



# Global Business

Second Edition

Charles W. L. Hill

Today

# Global Business Today

Second Edition

**Charles W. L. Hill**

University of Washington



**Irwin  
McGraw-Hill**

Boston Burr Ridge, IL Dubuque, IA Madison, WI New York San Francisco St. Louis  
Bangkok Bogotá Caracas Lisbon London Madrid  
Mexico City Milan New Delhi Seoul Singapore Sydney Taipei Toronto

# McGraw-Hill Higher Education

A Division of The McGraw-Hill Companies



## GLOBAL BUSINESS TODAY

Published by Irwin/McGraw-Hill, an imprint of The McGraw-Hill Companies, Inc. 1221 Avenue of the Americas, New York, NY, 10020. Copyright © 2001, 1998, by The McGraw-Hill Companies, Inc. All rights reserved. No part of this publication may be reproduced or distributed in any form or by any means, or stored in a data base or retrieval system, without the prior written consent of The McGraw-Hill Companies, Inc., including, but not limited to, in any network or other electronic storage or transmission, or broadcast for distance learning.

Some ancillaries, including electronic and print components, may not be available to customers outside the United States.

This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 0 VNH/VNH 0 9 8 7 6 5 4 3 2 1 0

ISBN 0-07-232055-9

Senior vice president and editorial director: *Robin J. Zwettler*

Publisher: *John E. Biernat*

Executive editor: *Jennifer Roche*

Developmental editor: *Christine Scheid*

Senior marketing manager: *Ellen Cleary*

Project manager: *Christine A. Vaughan*

Senior production supervisor: *Lori Koetters*

Senior designer: *Jennifer McQueen Hollingsworth*

Senior photo research coordinator: *Keri Johnson*

Supplement coordinator: *Rose M. Range*

Senior new media project manager: *Barb Block*

Cover image: Copyright © 2000 PhotoDisc, Inc. All rights reserved.

Interior design: *Crispin Prebys*

Compositor: *York Graphic Services, Inc.*

Typeface: *10/12 Baskerville*

Printer: *Von Hoffmann Press, Inc.*

## Library of Congress Cataloging-in-Publication Data

Hill, Charles W. L.

Global business today / Charles W. L. Hill. – 2nd ed.

p. cm.

Includes bibliographical references and index.

ISBN 0-07-232055-9

1. International business enterprises – Management. 2. International trade.

3. Investments, Foreign. 4. Capital market. I. Title.

HD62.4.H548 2001

658:049 – dc21

00-026734

www.mhhe.com

# Global Business Today

**Second Edition**



**UNITED KINGDOM (THE  
INSEAD GLOBAL  
MANAGEMENT SERIES)**

Dutta and Manzoni  
*Process Re-Engineering, Organizational  
Change and Performance Improvement*

El Kahal  
*Business in Europe*

Goddard & Demirag  
*Financial Management for International  
Business*

Hayes et al  
*Principles of Auditing: An International  
Perspective*

Lasserre and Schütte  
*Strategy and Management in Asia Pacific*

Walter and Smith  
*Global Capital Markets and Banking*

**CANADA**

Beamish / Woodcock  
*Strategic Management: Text, Readings  
and Cases, 5/e*

McShane  
*Canadian Organizational Behaviour*

**AUSTRALIA**

Clark  
*Human Resource Management*

Deery  
*Industrial Relations: A Contemporary  
Analysis*

Hughes  
*Management Skills Series*

Managing Information  
Managing Operations—Customer  
Service

Managing Operations—Productivity  
Managing Operations—Innovations  
Managing Operations—Change  
Managing Effective Working

Relationships  
Managing and Developing Teams  
Managing and Organising Work for

Goal Achievement  
Managing Performance and Goal  
Achievement

Managing Grievances and Disputes  
Managing People—Workplace

Practice  
Managing People—Recruitment,  
Selection and Induction

Managing Group Problem Solving  
and Decision Making

Managing People—Training and  
Development

McKenna  
*New Management*

Meredith  
*Managing Finance*

Page  
*Applied Business and Management*

**UNITED STATES**

Ball/McCulloch  
*International Business—The Challenge  
of Global Competition, 7/e*

Bartlett, Ghoshal  
*Transnational Management: Text Cases,  
and Readings in Cross-Border  
Management, 3/e*

Beamish, Morrison, Rosenzweig,  
Inkpen  
*International Management, Text and  
Cases, 4/e*

de la Torre, Dor, Devinney  
*Managing the Global Corporation, 2/e*

Hill  
*Global Business Today, 2/e*

Hill  
*International Business—Competing in  
the Global Marketplace, 3/e*

Hodgetts and Luthans  
*International Management, 4/e*

**For June and Mike Hill, my parents**

# About the Author

Charles W. L. Hill is the Hughes M. Blake Professor of International Business at the School of Business, University of Washington. Professor Hill received his Ph.D. in industrial organization economics in 1983 from the University of Manchester's Institute of Science and Technology (UMIST) in Great Britain. In addition to the University of Washington, he has served on the faculties of UMIST, Texas A&M University, and Michigan State University.

Professor Hill has published over 40 articles in peer-reviewed academic journals. He has also



published two college textbooks, one on strategic management and the other on international business.

Professor Hill serves on the editorial boards of several academic journals and previously served as consulting editor at the *Academy of Management Review*.

Professor Hill teaches in the MBA and executive MBA programs at the University of Washington and has received awards for teaching excellence in both programs. He has also taught on several customized executive programs.

# Preface

*Global Business Today* is intended for the first international business course at the undergraduate level. My goal in writing this book has been to set the standard for international business textbooks: I have attempted to write a book that (1) is comprehensive and up-to-date, (2) goes beyond an uncritical presentation and shallow explanation of the body of knowledge, (3) maintains a tight, integrated flow between chapters, (4) focuses managerial implications, and (5) makes important theories accessible and interesting to students.

## COMPREHENSIVE AND UP-TO-DATE

To be comprehensive, an international business textbook must:

- Explain how and why the world's countries differ.
- Present a thorough review of the economics and politics of international trade and investment.
- Explain the functions and forms of the global monetary system.
- Examine the strategies and structures of international businesses.
- Assess the special roles of an international business's various functions.

This textbook does all these things. Too many other textbooks pay scant attention to the strategies and structures of international businesses and to the implications of international business for firms' various functions. This omission is a serious deficiency because the students in these international business courses will soon be international managers, and they will be expected to understand the implications of international business for their organization's strategy, structure, and functions. This book pays close attention to these issues.

Comprehensiveness and relevance also require coverage of the major theories. Although many international business textbooks do a reasonable job of reviewing long-established theories (e.g., the theory of comparative advantage and Vernon's product life-cycle theory) they tend to ignore such important newer work as:

- The new trade theory and strategic trade policy.
- Michael Porter's theory of the competitive advantage of nations.
- Robert Reich's work on national competitive advantage.
- The new growth theory championed by Paul Romer and Gene Grossman.
- The work of Douglass North and others on national institu-

tional structures and the protection of property rights.

- Samuel Huntington's discussion of the geopolitical implications of the new world order.
- The market imperfections approach to foreign direct investment that has grown out of Ronald Coase and Oliver Williamson's work on transaction cost economics.
- Bartlett and Ghoshal's research on the transnational corporation.
- The writings of C. K. Prahalad and Gary Hamel on core competencies, global competition, and global strategic alliances.

The failure of many books to discuss such work is a deficiency considering how influential these theories have become, not just in academic circles but also in the world at large. A major proponent of strategic trade policy, Laura Tyson, served as chairperson of President Clinton's Council of Economic Advisors. Robert Reich served as secretary of Labor in the Clinton administration. Ronald Coase won the 1992 Nobel Prize in economics, giving the market imperfections approach new respectability. Two years later, Douglass North won the Nobel Prize in economics for his work showing how a nation's economic history influences its contemporary institutions and property rights regime.



Huntington's work is regarded as being very influential in political circles. The work of Bartlett, Ghoshal, Hamel, and Prahalad is having an important impact on business practices.

I have incorporated all relevant state-of-the-art work at the appropriate points in this book. For example, in Chapter 2, "Country Differences in Political Economy," reference is made to the new growth theory, the work of North and others on national institutional structures and property rights, and Huntington's work on the geopolitical implications of the new world order. In Chapter 4, "International Trade Theory," in addition to such standard theories as the theory of comparative advantage and the Heckscher-Ohlin theory, there is detailed discussion of the new trade theory and Porter's theory of national competitive advantage. In Chapter 5, "The Political Economy of International Trade," the pros and cons of strategic trade policy are discussed. In Chapter 6, "Foreign Direct Investment," the market imperfections approach is reviewed. Chapter 10, which deals with the strategy of international business, draws extensively on the work of Bartlett, Ghoshal, Hamel, and Prahalad.

In light of the fast-changing nature of the international business environment, every effort is made to ensure that the book is as up-to-date as possible when it goes to press. In the past 10 years many significant events have shaped the world of international business. The Uruguay Round of GATT negotiations was successfully concluded in 1995 and the World Trade Organization was established. The European Union moved forward with its post-1992 agenda to achieve a closer economic and monetary union, and on January 1, 1999, introduced a common currency unit, the euro. The North American Free Trade Agreement became law, and Chile

indicated its desire to become the next member of the free trade area. The Asia-Pacific Economic Cooperation forum (APEC) emerged as the kernel of a possible future free trade area.

The former Communist states of Eastern Europe and Asia continued on the road to economic and political reform. As they did, the euphoric mood that followed the collapse of communism in 1989 was slowly replaced with a growing sense of realism about the hard path ahead for many of these countries. The global money market continued its meteoric growth. By 1999 over \$1.5 trillion per day was flowing across national borders. The size of such flows fueled concern about the ability of short-term speculative shifts in global capital markets to destabilize the world economy. These fears were fanned by the dramatic wave of financial crises that swept through several Asian nations in 1997 and hit Russia and Brazil in 1998. All these nations saw catastrophic plunges in the value of their currencies on the foreign exchange market and in their stock markets. The International Monetary Fund stepped into the breach to stabilize the situation and help these economies restructure.

The World Wide Web emerged from nowhere to become the backbone of an emerging global network for electronic commerce. By 2001 some 350 million people worldwide were expected to have Internet connections, and the value of transactions executed over the Web was predicted to exceed \$1.3 billion in the United States alone.

The world continued to become more global with cross-border trade and investment growing much faster than world output. The world's most populous nation, China, continued to grow its economy at a rapid rate. New multinationals continued to emerge from developing nations in addition to the world's established industrial

powers. And increasingly, the globalization of the world economy affected firms of all sizes, from the very large to the very small.

Reflecting this rapid pace change, I have tried to ensure that all material and statistics are as up-to-date as possible as of 2000. However, being absolutely up-to-date is impossible because change is always with us. What is current today may be outdated tomorrow. Accordingly, I have established a home page for this book on the World Wide Web at [www.mhhe.com/hillgbt2e](http://www.mhhe.com/hillgbt2e). From this home page the reader can access regular updates of chapter material and reports on topical developments that are relevant to students of international business. I hope readers find this a useful addition to the support material for this book.

## **BEYOND UNCRTICAL PRESENTATION AND SHALLOW EXPLANATION**

Many issues in international business are complex and thus necessitate considerations of pros and cons. To demonstrate this to students, I have adopted a critical approach that presents the arguments for and against economic theories, government policies, business strategies, organizational structures, and so on.

I have attempted to explain the complexities of the many theories and phenomena unique to international business so the student might fully comprehend the statements of a theory or the reasons a phenomenon is the way it is. These theories and phenomena are typically explained in more depth in this book than they are in competing textbooks, the rationale being that a shallow explanation is little better than no explanation. In international business, a little knowledge is a dangerous thing.

## **INTEGRATED PROGRESSION OF TOPICS**

Many textbooks lack a tight, integrated flow of topics from chapter to chapter. In this book students are told in Chapter 1 how the book's topics are related to each other. Integration has been achieved by organizing the material so that each chapter builds on the material of the previous ones in a logical fashion.

Part 1, Chapter 1 provides an overview of the key issues to be addressed and explains the plan of the book.

Part 2, Chapters 2 and 3, focuses on national differences in political economy and culture. Most international business textbooks place this material at a later point, but I believe it is vital to discuss national differences first. After all, many of the central issues in international trade and investment, the global monetary system, international business strategy and structure, and international business operations arise out of national differences in political economy and culture. To fully understand these issues, students must first appreciate the differences in countries and cultures.

Part 3, Chapters 4 through 7, investigates the political economy of international trade and investment. The purpose of this part is to describe and explain the trade and investment environment in which international business occurs.

Part 4, Chapters 8 and 9, describes and explains the global monetary system, laying out in detail the monetary framework in which international business transactions are conducted.

Part 5, Chapters 10 through 14, shifts attention from the environment to the firm. Here the book examines the strategies and structures that firms adopt to compete effectively in the international business environment. These chapters

explain how firms can perform their key functions—manufacturing, marketing, R&D, and human resource management—to compete and succeed in the international business environment.

Throughout the book, the relationship of new material to topics discussed in earlier chapters is pointed out to the students to reinforce their understanding of how the material comprises an integrated whole.

## **FOCUS ON MANAGERIAL IMPLICATIONS**

Many international business textbooks fail to discuss the implications of the various topics for the actual practice of international business. This does not serve the needs of business school students who will soon be practicing managers. Accordingly, the usefulness of this book's material in the practice of international business is discussed explicitly. In particular, at the end of each chapter in Parts 2, 3, and 4—where the focus is on the environment of international business, as opposed to particular firms—is a section titled "Implications for Business." In this section, the managerial implications of the material discussed in the chapter are clearly explained. For example, Chapter 4, "International Trade Theory," ends with a detailed discussion of the various trade theories' implications for international business management.

In addition, each chapter begins with a case that illustrates the relevance of chapter material for the practice of international business. Chapter 2, "Country Differences in Political Economy," for example, opens with a case that describes Brazil's privatization efforts.

I have also added a closing case to each chapter. These cases are also designed to illustrate the relevance of chapter material for

the practice of international business. The closing case to Chapter 2, for example, describes the problems General Electric has had trying to establish profitable operations in Hungary. As the case makes clear, these problems are rooted in the political economy of Hungary and in General Electric's initial failure to fully appreciate the impact that political economy has on business operations. Each closing case is followed by a list of discussion questions, which facilitates the use of these cases as a vehicle for in-class case discussion and analysis.

## **Management Focus**

Another tool that I have used to address managerial implications are "Management Focus" boxes. There is at least one "Management Focus" in each chapter. Like the opening case, the purpose of these boxes is to illustrate the relevance of chapter material for the practice of international business. The "Management Focus" in Chapter 2, for example, looks at Microsoft's battle against software piracy in China. This fits in well with a section of the chapter that looks at the protection of intellectual property rights in different countries.

## **ACCESSIBLE AND INTERESTING**

The international business arena is fascinating and exciting, and I have tried to communicate my enthusiasm for it to the student. Learning is easier and better if the subject matter is communicated in an interesting, informative, and accessible manner. One technique I have used to achieve this is weaving anecdotes into the narrative of the text—stories that illustrate theory. The opening cases and focus boxes are also used to make the theory being discussed in the text both accessible and interesting.

## Country Focus

Each chapter has two kinds of focus boxes—a “Management Focus” (see previous page) and a “Country Focus.” “Country Focus” boxes provide background on the political, economic, social, or cultural aspects of countries grappling with an international business issue. In Chapter 2, for example, the “Country Focus” discusses the changing political economy in India. I refer to and utilize opening cases and boxed material in the main body of the text. The idea is to show students real-world examples of the issues being discussed in the text.

## Could You Do This? Entrepreneurial Peer Profiles

Helena Czepiec of California State Polytechnic University, Pomona, has written five new peer profiles of students that she has taught that have utilized their entrepreneurial drive and moved into the international business arena. Located at the end of each part, these profiles are designed to give students inspiration based on what their peers have accomplished.

Just how accessible and interesting this book is will be revealed by time and student feedback. I am confident, however, that this book is far more accessible to students than its competitors. For those of you who view such a bold claim with skepticism, I urge you to read the sections in Chapter 1 on the globalization of the world economy, the changing nature of international business, and how international business is different.

## What's New in the Second Edition

The success of the first edition of *Global Business Today* was based in part on the incorporation of lead-

ing-edge research into the text, the use of up-to-date examples and statistics to illustrate global trends and enterprise strategy, and the discussion of current events within the context of the appropriate theory. Building on these strengths, my goals for the second revision have been threefold:

- 1 Incorporate new insights from recent scholarly research wherever appropriate.
- 2 Make sure the content of the text covers all appropriate issues.
- 3 Make sure the text is as up-to-date as possible with regard to current events, statistics, and examples.

Often these goals have overlapped. For example, the global financial crisis that started in Asia in 1997 and spread to Russia in 1998 is relevant both because it is a current event of great significance to international business and because it has sparked a furious debate between scholars as to the appropriate role of the IMF. Thus, in Chapter 9, I outline the causes and consequences of the recent Asian and Russian financial crises, and I discuss the current debate between scholars such as Jeffrey Sachs and Stanley Fisher over the role of the IMF in such crises.

As part of the revision process, changes have been made to every chapter in the book. The following are examples.

**Chapter 1, “Globalization,”** has been rewritten around the theme of globalization. All the statistics pertaining to globalization (such as the growth of world trade, output, and foreign direct investment) have been updated to incorporate the most recently available data. A new section deals with the debate between scholars on the merits and drawbacks of globalization. This debate is concerned with the impact of globalization on job security, income levels, labor policies, the

environment, and national sovereignty.

**Chapter 2, “National Differences in Political Economy,”** includes a new section titled “States in Transition.” This section discusses the nature of the economic transformation, or liberalization, now being pursued by numerous states around the world, including many former Communist nations. The section discusses deregulation and privatization in greater depth than hitherto. Also new to this chapter is a discussion of Samuel Huntington's influential work on the clash of civilizations and the new world order. Huntington rejects the popular view, best articulated by Francis Fukuyama in *The End of History*, that we are moving toward a universal global civilization based on Western liberal ideology. Instead, Huntington paints a picture of a world divided between different civilizations, some of which are potentially opposed to Western ideology. If Huntington is correct, the implications for international business are profound.

**Chapter 5, “The Political Economy of International Trade,”** has been significantly updated to reflect the recent activities of the World Trade Organization (WTO). This includes a discussion of the record of the WTO in resolving trade disputes between nations as well as a discussion of recent multinational agreements, brokered by the WTO, to liberalize cross-border trade and investment in financial services and telecommunications.

**Chapter 7, “Regional Economic Integration,”** has been updated to reflect recent developments in the European Union, including the move toward monetary union, which began to take effect January 1, 1999. The chapter also contains an expanded and updated discussion of the effects of the 1993 North American Free Trade Agreement (NAFTA) and the South American free trade pact,

MERCOSUR. Recent research has shed new light on the magnitude of the effects of NAFTA and MERCOSUR. The chapter also updates the evolution of other moves toward regional economic integration, including the Asia-Pacific Economic Cooperation forum (APEC).

**Chapter 9, "The Global Monetary System,"** includes new material that reviews the causes and consequences of the recent financial crises in Asia and Russia. The response of the International Monetary Fund to these crises has been discussed in light of the debate between scholars such as Jeffrey Sachs and Stanley Fisher as to the appropriate role of the IMF.

**Chapter 12, "Global Marketing and Product Development,"** has been extensively rewritten and extended to enhance its contribution to the text. A new section deals with market segmentation in global markets. The discussion of pricing strategy has been expanded to incorporate recent research on multipoint pricing by international businesses. The section on new product development has been significantly expanded to incorporate new research and discuss additional issues. Additional areas covered include how best to integrate different functions and manage cross-functional product development teams in a globally dispersed enterprise, and where to locate R&D activities in a firm's global value chain.

### **NEW!! Another Perspective**

Developed and written by Jeanne McNett of Assumption College and co-chair of the Academy of Management International Management Division Teaching Committee, these boxes are designed to give students an idea of how the surrounding material applies to and affects them or simply more infor-

mation on a nearby topic. They are sometimes narrative, but can also contain a few probing questions or even a trip to the Internet.

### **NEW!! Internet Exercises**

Although the Internet exercises are not a new feature, they have been updated by Veronica Horton of the University of Akron. These exercises have been written to not only extend the ideas presented in the text, but also to develop the notion of e-commerce as an important component in the global business environment. Each chapter has four exercises. Two can be found in the printed text, and two additional exercises can be found with the student resources on the website.

### **INSTRUCTOR SUPPORT MATERIAL**

#### **Instructor's Manual/Test Bank-0-07-232056-7**

The instructor's manual, prepared by Veronica Horton of the University of Akron, and test bank, prepared and updated by Bruce Barringer of the University of Central Florida, contain chapter overviews, teaching suggestions, lecture notes, and video notes. The test bank portion for this edition contains approximately 90 questions per chapter.

#### **Computerized Testing for Windows-0-07-239058-1**

A computerized version of the test bank allows the instructor to generate random tests and to add his or her own questions.

#### **PowerPoint® - 0-07-239060-3**

The PowerPoint slides, by Jeanne McNett of Assumption College,

contain a blend of material from the text and also new material, amounting to approximately 15–20 slides per chapter.

### **Video Collection-0-07-239059-X**

This edition will also include an improved video collection, consisting of NBC News footage and original business documentaries for each chapter. For a comprehensive lineup of video selections for each chapter, please visit our website ([www.mhhe.com/hillgbt2e](http://www.mhhe.com/hillgbt2e)) for complete details.

### **Online Instructor Resources: [www.mhhe.com/hillgbt2e](http://www.mhhe.com/hillgbt2e)**

Adopters of *Global Business Today* will have access to a password-protected book website that provides coverage of the latest in online news and links relating to selected companies, countries, and situations referenced in the text. Other online and downloadable teaching resources will also be available.

### **STUDENT RESOURCES**

#### **Global Business Plan Project and Resource CD-0-07-239062-X**

Designed to help students gain experience in conducting research and applying text concepts to the real world of international business, the resources on this CD are organized around a series of activities, created by Les Dlabay of Lake Forest College, which guide students step-by-step through the development of their own global business plan. As students work through the activities, they can link to hypertext chapters from the book, view related video clips, or launch to the book website and Internet.

## Online Student Resources: [www.mhhe.com/hillgbt2e](http://www.mhhe.com/hillgbt2e)

Students can use a variety of information and study aids including the new Online Learning Center, featuring the **e-Learning Session**. The e-Learning Session is an interactive tool that includes quizzes, essential terms, links to other material on the Internet, and video clips. Students will also have access to chapter study questions and Internet applications; Internet exploration questions tied to each chapter; a business jargon dictionary; and an online Web directory containing links to websites of international organizations, news agencies, companies, and countries.

## Rand McNally's New Millennium World Atlas Deluxe CD-ROM

*Ask your sales representative for more information on how to package the Rand McNally CD-ROM with the text for your students.*

By clicking on points of interest on this interactive world atlas, students can quickly access over 800 articles on world cultures, cities, and science, as well as 237 country profiles and links to specific Internet sites. Special tools such as Notebook, Map Customization, Global Find, Compare Maps, and

Compare Facts allow you to access, manipulate, customize, organize, save, and print the content information.

## ACKNOWLEDGMENTS

Numerous people deserve to be thanked for their assistance in preparing this book. First, thank you to all the people at Irwin/McGraw-Hill who have worked with me on this project:

Jennifer Roche, Executive editor

Christine Scheid, Development editor

Amy Hill, Senior project manager

Jennifer Hollingsworth, Senior designer

Lori Koettters, Senior production supervisor

Keri Johnson, Senior photo research coordinator

Second, my thanks go to the reviewers, who provided good feedback that helped shape this book.

Michael Cicero, Highline Community College

Carolina Gomez, Towson University

Veronica Horton, University of Akron

Thomas W. Lloyd, Westmoreland County Community College

Jeanne McNett, Assumption College

Francine Newth, Providence College

Doug Ross, Towson University

Thank you also to reviewers and focus group participants who provided feedback on previous editions:

Hal Babson, Columbus State Community College

Doug Copeland, Johnson County Community College

Fred Ellis, Richland Community College

Jim Fatina, Harper College

Thomas Fletcher Grooms, Northwood University

Marty Hanson, Black Hawk College

Neila A. Holland, Richland College

John Kapoor, College of DuPage

Robert Ridich, Lincoln Land Community College

Third, I would like to thank my MBA research assistants, Maria Gonzalez and Maureen Kibelsted, for their assistance in preparing this manuscript. And last, but by no means least, I would like to thank my wife, Alexandra, and my daughters, Elizabeth, Charlotte, and Michelle, for their support and for giving me the strength to write this book.

**Charles W. L. Hill**



# Brief Contents

## **Preface**

### **Part 1** Globalization

Chapter 1 Globalization

### **Part 2** Country Differences

Chapter 2 Country Differences in Political Economy

Chapter 3 Differences in Culture

### **Part 3** Cross-Border Trade and Investment

Chapter 4 International Trade Theory

Chapter 5 The Political Economy of International Trade

Chapter 6 Foreign Direct Investment

Chapter 7 Regional Economic Integration

### **Part 4** Global Money System

Chapter 8 The Foreign Exchange Market

Chapter 9 The Global Monetary System

### **Part 5** Competing in a Global Marketplace

Chapter 10 Global Strategy

Chapter 11 Entering Foreign Markets

Chapter 12 Global Marketing and Product Development

## **Glossary**

## **Notes**

## **Index**

# Contents

## Preface

## Part 1 Globalization 2

### Chapter 1 Globalization 2

#### Opening Case: The Emerging Global Telecommunications Industry 2

Introduction 4

What Is Globalization? 6

The Globalization of Markets 6

The Globalization of Production 7

Drivers of Globalization 8

Declining Trade and Investment Barriers 8

The Role of Technological Change 11

The Changing Demographics of the Global Economy 16

The Changing World Output and World Trade Picture 16

The Changing Foreign Direct Investment Picture 18

The Changing Nature of the Multinational Enterprise 19

The Changing World Order 21

The Global Economy of the 21<sup>st</sup> Century 23

The Globalization Debate: Prosperity or Impoverishment? 24

Globalization, Jobs, and Incomes 25

Globalization, Labor Policies, and the Environment 26

Globalization and National Sovereignty 27

Managing in the Global Marketplace 28

Critical Thinking and Discussion Questions 32

**Closing Case: Citigroup—Building a Global Financial Services Giant 34**

**Could You Do This? Peer Profile: Yolanda C. DeWit and Ann E. Meyers 36**

## Part 2 Country Differences 38

### Chapter 2 Country Differences in Political Economy 38

#### Opening Case: Brazilian Privatization 38

Introduction 40

Political Systems 41

Collectivism and Individualism 41

Democracy and Totalitarianism 44

Economic Systems 45

Market Economy 45

Command Economy 46

Mixed Economy 47

State-Directed Economy 47

Legal Systems 48

Property Rights 49

The Protection of Intellectual Property 50

Product Safety and Product Liability 52

Contract Law 53

The Determinants of Economic Development 54

Differences in Economic Development 54

Political Economy and Economic Progress 57

Other Determinants of Development: Geography and Education 62

States in Transition 63

The Spread of Democracy 63

Universal Civilization or a Clash of Civilizations? 66

The Spread of Market-Based Systems 67

The Nature of Economic Transformation 69

Implications 73

Implications for Business 73

Attractiveness 74

Ethical Issues 76

Critical Thinking and Discussion Questions 80

**Closing Case: General Electric in Hungary 82**

## **Chapter 3 Differences in Culture** 84

### **Opening Case: A Scotsman at Mazda** 84

Introduction 86

What Is Culture? 88

Values and Norms 88

Culture Society, and the Nation-State 89

The Determinants of Culture 90

Social Structure 90

Individuals and Groups 91

Social Stratification 93

Religious and Ethical Systems 95

Christianity 97

Islam 98

Hinduism 101

Buddhism 102

Confucianism 102

Language 103

Spoken Language 104

Unspoken Language 104

Education 105

Culture and the Workplace 108

Hofstede's Model 108

Evaluating Hofstede's Model 110

Cultural Change 110

Implications for Business 113

Cross-Cultural Literacy 113

Culture and Competitive Advantage 114

Critical Thinking and Discussion Questions 116

**Closing Case: Disney in France** 118

**Could You Do This? Peer Profile: Tom West** 120

## **Part 3**

## **Cross-Border Trade and Investment** 122

### **Chapter 4 International Trade Theory** 122

**Opening Case: The Gains from Trade: Ghana and South Korea** 122

Introduction 125

An Overview of Trade Theory 125

The Benefits of Trade 125

The Pattern of International Trade 126

Trade Theory and Government Policy 128

Mercantilism 128

Absolute Advantage 129

Comparative Advantage 133

The Gains from Trade 134

Qualifications and Assumptions 134

Trade and Economic Growth 136

Heckscher-Ohlin Theory 138

The Leontief Paradox 138

The Product Life-Cycle Theory 139

Evaluating the Product Life-Cycle Theory 141

The New Trade Theory 142

National Competitive Advantage: Porter's Diamond 143

Factor Endowments 145

Demand Conditions 145

Related and Supporting Industries 147

Firm Strategy, Structure, and Rivalry 147

Evaluating Porter's Theory 148

Implications for Business 148

Location Implications 148

First-Mover Implications 149

Policy Implications 150

Critical Thinking and Discussion Questions 153

**Closing Case: The Rise of the Indian Software Industry** 154