

International Business

Themes and issues
in the modern global economy



Debra Johnson and Colin Turner

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With a challenging new approach to its subject matter, this book addresses international business with globalization as its underlying theme. Illustrating globalization as a phenomenon that is fundamentally altering corporate strategy, the authors consider the complexities of globalization and its impact on international business. By doing so, it is entirely unlike other books on the subject.

The book also discusses subjects often neglected by other studies, such as SMEs and the information economy, while encouraging business students to develop a more international perspective and discard parochial tendencies. It is with this lucid approach that *International Business* provides students with an integrated overview of the field that is theoretical yet highly practical.

The book is divided into three parts:

- globalization and the international business environment;
- enterprise issues in the global economy;
- challenges for the global resource base.

Key topics covered include: regional integration, development and international production, global competition policy, culture and ethics, labour issues, financial integration and greening of international business.

The book also features contemporary international case studies, discussion questions and suggestions for further reading.

Debra Johnson is Senior Lecturer in European and International Business at Hull University Business School. **Colin Turner** is Lecturer in International Business Strategy at Hull University Business School.

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Preface

What makes international business distinctive is the additional layer of complexity that arises from conducting commercial transactions on a cross-border basis. This feature creates unique challenges in terms of governance of the business environment and the managing of diversity in culture and business practices and can have a fundamental impact on the decisions made by firms about whether and how to internationalize.

The above became increasingly clear to us in writing a previous volume on European business. It also became clear that many of the challenges facing business at the European level, where barriers to cross-border transactions had been falling dramatically and deliberately, were being repeated on a broader international stage, only in a more diffuse, more spontaneous and more complex manner than at European level. For example, just as the European Union (EU) deemed it necessary to develop its own merger policy to keep up with the market reality of the Single European Market (SEM), so the issue of regulation of the growing number of mega-mergers resulting from the globalization process is increasingly appearing on the international agenda. Similarly, concerns about social dumping and labour standards, currently exercising many in the international arena, had also been expressed and received a policy response within

the EU. Indeed, parallels with the EU experience can be drawn in relation to many of the issues and chapters within this volume.

The above explains how the idea for this book arose, and to a certain extent, explains our approach to international business that, as with all authors, is deeply rooted in our own specific academic background and preferences. Although, there are certain core aspects of the international business curriculum (such as an emphasis on the multinational firm), there is also a great variation in the range of the curriculum and how the subject is dealt with in international business texts. Some of these texts are re-badged economics books, others are essentially strategy books, whereas others adopt a regional or functional approach. We have deliberately done none of these.

Many books also reflect their own particular cultural context in terms of content, presentation or both. Although conscious of the fact that we are all creatures of our own cultures, we have tried to be as culturally neutral as possible and, despite what is written above about Europe, have tried not to adopt an overly Eurocentric approach. For example, we have attempted to use examples and case studies from across the world.

Our approach is also rooted in the fundamental belief that business students need an

education that, as well as enabling them to develop functional knowledge, skills and understanding, also broadens their outlook in terms of understanding the political, economic and social context of business. In the contemporary world, their horizons needed to broaden to take into account international issues. All too often, the business curriculum is only internationalized in a desultory way, perhaps by the addition of a couple of 'international' sessions at the end of a finance or marketing module. In our view, this is not enough.

We wanted to develop an integrated text in which, although individual chapters can stand alone, there is a common theme underpinning the volume. Our chosen theme is globalization. Although there are opposing views about the degree to which globalization exists or whether the world is globalizing or inter-nationalizing, there is at least some consensus that there has been an increase in the degree of economic interdependence during recent decades. This is a useful starting point for debate and study. It is the extent and implications of such interdependence for business that permeates each of the chapters.

In the process of writing the book, it also quickly became clear that other themes were recurring and making their appearance in more than one chapter. Issues surrounding development and business, the use of information and knowledge as a resource, corporate responsibility and pressure for an expanded policy agenda for international institutions all fall into this category. Indeed, given the concerns about corporate behaviour contributing to the worldwide downturn in shares in the summer of 2002, issues of corporate responsibility could well justify an even more central role in the discussion of international business in the future.

Our intention in approaching individual chapters was to provide a mix of theory and practice. Theory is important to give students a

framework and context for applications and practice. The body of theory chosen is relevant to the subject matter of each chapter but, where appropriate, is linked back to the core concepts of globalization and international integration.

In order to achieve our objective of drawing out the impact of globalizing or internationally integrating forces on economic governance and business and to highlight common themes and linkages, the book itself has been subdivided into three distinct parts dealing with environmental, enterprise and resource issues.

The first part deals with trends and developments in the international economy shaping the business environment and the development of corporate strategies and operations. The first chapter explores the major trends, drivers and patterns in the international economy and discusses those factors that have led commentators to talk of globalization. In the process, it highlights the main questions posed by globalization and tentatively identifies indicators of globalization and ways in which international economic integration affects business. Chapter 2 deals with regional integration, the rise in which parallels the rise of globalization. Key themes, like whether regional integration is complementary to globalization or is liable to fragment international markets, are discussed. Chapter 3 examines the architecture and role of international institutions, the actions of which have a profound effect on the business environment and whose role is profoundly affected by globalization. Indeed, if the trend towards greater international economic integration continues, then there is an argument for enhancing the role of existing institutions or developing new ones. However, international institutions have been roundly criticized by non-government organizations (NGOs) for a wide variety of reasons. The chapter throws the spotlight on the critics and their attacks on international institutions. The final chapter of this part looks at the thorny

problem of development and globalization and at differential regional development patterns, identifying those regions that have managed to integrate themselves into world production and trading systems and those that have become increasingly marginalized. In the process, it sets out different theoretical explanations of the development process and links development to the growing integration of production networks.

The second part focuses on the enterprise within the international context. Chapter 5 is concerned with the multinational enterprise and traces the evolution of theory regarding why firms become international and discusses the various options available to them in deciding how to go international. The following chapters discuss the internationalization of small and medium-sized enterprises (SMEs), important but often neglected actors in international business. The focus is on whether and how globalization tendencies offer them opportunities to extend beyond their traditional markets or whether they are threatened by such trends. Particular emphasis is placed on the interface between SMEs and electronic commerce and the potential for policy initiatives to help SMEs overcome obstacles to internationalization. Chapters 7 and 8 examine product and services markets, which are subject to and altered by increasing international competition. Much of the emphasis of these chapters is on international regulation and its implications for these markets. The two final enterprise chapters concern competition and ethical and cultural issues that have to be confronted when conducting business across borders.

The final part of this volume is based on the premise that as firms become more global, or inter-national (depending on one's view of the growing interdependence that is under way), they will increasingly source their needs from

more diverse international factor markets. The following chapters not only analyse traditional factors such as capital and labour but also treat information, the environment and natural resources such as energy and water as vital production factors. Key issues raised in these chapters range from the ethical (labour and the exploitation of resources) to concerns about the possibility of 'races to the bottom' (labour and the environment again) and the scarcity of resources (the environment and energy). A common theme in each chapter is how these factors of production are feeding into a growing pressure for regulation above the level of the nation state and how some of the issues surrounding these factors are contributing to the reconsideration of the configuration of firms' production systems and value chains.

The final chapter briefly draws together recurrent themes and how they relate to international business.

The reader is the best judge of the extent to which we have achieved our objectives. The project turned out to be more ambitious than anticipated but it also confirmed how important it is to encourage the development of an international perspective and to discourage parochialism in business graduates. While it is certainly true that not all business graduates will end up working for multinationals, we do believe that virtually all businesses and their employees these days are affected by international developments, whether it is international regulations or the entry of foreign actors into their domestic market. An international perspective enables business, including those with a primary or sole focus on the domestic market, to anticipate such developments and respond to them more effectively.

Debra Johnson and Colin Turner
Hull, July 2002

Abbreviations

ACP	Africa Caribbean Pacific	CITES	Convention on International Trade in Endangered Species
ATC	Agreement on Textiles and Clothing	COMESA	Common Market for Eastern and Southern Africa
AFTA	Asian Free Trade Area	CTE	Committee on Trade and Environment
AGOA	Africa Growth and Opportunity Act	DSU	Dispute Settlement Understanding
APEC	Asia Pacific Economic Cooperation	EFF	Extended Fund Facility
ASEAN	Association of Southeast Asian Nations	EFTA	European Free Trade Area
ATC	Agreement on Textiles and Clothing	EKC	Environmental Kuznets Curve
BIS	Bank for International Settlements	EMAS	Environmental Management and Audit Scheme
BOO	Build-own-operate	EMIT	Group on Environmental Measures and International Trade
BOOT	Build-own-operate-transfer	EMS	Environmental management system
BOT	Build-operate-transfer	EOR	Enhanced oil recovery
BTU	British thermal unit	EPZ	Export processing zone
CARICOM	Caribbean Community and Common Market	ERM	Exchange Rate Mechanism
CBD	Convention on Biological Diversity	ESI	Electricity supply industry
CBTPA	Caribbean Basin Trade Partnership Act	EU	European Union
CCL	Contingent Credit Line	FDI	Foreign direct investment
CET	Common external tariff	FSA	Firm-specific advantage
CIA	Central Intelligence Agency	FSU	Former Soviet Union
CIS	Commonwealth of Independent States	FTAA	Free Trade Area of the Americas

Abbreviations

FTC	Federal Trade Commission	ILSA	Iran Libya Sanctions Act
G-7	Group of Seven (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States)	IMF	International Monetary Fund
		IMS	International Monetary System
G-8	The same as the G-7 plus Russia	IOU	Investor-owned utility
GATS	General Agreement on Trade in Services	IPR	Intellectual property rights
GATT	General Agreement on Tariffs and Trade	ISO	International Organization for Standardization
GBT	General Agreement on Basic Telecommunications	ITA	Information Technology Agreement
GDP	Gross domestic product	ITO	International Trade Organization
GMO	Genetically modified organism	ITU	International Telecommunication Union
GNP	Gross national product	LDC	Least developed country
GSP	Generalized System of Preferences	LSE	Large-scale enterprise
		M&A	Merger and acquisition
HIPC	Heavily indebted poor countries	MAI	Multilateral Agreement on Investment
HRM	Human resource management	MEA	Multilateral environmental agreement
IBRD	International Bank for Reconstruction and Development	MFA	Multi-fibre Arrangement
		MFN	Most favoured nation
ICPAC	[US] International Competition Policy Advisory Committee	MIGA	Multilateral Investment Guarantee Agency
		MNE	Multinational enterprise
ICSID	International Centre for the Settlement of Investment Disputes	NAALC	North American Agreement on Labour Cooperation
		NAFTA	North American Free Trade Area
ICT	Information and communication technology	NAO	National Administrative Office
IDA	International Development Agency	NGO	Non-governmental organization
IEA	International Energy Agency	NICs	Newly industrialized countries
IFC	International Finance Corporation	NSI	Network Spread Index
ILLR	International lender of last resort	NTB	Non-tariff barrier
		OBM	Original brand manufacturing
ILO	International Labour Organization	OECD	Organization for Economic Cooperation and Development

OEEC	Organization for European Economic Cooperation	TED	Turtle excluding device
OEM	Original equipment manufacturing	TMB	Textiles Monitoring Body
OPEC	Organization of Petroleum Exporting Countries	TNI	Transnationality Index
PLC	Public Limited Company	TRIMs	Trade-related investment measures
PPP	Polluter pays principle	TRIPs	Trade-related Aspects of Intellectual Property Rights
PTA	Preferential trade area/ agreement	UDHR	Universal Declaration of Human Rights
R&D	Research and development	UN	United Nations
SADC	South African Development Community	UNCTAD	United Nations Conference for Trade and Development
SAP	Structural Adjustment Programme	UNDP	United Nations Development Programme
SDR	Special drawing right [from IMF]	UNEP	United Nations Environmental Programme
SEA	Single European Act	UNFCCC	United Nations Framework Convention on Climate Change
SEM	Single European Market		
SME	Small and medium-sized enterprise	UNHCR	UN High Commission for Refugees
SPS	Sanitary and Phytosanitary measures	UPU	Universal Postal Union
SRF	Supplementary Reserve Facility	USSR	Union of Soviet Socialist Republics
SWOT	Strengths, weaknesses, opportunities, threats	VER	Voluntary export restraint
toe	Tonnes of oil equivalent	WHO	World Health Organization
TBT	Technical Barriers to Trade	WIPO	World Intellectual Property Organization
		WTO	World Trade Organization

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Part I

Globalization and the International Business Environment

The degree to which business is internationalized is a function of changes and developments in the world economy. Central to these developments in recent years is the process of globalization or increased global interdependence which many allege took place in the closing decades of the twentieth century. The globalization process is pervasive and provides the backdrop for many of the issues and ideas discussed throughout this volume. Not only globalization but also issues of the governance of international business and development, raised initially in this first part, recur in later chapters.

The opening chapter of this part discusses the characteristics of globalization, introduces various arguments about the uniqueness or otherwise of current trends and sets out some preliminary indicators that help assess the degree to which globalization has taken place. The remaining chapters are both important in their own right and are also presented in connection with their relationship to globalization. For example, regional integration has accelerated in recent years, a development that has significant implications for the regulation and governance of international business, trade and investment. It is legitimate to ask the question whether the renewed impetus towards regional integration complements the increasing integration at international level or whether it is a reaction to it. Even if the former is the case, is it possible that enhanced regional integration could still facilitate fragmentation of the marketplace if globalization begins to unravel?

Globalization has also thrown up new challenges for the world's international economic institutions like the World Trade Organization (WTO), the World Bank and the International Monetary Fund (IMF). The establishment of the WTO in 1995 represented a more extensive and legally grounded international trading system. The pressures of globalization imply a need for an even greater shift of regulation and powers to international institutions. Anti-globalization protestors single out international institutions as the servants of international business and the cause of many of the world's ills. Many of these ills are said to reside in the developing world which, according to globalization critics, is excluded from any benefits of greater international integration and, at worst, exploited for the benefit of wealthier countries. The final chapter of this part is on development and attempts to highlight some of the complexity of the arguments and theories surrounding development and identify how the development process interacts with international business activity.

