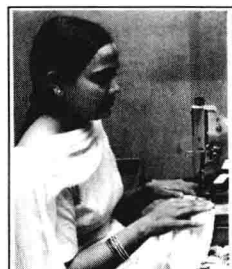
Private banking is no longer the almost exclusive realm of the gnomes of Switzerland. *The market for private banking* is expanding at an incredible rate in Asia, and almost every financial institution is trying to get in on the action.

B. ECONOMIC AND SOCIOECONOMIC FORCES

14. Putting Global Logic First, Kenichi Ohmae, *Harvard Business Review*, January/February 1995. 82

Economics, not politics, will be the driving force on which all else must operate. Nation-states are going to become increasingly uncomfortable with this as their own power, based on politics, erodes and new forms of organization, based on economics, increase in strength.

UNIT 3



Foreign Environment

Fifteen selections discuss how international markets are influenced by the common pressures of financing, the economy, sociocultural dynamics, politics, the legal system, labor relations, and other forces.

C. PHYSICAL FORCES

15. **Third Wave/Third World**, Lynda Radosevich, *Forbes ASAP*, December 4, 1995. 87
With all the talk of high-flying growth rates in various countries of *the developing world*, people tend to forget that many of these countries are still playing catch-up in areas that Westerners simply take for granted. In some countries with very high growth rates, the simple, everyday act of making a telephone call can be a frustrating adventure.
16. **Telekom Europa**, Edward Russell-Walling, *International Business*, December 1995-January 1996. 89
We tend to think of *advanced technological countries* as being more or less uniform in their development, but that is not necessarily the case. Europe has traditionally been a closed market for telecommunications, but now that is changing, and it is likely to be American firms that will lead the way.

D. SOCIOCULTURAL FORCES

17. **Put Your Ethics to a Global Test**, Charlene Marmer Solomon, *Personnel Journal*, January 1996. 93
While the basic ethics of any society remain very similar, there are some *significant differences between societies*. How does a company doing business in a variety of societies approach this issue? The answer is by clearly stating company values, communicating them, and then, the hardest part, living up to them.
18. **Principles for Global Corporate Responsibility**, David M. Schilling and Ruth Rosenbaum, *Business and Society Review*, Summer 1995. 97
David Schilling and Ruth Rosenbaum contend that "traditional methods of monitoring and regulating corporate activities, based on an old nation-state model, are inadequate when applied to global operations." New *codes of conduct for global corporations* and the communities they affect are outlined here.

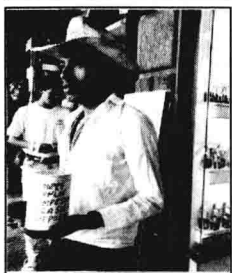
E. POLITICAL FORCES

19. **American Involvement in Vietnam, Part II: Prospects for U.S. Business in a New Era**, Clifford J. Shultz II, William J. Ardrey IV, and Anthony Pecotich, *Business Horizons*, March/April 1995. 99
Twenty years after the fall of Saigon, the U.S. government has lifted *the trade embargo against Vietnam*. The Vietnamese are very interested in American investment. U.S. firms need to consider this opportunity strongly.
20. **Political Risk Analysis in North American Multinationals: An Empirical Review and Assessment**, Frederick Stapenhurst, *The International Executive*, March/April 1995. 106
How do North American multinationals determine the *political risk of various markets*? Frederick Stapenhurst examines the practices used by these organizations to determine political risk.

F. LEGAL FORCES

21. **Group of 7 Defines Policies about Telecommunications**, Nathaniel C. Nash, *New York Times*, February 27, 1995. 115
The world's seven major industrial powers have agreed to open their telecommunication markets. They have also reached an accord on how to approach *the future of telecommunications in the industrialized world*.

UNIT 4



How Management Deals with Environmental Forces

Twenty articles discuss challenging aspects of managing in the international business community.

22. **What GATT Means to Small Business**, John S. DeMott, *Nation's Business*, March 1995. 117

Intellectual property rights have been a major cause of concern for some time, especially with regard to computer software. John DeMott reports on some recent agreements that have addressed these issues.

G. LABOR FORCES

23. **When Cultures Clash: Applying Title VII Abroad**, William Scheibal, *Business Horizons*, September/October 1995. 119

When it comes to hiring women and minorities for executive positions, the United States, despite all of the controversy and pain it has gone through, is one of the most advanced societies in the world. But this creates problems when dealing with countries that are not so advanced. William Scheibal explores the implications of applying Title VII of the Civil Rights Act in an international context.

24. **Role of Labor, Environmental, and Human Rights Groups in Trade: Is There a New Protectionist Cabal?** Robert F. Housman, *The International Executive*, May/June 1995. 124

Is *organized labor*, combined with environmental and human rights groups, trying to restrict trade? Some recent events would suggest that these groups are attempting trade restrictions, but Robert Housman disagrees.

H. COMPETITIVE FORCES

25. **The Harmonization of Standards in the European Union and the Impact on U.S. Business**, Tom Reilly, *Business Horizons*, March/April 1995. 132

The European Union (EU) is moving toward standardization of many products that are sold throughout the EU. Tom Reilly explains some of the challenges and opportunities for American corporations in this wider business environment.

26. **Investing in India: Strategies for Tackling Bureaucratic Hurdles**, Sanjiv Kumar and Leena Thacker-Kumar, *Business Horizons*, January/February 1996. 139

India provides business with some of the greatest areas of opportunity anywhere in the world. Unfortunately, India also has some of the most complicated bureaucracies in the world. Sanjiv Kumar and Leena Thacker-Kumar offer suggestions for effective dealing with these bureaucracies.

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A. MARKET ASSESSMENT AND ANALYSIS

27. **Shock Therapy**, Richard Zelade and Carolina Esquenazi-Shaio, *International Business*, June 1996. 148

The Mexican economy was shattered in 1994 by the crash of the peso. However, the crash caused many positive changes to take place that bode well for the future.

28. **A Note on International Market Leaders and Networks of Strategic Technology Partnering**, John Hagedoorn, *Strategic Management Journal*, March 1995. 151

Many organizations are engaging in *strategic technology partnering* to help them with their research and development. John Hagedoorn looks at the practices of industry leaders in an international context.

B. MARKETING INTERNATIONALLY

29. **Managing Customer Communication**, Nilly Ostro-Landau, *International Business*, June 1995. 160
Europe may now be the largest advanced and "integrated" market, but that does not mean that *communicating with a customer* is easy. Nilly Ostro-Landau demonstrates this with some strategies on how to operate call centers effectively.
30. **Demystifying the Far East**, William H. Miller, *IW/Industry Week*, June 5, 1995. 163
This is a summation of a roundtable discussion of opportunities and *problems in dealing with Asia*. The discussion brought together executives from various industries and countries who have had extensive experience in this fast-growing market.

C. EXPORT AND IMPORT PRACTICES AND PROCEDURES

31. **Maquiladora-ville**, Damon Darlin, *Forbes*, May 6, 1996. 167
Tijuana, Mexico, is a *boom town*, paying four times Mexico's minimum wage, with an unemployment rate a fraction of the rest of the country. Most of the goods produced in Tijuana are sold in the United States. As Tijuana grows, it is going to need expensive improvements to its infrastructure. Otherwise, it may choke on its own prosperity.
32. **Export Channel Design: The Use of Foreign Distributors and Agents**, Daniel C. Bello and Ritu Lohtia, *Journal of the Academy of Marketing Science*, Spring 1995. 169
Which is a better choice, a foreign distributor or an agent? Daniel Bello and Ritu Lohtia provide some ideas on how to make that decision.

D. EAST-WEST RELATIONS

33. **Doing Business in Central and Eastern Europe: Political, Economic, and Cultural Diversity**, Fred Luthans, Richard R. Patrick, and Brett C. Luthans, *Business Horizons*, September/October 1995. 180
Central and Eastern Europe represent great opportunities for many multinational firms. But doing business in the Czech Republic is not the same as doing business in Romania, as this article demonstrates.
34. **Doing Business in China: It's Far from Easy**, S. R. Nair, *USA Today Magazine (Society for the Advancement of Education)*, January 1996. 188
The Chinese economy is growing at a rapid rate. With over one billion potential customers, China represents one of the most potentially fertile grounds for business. But *it is not easy to do business in China*, as S. R. Nair discusses.
35. **Doing Business in Vietnam: A Cultural Guide**, Esmond D. Smith Jr. and Cuong Pham, *Business Horizons*, May/June 1996. 191
Now that U.S. companies can legally do *business in Vietnam*, they need to be aware of the cultural differences between Vietnam and the United States. Not understanding Vietnam and its people cost the United States dearly once, and companies do not want to make the same kind of mistake again.

E. FINANCIAL MANAGEMENT

36. **Europe in the Global Financial World**, Michel Camdessus, 196
Vital Speeches of the Day, May 15, 1996.
As Europe continues to grow closer together, it will be taking a more prominent and active role in the *financial affairs of the entire world*. This enhanced role will also mean increased responsibility in the future, along with greater exposure to worldwide financial uncertainties.
37. **Bubble, Bubble . . .**, Neil Weinberg and Amy Feldman, 199
Forbes, March 11, 1996.
A few years ago the *Japanese stock market* dropped, and the bubble of the market burst as prices for Japanese stocks headed for more realistic ranges. Many people thought that the Japanese had learned their lesson, but perhaps they have not, as these observers warn.

F. PRODUCTION SYSTEMS

38. **The Discreet Charm of Provincial Asia**, *The Economist*, April 27, 1996. 201
Tired of the crowded streets of Manila or Bangkok? Looking for lower costs and far fewer hassles for local officials? Then *setting up shop in provincial Asia* may be for you.
39. **From Major to Minor**, *The Economist*, May 18, 1996. 203
If you think that the *oil giants* have gone away, then you are wrong. They have not gone away, but they have gone a lot farther when it comes to searching for oil. Most of the oil is going to be a lot more expensive to produce than what you put in your car today.

G. LABOR RELATIONS, POLICIES, AND MANAGEMENT

40. **A Global Glance at Work and Family**, Bonnie Michaels, *Personnel Journal*, April 1995. 205
The United States is not the only country with *workplace and family issues*. But American firms can learn from their Asian and European neighbors.

H. STRATEGIC MANAGEMENT AND ORGANIZATION DESIGN

41. **Success Strategies for Russian-Foreign Joint Ventures**, Carl F. Fey, *Business Horizons*, November/December 1995. 209
Someone once said that the Soviet Union was a riddle wrapped in an enigma. Although the Soviet Union is no longer with us, that description may still apply to *Russia*. Carl Fey presents eleven strategies for success that can be employed by International Joint Ventures (IJV) for *doing business in Russia*.
42. **The Son Also Surprises**, Neil King Jr., *Industry Week*, February 6, 1995. 215
Some firms are able to follow a strategy that is *complementary to the strategies of larger organizations* and be very successful. George Loranger, chief executive officer of Loranger Manufacturing Corporation, has learned this in Hungary and in a partnership with Ford Motor Company.

I. CONTROL AND STAFFING

43. **When Sexual Harassment Is a Foreign Affair**, Wendy Hardman and Jacqueline Heidelberg, *Personnel Journal*, April 1996. 218
Workers and the organizations they inhabit are very sensitive to the issue of sexual harassment in the United States. But what happens in firms when it comes to sexual harassment between employees of two *different cultures*? What is acceptable in the United States may not be acceptable elsewhere, and vice versa. Wendy Hardman and Jacqueline Heidelberg shed light on these issues.
44. **HR Pioneers Explore the Road Less Traveled**, Jennifer J. Laabs, *Personnel Journal*, February 1996. 223
This is a report of a three-day think tank for *global human resources (HR) leadership* sponsored by *Personnel Journal*. Those taking part discussed cultural differences, health care issues, employment taxation problems, human resources management systems (HRMS), and many other topics.
45. **One Assignment, Two Lives**, Charlene Marmer Solomon, *Personnel Journal*, May 1996. 228
Today's global manager is often half of a two-career couple. The key to the success of an overseas assignment for one member of the couple is often how well his—or her—spouse adjusts to the new environment. How companies can help the spouse adjust is focused on here.

J. TRENDS AND NEW DIRECTIONS

46. **Toward Global Convergence**, William B. Werther, Jr., *Business Horizons*, January/February 1996. 234
The world's *societies are growing closer together* rather than drifting apart. Television, migration patterns, and modes of dress are all conspiring to throw off the older, nationally centered culture and are ushering in a global culture, promoted by MTV, McDonald's, and rock and roll. What this means for business and society at large is explored by William Werther.

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Sixth Edition

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Topic Guide

This topic guide suggests how the selections in this book relate to topics of traditional concern to students and professionals involved with international business. It is useful for locating articles that relate to each other for reading and research. The guide is arranged alphabetically according to topic. Articles may, of course, treat topics that do not appear in the topic guide. In turn, entries in the topic guide do not necessarily constitute a comprehensive listing of all the contents of each selection.

TOPIC AREA	TREATED IN	TOPIC AREA	TREATED IN
Communications	<ol style="list-style-type: none"> American Isolationism New World Economic Order Challenges in Managing Technology Single Banking Market in Europe International Banking Third Wave/Third World Telekom Europa Put Your Ethics to a Global Test Global Corporate Responsibility Group of 7 When Cultures Clash Role of Labor, Environmental, and Human Rights Groups 	European Union (European Community)	<ol style="list-style-type: none"> Global Growth Is on a Tear Is America Abandoning Multilateral Trade? New World Economic Order European Power Brokers From GATT to WTO Challenges in Managing Technology Single Banking Market in Europe International Banking European Monetary Reform Putting Global Logic First Telekom Europa Put Your Ethics to a Global Test Group of 7 When Cultures Clash Role of Labor, Environmental, and Human Rights Groups Harmonization of Standards in the EU Note on International Market Leaders Managing Customer Communications Europe in the Global Financial World Russian-Foreign Joint Ventures Son Also Surprises Sexual Harassment Is a Foreign Affair HR Pioneers Toward Global Convergence
Developing Countries	<ol style="list-style-type: none"> Global Growth Is on a Tear American Isolationism Is America Abandoning Multilateral Trade? Second Thoughts on Going Global New World Economic Order European Power Brokers Barefoot Bank with Cheek From GATT to WTO Challenges in Managing Technology International Banking Asia Sets a New Challenge Putting Global Logic First Third Wave/Third World Put Your Ethics to a Global Test Global Corporate Responsibility American Involvement in Vietnam Political Risk Analysis What GATT Means to Small Business When Cultures Clash Role of Labor, Environmental, and Human Rights Groups Investing in India Shock Therapy Note on International Market Leaders Demystifying the Far East Maquiladora-ville Export Channel Design Business in Central and Eastern Europe Doing Business in China Doing Business in Vietnam Discreet Charm of Provincial Asia From Major to Minor Global Glance at Work and Family Russian-Foreign Joint Ventures Son Also Surprises Sexual Harassment Is a Foreign Affair HR Pioneers Toward Global Convergence 	Finance	<ol style="list-style-type: none"> Global Growth Is on a Tear Is America Abandoning Multilateral Trade? New World Economic Order European Power Brokers Barefoot Bank with Cheek Single Banking Market in Europe International Banking European Monetary Reform Asia Sets a New Challenge Putting Global Logic First American Involvement in Vietnam Political Risk Analysis What GATT Means to Small Business Investing in India Shock Therapy Note on International Market Leaders Business in Central and Eastern Europe Doing Business in China Europe in the Global Financial World Bubble, Bubble . . . Russian-Foreign Joint Ventures

TOPIC AREA	TREATED IN	TOPIC AREA	TREATED IN
Management	<ul style="list-style-type: none"> 4. Second Thoughts on Going Global 5. New World Economic Order 6. European Power Brokers 7. Barefoot Bank with Cheek 8. From GATT to WTO 9. Challenges in Managing Technology 11. International Banking 13. Asia Sets a New Challenge 14. Putting Global Logic First 15. Third Wave/Third World 16. Telekom Europa 17. Put Your Ethics to a Global Test 18. Global Corporate Responsibility 19. American Involvement in Vietnam 21. Group of 7 22. What GATT Means to Small Business 23. When Cultures Clash 24. Role of Labor, Environmental, and Human Rights Groups 25. Harmonization of Standards in the EU 26. Investing in India 27. Shock Therapy 28. Note on International Market Leaders 30. Demystifying the Far East 31. Maquiladora-ville 33. Business in Central and Eastern Europe 34. Doing Business in China 35. Doing Business in Vietnam 36. Europe in the Global Financial World 37. Bubble, Bubble . . . 38. Discreet Charm of Provincial Asia 39. From Major to Minor 40. Global Glance at Work and Family 41. Russian-Foreign Joint Ventures 42. Son Also Surprises 43. Sexual Harassment Is a Foreign Affair 44. HR Pioneers 45. One Assignment, Two Lives 46. Toward Global Convergence 	Marketing	<ul style="list-style-type: none"> 2. American Isolationism 3. Is America Abandoning Multilateral Trade? 4. Second Thoughts on Going Global 5. New World Economic Order 6. European Power Brokers 7. Barefoot Bank with Cheek 8. From GATT to WTO 9. Challenges in Managing Technology 10. Single Banking Market in Europe 12. European Monetary Reform 13. Asia Sets a New Challenge 14. Putting Global Logic First 16. Telekom Europa 17. Put Your Ethics to a Global Test 22. What GATT Means to Small Business 23. When Cultures Clash 25. Harmonization of Standards in the EU 26. Investing in India 27. Shock Therapy 28. Note on International Market Leaders 29. Managing Customer Communications 30. Demystifying the Far East 31. Maquiladora-ville 32. Export Channel Design 33. Business in Central and Eastern Europe 34. Doing Business in China 35. Doing Business in Vietnam 37. Bubble, Bubble . . . 39. From Major to Minor 42. Son Also Surprises 46. Toward Global Convergence
Manufacturing	<ul style="list-style-type: none"> 1. Global Growth Is on a Tear 2. American Isolationism 3. Is America Abandoning Multilateral Trade? 4. Second Thoughts on Going Global 5. New World Economic Order 6. European Power Brokers 7. Barefoot Bank with Cheek 8. From GATT to WTO 9. Challenges in Managing Technology 14. Putting Global Logic First 15. Third Wave/Third World 16. Telekom Europa 22. What GATT Means to Small Business 23. When Cultures Clash 24. Role of Labor, Environmental, and Human Rights Groups 25. Harmonization of Standards in the EU 26. Investing in India 27. Shock Therapy 28. Note on International Market Leaders 30. Demystifying the Far East 31. Maquiladora-ville 33. Business in Central and Eastern Europe 34. Doing Business in China 37. Bubble, Bubble . . . 38. Discreet Charm of Provincial Asia 39. From Major to Minor 42. Son Also Surprises 	Technology	<ul style="list-style-type: none"> 1. Global Growth Is on a Tear 4. Second Thoughts on Going Global 6. European Power Brokers 7. Barefoot Bank with Cheek 9. Challenges in Managing Technology 10. Single Banking Market in Europe 11. International Banking 13. Asia Sets a New Challenge 14. Putting Global Logic First 15. Third Wave/Third World 16. Telekom Europa 21. Group of 7 24. Role of Labor, Environmental, and Human Rights Groups 25. Harmonization of Standards in the EU 26. Investing in India 28. Note on International Market Leaders 29. Managing Customer Communications 31. Maquiladora-ville 33. Business in Central and Eastern Europe 34. Doing Business in China 35. Doing Business in Vietnam 38. Discreet Charm of Provincial Asia 39. From Major to Minor 41. Russian-Foreign Joint Ventures

The Nature of International Business

- Introduction to International Business (Articles 1 and 2)
- International Trade and Foreign Investment (Articles 3 and 4)
- Economic Theories on International Trade, Development, and Investment (Articles 5-7)

The world is growing smaller each day. Communication and transportation have made planet Earth more closely knit for the people who live on it.

Global growth is accelerating, especially in the developing countries of the Pacific Rim, and it is starting to increase in Latin America. In the first unit article, "Global Growth Is on a Tear," Louis Richman discusses what this means and why it is important. Industrialized countries, such as the United States, Japan, and Germany, will continue to grow, but at a much slower rate than the emerging "tigers" of the Pacific Rim. China, in particular, with over 1 billion people, is a country with tremendous potential. It is, however, a nation with huge needs. The infrastructure needs to be built. Railroads, roads, bridges, sewer systems, and electrification are all desperately needed, and this is where much of China's growth will take place. It will not be easy, and there are risks, especially political risks, but the Chinese prize is so attractive that many Western organizations will willingly accept those risks.

While international trade continues to grow, it continues to become more and more complex. It is a simple equation. The more countries, the more trading blocs, and the more people involved, the more complicated trade becomes. Rules can be set, such as those associated with the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). But the more rules there are, the greater is the potential for gray areas between them. Not only is international trade becoming more complicated, but it is also becoming more competitive. The developing countries of the world are challenging the established countries in a variety of areas. Software is being developed in India; electronics manufacture is leaving Japan and going to other countries in Asia; and textiles, the traditional first step on the road to industrialization, have become major industries in many emerging countries.

The United States, faced with such complexity and competition, must not revert to isolationism and abandon world trade. But, rather, it must embrace it.

When most people think of powerhouse economies in Asia, they tend to think of Japan. However, that may be changing. As with many things, trying to measure something depends on how and what is counted. For now,

Japan may be number one in Asia by most calculations. But is it, really? China is generally rated number two. The United States is considered number one in the world. But is that important? What, exactly, is "The New World Economic Order" discussed by Nilly Ostro-Landau and Hugh Menzies? What will be the relationship between corporations and the governments and societies that spawned them?

Theories of trade are also changing, and the resources necessary to engage in international trade are reflecting this change. In the past, utilitarians talked about the four factors of production—land, the entrepreneur, labor, and capital—and how each country had certain advantages over other countries in these areas. Today, that old analysis does not necessarily work. Transportation and communication have made the relative advantages in the four factors of production less important. The factor of land, or raw material, has been made less imposing by the transportation system. Japan, for example, has virtually no natural resources, yet few would argue with the success of the Japanese economy.

The entrepreneurial factor can be seen everywhere. It is not just North Americans who start new ventures, but Chinese, South Americans, and Europeans. The former Soviet bloc more than demonstrates the ability of former communists to become entrepreneurs, as do developments in mainland China over the past 10 years. Even in Bangladesh, local financing is being used to help small entrepreneurs. True, these new beehives of entrepreneurial activity may have their problems learning to negotiate the world of business, just as infants have difficulty learning to walk. But eventually, just like small children, they will be on their feet and running everywhere.

Even labor, perhaps the most sedentary of all the factors of production, has shown signs of movement. Labor has always been willing to move, but historians have tended to view these movements as migrations of peoples, not as the movement of a mundane factor of production. Emigrations from Europe to Australia, South Africa, and North and South America have been made by people seeking a better life for themselves and their families. This same kind of movement goes on today. Australia is still gaining population through immigration; Europe is experiencing waves of new workers from former

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colonies, whether they are Algerians in France or Indians and Pakistanis in Great Britain; and the United States continues to receive immigrants, both legal and illegal, from all over the world, especially from Latin America. Whatever the reason for immigrating, these people certainly represent potential labor, at least, and they are all seeking better lives.

Finally, capital, or the means of production, has shown an ability to go global. Ever since the start of the industrial revolution, there have been countries that were "developed" (with the means of production) and countries that were "less" or "least" developed (generally without the means of production). But that is starting to change. Because of the global transportation and communications system, the location of production facilities is not as important as it once was. In addition, real and potential growth is now to be found in these developing countries. Any organization that is looking to grow will find it much

easier to do so in an economy that is rapidly expanding than in one that is saturated and growing only as fast as the population. Capital and the division of production are global at last and will be even more so in the future.

Looking Ahead: Challenge Questions

The world is growing smaller. How have improvements in transportation and communication affected international trade?

Economies are growing all over the world, but the most rapid growth is in the emerging countries of the Pacific Rim. How is this important to business people in the strategic planning of their businesses?

How has the mobility of production factors changed their importance when considering theories of international trade?

GLOBAL GROWTH IS ON A TEAR

Developing economies are driving the expansion. If they're smart, companies in the U.S., Japan, and Europe will climb aboard.

Louis S. Richman

Nearly lost in all the dire headlines—MEXICAN PESO COLLAPSES! ECONOMIC AFTERSHOCKS OF JAPAN QUAKE! U.S.-CHINA TRADE WAR LOOMS!—is 1995's Big Event: the beginnings of a global expansion of breathtaking proportions where developing countries, not the usual elite club of rich nations, head the charge. As the chart shows, the 16 largest such economies will average an estimated 6% annual growth in GDP through 1996, more than double the rate of the mature economies of North America, Japan, and Europe. Says economist Miron Mushkat of Lehman Brothers in Hong Kong: "The developing economies are beginning to assume a leadership role as a driver of global growth."

Even more epochal, this enormous shift is taking place in a post-Cold War world where the players compete in economic contests rather than ideological ones. For mature economies, the big opportunity is in riding these winds of change. By becoming more competitive, they can boost exports, create more jobs for themselves, and assure a prosperous future. The U.S. economic rally, an early arrival at the planetary growth party, could even surpass the record expansion of the 1980s.

Risks abound, of course. International investors are understandably nervous of developing economies, particularly after Mexico. And central bankers dread inflation and have their hand perpetually poised over the lever that hikes interest rates. But for all this, the worldwide boom is likely to prove exceptionally durable. For one thing, previous ex-

pansions have seen nations advance—and then tumble—in lock step. This time around, the world's business cycles are more independent of one another. Witness the unilateral timetables that the U.S., Europe, and Japan have followed out of their most recent recessions. Now watch how countries in Asia, East Europe, and Latin America—many of them embracing free markets for the first time—compete as scrappy individuals that can win or lose regardless of other economies.

All this vibrant, self-sustaining growth could keep the more mature economies cooking with increased demand for their products, just as the U.S. benefited from the reconstruction of war-wrecked Europe and Japan in the 1950s and 1960s. But the timing of the 1990s boom catches the traditionally elite waist-deep in sweeping technological and organizational change. The challenge in these countries, says Robert Hormats, vice chairman of Goldman Sachs (International), will be to preserve their competitive edge amid a frenzy unleashed by the worldwide ratcheting up of both supply and demand.

Call it the Restructuring Recovery. New rivals surfacing from every point of the compass are putting heat on manufacturers throughout the U.S., Europe, and Japan to step up investment in their search for efficiencies. In the U.S., for example, gross capital spending on new plant, equipment, and office technologies increased at a near-record rate of 12.5% in 1993 and in 1994. The Organization for Economic Cooperation and Development (OECD), the economic research agency in Paris, forecasts that such investment will continue to increase in 1995 and yet again, for an unprecedented fifth consecutive year, in 1996. In the European Community, capital spending

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