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世界工商管理名典系列（影印版）

The Manager in the International Economy

Seventh Edition

国际经济中的经理

（第七版）

Raymond Vernon
Louis T. Wells
Subramanian Rangan

清华大学出版社
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出版说明

为了适应我国社会主义市场经济的建设和发展，满足国内广大读者了解、学习和借鉴国外先进的管理经验和掌握经济理论的前沿动态，清华大学出版社与 Prentice Hall 国际出版公司合作影印出版一系列英文版经济管理方面的图书。我们所选择的图书，基本上是已再版多次、在国外深受欢迎、并被广泛采用的优秀教材，绝大部分是该领域中较具权威性的经典之作。在选书的过程中，我们得到了很多专家、学者的支持、帮助与鼓励，在此深表谢意！本书由对外经济贸易大学国际工商管理学院马春光教授审阅，在此一并致谢！

由于原作者所处国家的政治、经济和文化背景等与我国不同，对书中所持观点，敬请广大读者在阅读过程中注意加以分析和鉴别。

我们期望这套影印书的出版对我国经济科学的发展能有所帮助，对我国经济管理专业的教学能有所促进。

欢迎广大读者给我们提出宝贵的意见和建议；同时也欢迎有关的专业人士向我们推荐您所接触到的国外优秀图书。

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Preface

This is the seventh edition of a book that is intended to introduce the reader to the international economy from the perspective of a manager in international business.

The international economic environment, as the reader hardly needs to be told, has changed profoundly over the past two decades. Old institutions have been swept away; old assumptions have been altered. We were determined to try to capture some of the dimensions of that shift in the present edition.

Another factor of importance has shaped this edition. In the past decade or two, scholars all around the world have done exhaustive studies of operations of the multinational enterprise. In that period of intensive study, a stream of materials and concepts has emerged that illuminates the strategies, structures, practices, and effects of such enterprises. With the addition of a third author, Subramanian Rangan, we have tried to give these materials greatly added emphasis.

We have chosen the uninhibited course of presenting principles and concepts from the economic discipline (and other disciplines, for that matter) whenever we thought the ideas useful, while disregarding the contributions of the disciplines when we thought them irrelevant in this context. For instance, our use of trade theory and monetary theory in the explanation of international economic behavior is balanced quite differently from the presentation in standard textbooks.

Of course, many of the problems in the international economy can derive little help from the familiar precepts of the disciplines. As a rule, the problems encountered in the international economy are shrouded in uncertainty and risk. And commonly, the markets that managers encounter in the international economy are grossly inefficient.

Happily, economists in recent years have been giving greatly increased attention to the behavior of markets under such conditions. But it will be some time before their work produces much guidance for the manager. Besides, for many problems, such as those involving foreign exchange risk, there is a need to couple propositions from various disciplines, such as economics and political science, in ways that may not be satisfying to either. Accordingly, we have not hesitated to stray beyond the solid structure of the disciplines whenever we thought that something systematic might usefully be said bearing on the problems of enterprises in the international economy.

Most textbooks come very close to being stolen intellectual goods. Proper acknowledgments for the contributions that go into the making of a textbook, therefore, present a real problem for any author. The situation could hardly be otherwise. The job of a textbook is largely to present the current state of the art. Few scholars individually can do much more than add a few insights, a few clarifications, to a body of ideas already formulated by the culture that spawned them. Inevitably, that is the character of this book.

The present revision benefited from comments by Heidi Vernon-Wortzel, Robert Z. Lawrence, and F. M. Scherer.

Raymond Vernon
Louis T. Wells, Jr.
Subramanian Rangan

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CHAPTER 1

The International Economy: A Manager's Perspective

Welcome to the seventh edition of *The Manager in the International Economy.* The goal of this text is to equip you, the reader-manager or reader-manager-to-be, with a solid understanding of the forces that influence and shape the economic environment in which you have to make your *international* business decisions, and in which you have to build and manage international economic relationships with foreign affiliates, parents, customers, suppliers, competitors, financiers, and host and home governments.

Consider just a few hypothetical illustrations of the challenges and opportunities that international business poses for corporate managers throughout the world:

- You are vice president of operations at Volvo of Sweden. The good news is that your 850 model is selling so briskly in the United States that you are barely able to keep up with demand. The bad news is that the U.S. dollar is continuing to weaken against the Swedish krona and, as a result, putting pressure on your U.S. margins. Should you raise the 850's sticker price and risk losing the momentum you presently enjoy? Should you take lower margins now and figure out another way to manage the exchange rate mismatch between your krona costs and dollar revenues? Can the strategy you devise to deal with this situation also incorporate a response to Mercedes' and BMW's decision to begin producing vehicles in the United States? How in your response do you plan to factor in the importance of scale?
- It is Monday morning in San Francisco. As you head to your job at Apple Computer, where you are chief of corporate strategy, you read the following newspaper headline: "U.S. to Continue China's MFN Trade Status." You are instinctively relieved since your company has substantial interests in China, but you ponder the headline as you drive in. What would be the strategic implications

for your company if China were denied most-favored-nation (MFN) status? You also wonder whether China's application to join the World Trade Organization (WTO) will be ratified and then you ask yourself: How do the WTO and other international arrangements concerning trade and investment really affect my business and its future? Does today's news change the company's bargaining position vis-à-vis China's government?

- As a member of a special task force at USAir, a large passenger airline in the United States, you have been asked to brief the board of directors on the soundness of the carrier's proposed merger with British Airways. Although you believe the European Union market to be important, you know that economic forecasts for air traffic growth in Europe don't provide sufficient justification for the merger. On the other hand, you believe that the alliances that other U.S.-based carriers have with European-based ones—such as Delta's with Swissair, Northwest's with KLM, and United's with Lufthansa—make it important that USAir maintain and strengthen its links with British Airways. What risks and uncertainties are you using this alliance to hedge against? In what areas and to what degree do you anticipate learning as a result of this alliance? What arguments will you present to the board?

To be sure, these hypothetical illustrations pose hard, and even perplexing, questions. Clearcut answers will be difficult and rare. Indeed, the answer is likely to be: It depends. It depends on the particular competencies that the firm in question and its management possess; on management's perceptions of how lead rivals might react; and so on. Besides, the imponderables will often overwhelm the little information that is known for certain; at other times, random events, quite out of the control of the managers or the corporation, will determine the outcome. But there are also occasions when corporate managers are not well informed or exercise poor judgment because they lack an understanding of the economic, political, and institutional aspects of the international economy they operate in. It is here that this text will help. Although it is unlikely that the pages of a single text like this can capture the dynamism of the international economy in its entirety, you—the reader—should come away with

- A recognition and understanding of the primary actors in international business, namely, multinational enterprises; their origins, motivations, and modes of operating in the international economy.
- A thorough grasp of the core concepts and frameworks in international strategy and international management.
- An analytical understanding of the core precepts in international economics.
- An appreciation for the roles and motivations of the other set of key actors in international business, namely, host and home governments.
- A comfortable familiarity with the origins, domains, and functioning of international economic institutions and agreements—such as the General Agreement

on Tariffs and Trade (GATT), the World Trade Organization (WTO), the European Union (EU), the Organization for Economic Cooperation and Development (OECD), and the North American Free Trade Agreement (NAFTA)—that attempt to oversee and regulate the international economy.

- And most of all, a deep appreciation for the goals and roles of the corporate manager on the frontiers of international business.

Let us begin at the beginning. Let us consider briefly this question: What are the origins of international business, and how did the global economy come to take its present shape?

A Synoptic History of International Business

Looking at the clamor toward "internationalization" among businesses, we can easily be led to believe that the developments we are about to study are not only powerful but also *new*. On some aspects, such as Japan's prominence in outward foreign direct investment, both sentiments are justified, but by and large, the international economy has been a work in progress for some time.

The Early Period

Foreign commerce has been part of the human endeavor since very early times. Over 4,000 years ago, Egypt built a sea trade with cities in what we know today as the Middle East, and the Sumerians, who inhabited the region of present-day Iraq, traded with Asia Minor and Syria. What is more, as early as 2500 B.C., the Sumerians stationed their own agents to receive, store, and sell goods in foreign lands.[1]

Early *trade*, as the word itself connotes, was conducted largely in the form of barter, with goods being exchanged for goods. Progress in the form of coinage came around 700 B.C. when the king of Lydia, the western part of what is now Turkey, affixed his seal on *electrum*, an alloy of gold and silver, thereby attesting to its weight and quality. The innovation spread to other communities, and it is thought that by the 6th or 5th centuries B.C., primitive foreign exchange markets had begun to develop.[2]

Although international exchange, along with other aspects of civilization, suffered a setback during the period known as the Dark Ages (which began with the fall of Rome circa A.D. 400 and ended around the 11th century), trade picked up in the Middle Ages and flourished particularly after the fifteenth century when the European voyages of discovery began. These were the heady days of Portugal whose

[1]Mira Wilkins, *The Emergence of Multinational Enterprise* (Cambridge, Mass.: Harvard University Press, 1970), p. 3.

[2]Paul Einzig, *The History of Foreign Exchange* (London: Macmillan, 1970), chap. 2.

Vasco da Gama set sail on a historic expedition in 1497 and discovered the sea route to India by way of Africa's southern cape, a route still in use today.

As today, trade in early times allowed people to capitalize on regional differences in natural endowments, enabled them to consume variety, provided a method of enjoying the fruits of specialization, and created wealth. In fact, the creation of wealth was a central theme in the early theories of international trade that emerged during the seventeenth century. During this period, modern nation-states were being formed, and the rulers of these new nations sought to consolidate power and authority through the accumulation of gold and silver. They had to raise armies to fend off domestic challenge, and they had to build ships to compete for empire abroad. How to do this? By maximizing exports, minimizing imports, and bringing home the difference in precious metals. This powerful, but flawed, belief that trade surpluses, encashed in *specie*, created national wealth is termed *mercantilism.*

Mercantilism came under attack in 1756 from Scottish philosopher David Hume (1711–1776). He argued that the quantity and value of imports that a nation's exports can purchase is ultimately what is important to the people of the exporting nation, not the amount of gold or silver its rulers amassed. Furthermore, he argued, a rise in a nation's stocks of precious metals would cause domestic prices to rise, which, in turn, would lead to a drop in exports and an outflow of the very specie whose inflow was sought earlier.

A generation later, another famous Scotsman, Adam Smith (1723–1790), seconded Hume's attacks on mercantilism by arguing that international trade would bring an efficient allocation of resources. But it wasn't until an English economist named David Ricardo (1772–1823) came along in 1817 that the world was introduced to the theory of *comparative advantage*. For these contributions, Hume, Smith, and Ricardo are acknowledged as the founders of the body of knowledge we now call international economics. Of course, substantial advances in thinking have occurred since their day, and Chapter 6 will pick up on these and the later developments in our understanding of international economics.

Maturing of the Modern Corporation

Even while the rudiments of international trade theory were being developed and debated, a socioeconomic invention of critical importance was being made and slowly adopted in Britain and America. That invention was the modern business corporation.

Business historians identify the East India Company as perhaps the best known early example of a joint-stock private corporation. Initially, private investors in the company, which was chartered in 1600, pooled resources and bought shares in the individual ocean voyages that the company undertook. Later, investor participation grew more stable. Like the East India Company, other corporations in Britain were chartered and given official monopoly status to pursue "assigned missions," often entailing activities conducted on behalf of the Crown. In fact, many such corporations were used to colonize America before its independence. These were quasi-state enterprises, however, operating under the mantle of the king and deriving their power and right to immortality from the royal house itself.[3]

It was only after America won its independence that this mode of organizing economic activity really evolved under private, as opposed to quasi-state, ownership. Both in public and private spheres, from the building of turnpikes and railroads to banking and industry, private initiative flourished in America. Indeed, by 1801, just a few years after independence, the United States had more than 350 such enterprises. And half a century later, large industrial firms were making their mark, building their positions on the corporate form, on the advantages of large scale, and on the mastery of modern industrial technologies. Outside the United States, Britain, France, and Germany were prominent in spawning the leading firms in chemicals, pharmaceuticals, machinery, and electrical products, as well as in oil and the nonferrous metals.

These leaders, bearing such familiar names as Pechiney, Hoechst, Dupont, Standard Oil, and General Electric, seemed to have little stomach at the time for the rough-and-tumble competition in which they would be engaged a century later. Being leaders within their own national markets, they instinctively sought to avoid the bruising contact that international competition might produce.

Accordingly, until the outbreak of World War II, these national leaders were constantly forming and reforming international agreements among themselves aimed at suppressing international competition. Since only three or four leaders existed in world markets in any major product line, such agreements were feasible enough. Elaborate agreements in petroleum, pharmaceuticals, electric light bulbs, steel, and hundreds of other products were put in place, aimed at dividing markets, avoiding price-cutting, stabilizing production, and holding technological changes in check.

World War II ended the prominent role of such agreements in international trade. In any case the U.S. participants had always been uncertain partners in these arrangements, being concerned about the power and reach of the U.S. antitrust laws. From the outbreak of World War II until the 1960s, U.S. firms had no need for protection from European competitors and no desire to tie their own hands in international competition. By the 1960s, the eggs had been thoroughly scrambled, with U.S.-owned subsidiaries firmly established in the major markets of Europe and in many of the ex-colonies and other reserved areas of their European competitors.

Why was the modern corporation so critical in the evolution of international business? Because it provided both an excellent mechanism for raising huge amounts of capital and an effective organizational device for administering large ongoing enterprises. Indeed, the modern corporation was the institutional vehicle that made the Industrial Revolution and the growth of national enterprise possible. And, while we can find exceptions to the generalization, by and large, national scope was a prerequisite for international expansion.

Although the invention of the modern corporation was an indispensable element in the evolution and growth of international business, it is unlikely that the contours

[3]See Thomas K. McCraw, "The Evolution of the Corporation in the United States," in John R. Meyer and James M. Gustafson (eds.), *The U.S. Business Corporation* (Cambridge, Mass.: Ballinger, 1988).

of the international economy would look the way they do today were it not for the stream of technological innovations, particularly in telecommunication and transportation, that occurred during this period. Whereas in the mid-nineteenth century sailing-packets took about 21 days to cross the Atlantic, by the 1880s passenger-carrying steamships were making the voyage in 5 to 6 days. And whereas long-distance communication was earlier tied to transportation, the first transatlantic cable, which was laid in 1866, forever broke the tie. Later, with advances in electricity, mass production became possible. With radio and television, mass marketing appeared on the scene. Affordable air travel, telex, and long-distance direct-dial telephones totally revolutionized the manner in which commerce proceeded.

By the 1950s and 1960s, the United States and its corporations enjoyed an unprecedented lead in the world economy. To solidify and secure their foreign markets, from scale-intensive industries such as autos to research and development-intensive industries such as chemicals, computers, and scientific instruments, American companies branched out and set up foreign operations. Consumer-products companies such as Procter & Gamble were involved in similar expansion.

In a telling commentary about the period, *Business Week* declared in an April 1963 special report on multinational corporations that:

> To find a GM executive working out of a hotel in Johannesburg or . . . a Du Pont plastics expert conferring with a Japanese partner in Osaka is business-as-usual. . . . After all, American companies have spent the past decade running a helter-skelter race to get located overseas. . . . Shaped in the crucible of complex foreign competition, the largest of U.S. corporations—and smaller ones, too—have found themselves changing into a new form: the multinational corporation. . . . A multinational company's management sees its enterprise as a global entity. It sees its foreign and domestic interests interwoven into a web of carefully integrated parts. . . . What U.S. business is seeing, in the words of Chmn. Frederic G. Donner of General Motors, "is the emergence of the modern industrial corporation as an institution that is transcending national boundaries."

The Era of Globalization

Even though signs of internationalization were already visible during the 1960s, it was only during the 1970s and especially the 1980s that the trends we now associate with globalization emerged. Prime among them was a tremendous escalation in international competition. To appreciate the magnitude and speed with which things happened, consider the fact that during the oil shocks and stagflation-afflicted decade of the 1970s, world trade grew nearly 20 percent faster per annum than world output (4.0 percent compared to 3.4 percent per annum). The disparity intensified sharply during the 1980s and early 1990s, during which period international trade grew roughly 60 percent faster per annum than world output (4.9 percent compared to 3.0 percent).[4]

[4] World Bank, *World Development Report 1994* (New York: Oxford University Press, 1994), Tables 2 and 13.

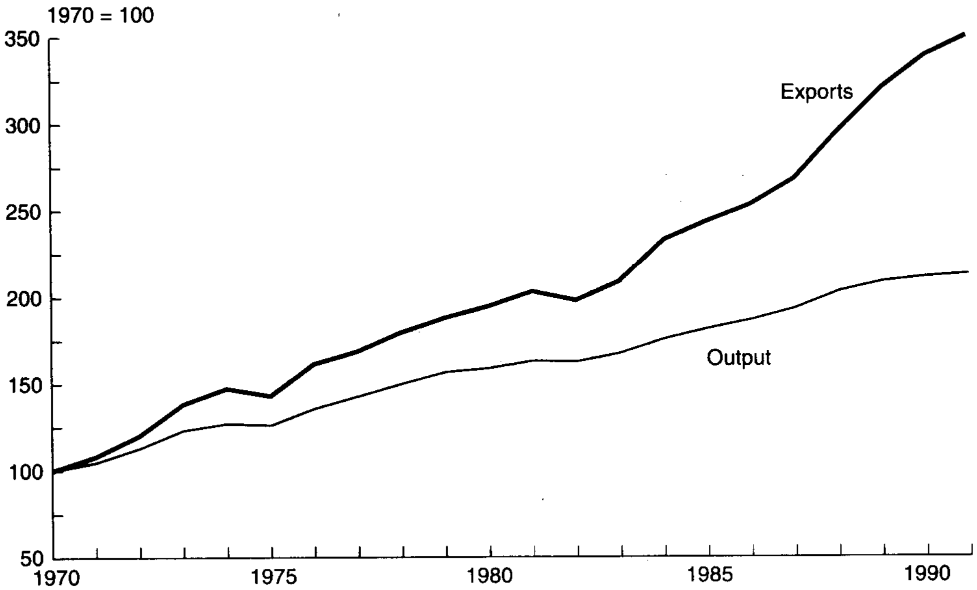

Figure 1-1 Growth in Volume of World Manufacturing Exports and Output, 1970–1991
Source: GATT, *International Trade: Statistics* (Geneva: GATT), various issues.

In terms of relative shares, two large countries, the United States and Japan, have been at opposite ends of these developments. For instance, in 1960 American companies manufactured nearly half the world's motor vehicles compared to about 2 percent produced by Japanese firms. But by the late 1970s Japanese firms had drawn even with their American counterparts.[5] The pattern is similar elsewhere, but nowhere more than in the area of foreign direct investment. In 1967 Japan accounted for slightly over 1 percent of the world stock of outward foreign direct investment; by 1990 its share had risen to nearly 20 percent. Over the same period, the U.S. share dropped from 50 percent to 26 percent.[6]

Another manifestation of globalization (and concurrent decline in American dominance) can be seen in rising intraindustry trade ratios. Intraindustry trade ratios indicate how much two-way trade takes place within industry groupings between two countries. So, for instance, if the United States exported only computers to Japan and imported only cameras from Japan, then its intraindustry trade ratio with Japan would be zero. But if, in addition to importing cameras, the United States also imported computers from Japan, then its intraindustry trade ratio with Japan would be positive.

[5]McCraw, 12–13.

[6]Figures for 1967 are from U.S. Department of Commerce, International Trade Administration, 1993, "Recent Trends in International Direct Investment: The Boom Years Fade," Appendix Table 1; figures for 1990 are from United Nations, *World Investment Report* (New York: United Nations, 1993), Annex Table 2, p. 248.

TABLE 1-1. Intensity of Intraindustry Trade Between the United States and Selected Partner Countries, 1970, 1980, 1990[a]

Country	1970	1980	1990
Japan	32	31	48
Germany	44	48	64
France	52	59	69
United Kingdom	52	55	63
Italy	34	42	56

[a]Indices are calculated at the three-digit Standard International Trade Classification Level. Minimum value for indices is 0, and maximum value is 100. Low values indicate mainly one-way trade within product categories; high values indicate two-way trade within product categories.

Source: OECD, 1992, *Industrial Policy in OECD Countries, Annual Review, 1992,* pp. 206–209.

A rise in the ratio would indicate an increase over time in the ability of firms from different countries to compete internationally within industry groupings.

As Table 1-1 shows, not only were the intraindustry ratios of the five industrialized countries quite high back in 1970, but they rose substantially over the two decades of the 1970s and 1980s. As discussed above, this suggests that, increasingly, firms from developed countries have specialized within the same industries, differentiating their products as they did so.

Data shown in Tables 1-2A and B on share of national patents granted to nonresidents reinforce the impression of globalization and of a rise in the relative position of Japan. In the 1960s and early 1970s only a quarter of all U.S. patents went to entities based abroad, but by 1990 this ratio was up to nearly one-half. Especially noteworthy was the share of U.S. patents that went to entities based in Japan. Their share quadrupled (going from 5 to over 20 percent) during the 1970s and 1980s. Of course, the United States is not the only country that grants a large share of national patents to nonresidents. As Table 1-2B shows, by 1990 several countries were granting a very high proportion of national patents to nonresidents, with the notable exception of Japan.

TABLE 1-2A. Share of U.S. Patents Granted to Nonresidents, 1963–1990

	1963–1977	1980	1985	1990
Patents to all nonresidents as a percent of total	27.7	39.6	44.8	47.6
Patents to entities based in Japan as a percent of total	5.0	11.5	17.8	21.6