

Donald A. Ball   Wendell H. McCulloch, Jr.   Paul L. Frymeyer   Michael S. Minor

# INTERNATIONAL BUSINESS

The Challenge of Global Competition



*ninth edition*



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## The Challenge of Global Competition

*Ninth Edition*

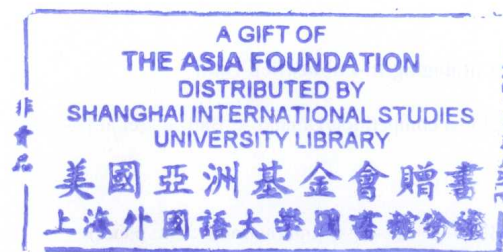
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# [About the Authors]



## Don A. Ball

Don A. Ball, a consultant to multinational corporations, was a professor of marketing and international business for several years after leaving industry. He has a degree in mechanical engineering from Ohio State and a doctorate in business administration from the University of Florida. Ball has published articles in the *Journal of International Business Studies* and other publications. Before obtaining his doctorate, he spent 15 years in various marketing and production management positions in Mexico, South America, and Europe.

## Wendell H. McCulloch, Jr.

Wendell H. McCulloch, Jr., is a professor of international business, finance, and law and the former director of international business programs at California State University, Long Beach. He earned a bachelor's degree in economics at George Washington University and a JD from Yale University. He has published articles in *The Wall Street Journal*, the *Journal of International Business Studies*, and the *Collegiate Forum*. The results of McCulloch's research have appeared in publications by the Joint Economic Committee of the U.S. Congress and the Heritage Foundation. Before beginning his academic career, McCulloch spent 19 years as an executive for American and European multinationals that offered banking, insurance, and investment products in many countries. While teaching and writing, he continues to act as an international business consultant.

## Paul L. Frantz

Paul L. Frantz is on the faculty of the College of Business Administration at California State University, Long Beach, where he teaches international business and business law and is director of the international business program. He earned a bachelor's degree in finance at Montana State University, a JD from the University of Montana, a Master of International Management degree from Thunderbird, the American Graduate School of International Management, and a master of laws degree in transnational business practice from the McGeorge School of Law. He has published articles on international law, including laws of the European Union. In addition, he has spoken at conferences throughout the world on matters dealing with international law, international employment, and immigration.

## J. Michael Geringer

J. Michael Geringer is a professor of strategy and international management at California Polytechnic University in San Luis Obispo, and the Saastamoinen Foundation Chairholder at the Helsinki University of Economics and Business Administration in Finland. He earned a BS in business at Indiana University and MBA and PhD degrees at the University of Washington. He has authored or edited 10 books and monographs, over 100 published papers, and over 35 case studies; serves on the editorial boards of several leading academic journals; and is a past chairperson of the Academy of Management's International

Management Division. His research has appeared in the *Strategic Management Journal*, *Academy of Management Journal*, *Journal of Management Studies*, *Human Resource Management Journal*, and the *Journal of Applied Psychology*, among others. He has received 11 “best paper” awards for his research, including the Decade Award for most influential article from the *Journal of International Business Studies*. His teaching performance has earned numerous awards and recognition, including the University Distinguished Teacher Award. He has been active in a range of charitable and service activities, including spearheading the adoption of a school in Soweto, South Africa. In addition to his work on the business faculty of universities in Europe, Africa, Australia, Asia, Canada, and the United States, Geringer is active in consulting and executive development for multinational corporations and executives from six continents.

### Michael S. Minor

Michael S. Minor is professor of marketing and international business and director of the PhD program in international business at the University of Texas, Pan American. He was educated at the University of North Carolina, Chapel Hill, American University, and Cornell and holds a PhD from Vanderbilt University. His research focuses on comparative consumer behavior, international marketing strategy, and political risk issues. He has published in the *Journal of International Business Studies*, the *Journal of Consumer Marketing*, *International Studies of Management and Organization*, the *Journal of Services Marketing*, *International Business Review*, and elsewhere. He is past chairperson of the Consumer Behavior Special Interest Group, and past vice chair of the Technology and Marketing Special Interest Group of the American Marketing Association, as well as a former member of the Global Marketing SIG's board of directors. He serves on multiple editorial advisory boards and is the coauthor with John C. Mowen of several consumer behavior books. He has twice won graduate teaching awards. His consulting experience includes work for the United Nations and several U.S. government agencies. He lived in Asia for a number of years and speaks Chinese. He relaxes by performing as the bass guitar player for the country/classic rock group RiverRock and is struggling to learn to play the mandolin.



# [Preface]



We are pleased to present the ninth edition of *International Business: The Challenge of Global Competition*.

## Purpose and Scope of This Text

Whether students are advanced undergraduates or are in MBA programs, our hope is that this book will answer the many questions students have when they take an international business course—questions about business in different cultures, about the impact of geography, about why products are the same (or different) in countries, why people have different practices, the effect of the Internet on international business, and many, many more. There are always new questions, and sometimes there are new answers to old questions.

*International Business 9/e* is organized into four sections in order to maximize its utility to instructors and students alike. The opening section defines the nature of international business and the three environments in which it is conducted. Section II is devoted to the continuing importance of international organizations and the international monetary system and how they affect business. Section III focuses on the uncontrollable forces at work in all business environments and discusses their inevitable impact on business practice. We devote the final section of the book to a discussion of how managers deal with all the forces affecting international business. In the ninth edition, we have added section opening dialogues to help students better understand what they have learned and are about to learn.

## Changes for the Ninth Edition

With each new edition we have been blessed by an expanding network of those making helpful suggestions. Professors, reviewers, and business professionals who bought the book or received it at a conference and our own graduate and undergraduate students have made useful and constructive comments. We believe that *International Business 9/e* continues to offer you a solid and superior text infused with current topics relevant to current challenges.

We have updated the material in each chapter to reflect recent world events and new international business issues.

As with every new edition, all tables, figures, and graphs have been updated to include the most current data available as of the publication of this text. Keeping an international business text topical and current is a challenge—we have worked hard to provide you with the most recent information possible. We have also updated examples where relevant and replaced dated examples where appropriate.

Overall, there has been a slight change in emphasis to highlight fewer business-to-business examples (e.g., construction equipment) and more business-to-consumer examples (Sony's pet robot). Students generally have more experience with consumer items and this change in emphasis should make it easier for them to visualize the process taking place.

There has been a complete revision of the Internet directory that follows Chapter 1. All inoperative Web sites have been replaced and new sites have been added.



## Chapter 1

Following suggestions from several professors and students, we expanded the discussion of overseas employment. We added several sources of employment and also sources of information about applying for positions.

## Chapter 2

Information on foreign direct investment, exports, and imports by nation and region of the world has been updated. Data on international portfolio investments, inward and outward by nation and region, also have been updated. New information on NAFTA and maquiladoras, the Caribbean Basin Initiative, and export trading companies has been added. There are new or updated examples for foreign direct investment, investment incentives, trade trends and trade balances, China's accession to the World Trade Organization, and gray market sales, and new end-of-chapter study questions and Internet exercises.

## Chapter 3

We discuss the new classification of economies by Gross National Income introduced by the World Bank in 2002. This replaces the system based on Gross National Product that the Bank used for years.

## Chapter 4

This chapter has detailed coverage of important international organizations. It is especially significant in light of the current emphasis placed on the UN by President Bush's Iraq policy, the WTO with the ongoing trade disputes between the United States and the EU, and the World Bank and the IMF, both of which draw large crowds of protesters at any of their meetings. Chapter 4 discusses all these organizations and includes an expanded section on the WTO and an updated section on the EU. The OPEC and Mercosur sections have also been modified. The summary at the end has been expanded for a deeper understanding.

## Chapter 5

The adoption of the euro as the official currency for the EMU is discussed along with the fate of old national currencies (legacy currencies). The waning confidence in the strength of the U.S. dollar and the continued confidence in gold is addressed. SDRs' value has been updated and the reliability of Big Mac burgeronomics purchasing power parity is discussed.

## Chapter 6

Chapter 6 covers the dynamic area of international financial forces, especially important in light of the recent worldwide economic downturn. Chapter 6 has an updated section on fluctuating currency values and includes new information on taxes and inflation. A section on international banking has been added and the segment on the 200-year history of sovereign debt defaults has been updated and expanded.

## Chapter 7

We reinforce the discussion begun in Chapter 3 on the change from gross national product to gross national income classifications. This chapter makes extensive use of tables and graphs. Several tables have been taken out to streamline the chapter, and all others brought up to date. The minicase on World Laboratories at the end of the chapter has been extensively updated.

## Chapter 8

New to Chapter 8 are the updates on the Three Gorges Dam in China, the Hirdovia project of the Mercosur government (South America), and Bolivia's expanded Export Corridor, which gives this landlocked country more outlets to the sea. Information on the increased worldwide production of alternate sources of energy is included.





## Chapter 9

This chapter has been streamlined overall. The section on religion and the discussion of differing perceptions of time have been shortened and reorganized to add clarity. The Disney case has been updated, with commentary on the heated controversy over Disney's apparently building two Chinese parks, one in Shanghai, one in Hong Kong.

## Chapter 10

Discussion of various political developments that have affected international business decisions has been updated. The increase in privatization of government-owned business, especially in Africa, is discussed. The tremendous impact on international business of the September 11, 2001, terrorist attacks on the World Trade Center and Pentagon is covered thoroughly in this chapter. We also address the impact political developments in South America and Israel have had on the economies of these countries in crisis.

## Chapter 11

Chapter 11 explains international law and has been reorganized to facilitate better understanding. International law is especially important as businesses move from country to country and expect stable legal systems. Chapter 11's introduction has been modified for clarity and the concept of international law is addressed much earlier in the ninth edition for a better grasp on the chapter. The material on taxation, tariffs, antitrust, liability, and miscellaneous laws that were originally at the beginning were moved back for easier reading and better flow. A new section on bankruptcy has been added.

## Chapter 12

Chapter 12 discusses labor forces. Labor is an important part of any business, and it is especially important to discuss the differences from country to country. The sections on labor mobility, immigration, and refugees have been expanded and updated. Labor conditions and union activities have also been expanded and updated.

## Chapter 13

Chapter 13 contains new or updated examples on industrial espionage (chapter opening example) and many other key topics. New information on manufacturing productivity across nations, competitiveness rankings of OECD, E-commerce developments, counterfeiting, and piracy has been added. We have substantially updated economic developments and competitiveness in the United States, Europe, Japan, the Asian NICs, NIEs, and China, and we've added a new section on the recently completed Cotonou Agreement. The section on China has been substantially expanded and the minicase on Wal-Mart updated. There is a new Worldview Feature on the impact of international acquisition behavior—what does it mean anymore to “Buy American”?

## Chapter 14

There are many new sections, including one on value chains and the implication of value chain activities and linkages for location of investments; one discussing the importance of knowledge and knowledge management for international competitive advantage; and one on global strategic alternatives, including global, multidomestic, and transnational strategies. The chapter contains new and updated examples of mission and vision statements and international organizational structures. We have updated the Small and Medium-Sized Enterprises Feature and added a new Worldview Feature on the problems of being too locally responsive.

## Chapter 15

The chapter reemphasizes the difficulty of establishing “basic needs” for some consumer products, such as chocolate or pet robots, and that in these cases management judgment will





be needed. We recognize that import statistics do not indicate the demand for really new products. The list of Internet resources has been updated and expanded. A series of new discussion questions includes a project asking students to imagine themselves in charge of determining new foreign markets for the Spiderman computer game. The “Tips on Market Research” section has been extensively revised, with new material on the trend to try to understand customers through “corporate anthropology,” that is, watching their actual behavior rather than asking questions about their intentions.

## Chapter 16

Emphasis on transfer prices has been cut slightly, while emphasis on services (as compared to tangible products) examples has been expanded. The use of the Internet as a source of product information for prescription drugs is discussed. A new Worldview discusses the possible impact of “smart mobs” on the diffusion of consumer trends.

## Chapter 17

Chapter 17 presents information on the latest reorganization of the Department of Commerce International Trade Administration. There is also a discussion of the latest WTO ruling in the European Union–U.S.A. dispute over the Foreign Sales Corporation.

## Chapter 18

Numerous issues affecting the management of human resources have been updated, including the backlash against casual dress, the disappearance of the job-for-life culture in Japan, changes in child labor legislation, the increased need for English-only speakers to learn a second language, new approaches to résumé design, and the controversy surrounding very high compensation for CEOs of American companies.

## Chapter 19

In this chapter we discuss the changing value of the euro from 1999 through 2002 as well as the changing value of other currencies; the protection available in the forward, futures, options, and credit markets against shorter-term and longer-term translation risk; the increased investment in currencies as an effect of the turmoil in the stock and bond markets; and the complexity of derivatives and the use of international finance centers to manage these products.

## Chapter 20

For the ninth edition, Chapter 20 now opens with an example of global outsourcing. We have expanded and updated discussions linking outsourcing and value chains and competencies, with new examples as well as the examples on B2B sourcing. There is an important new section on Six Sigma methodology and examples of global companies that use Six Sigma to improve global competitiveness. We have included new examples on Intel’s “Copy Exactly” strategies for standardized international plant design and on Sony’s strategy to move some high-end production from China back to Japan.

## Epilogue and Glossary

The Epilogue has been updated and questions for discussion have been added. The Glossary is no mere rehash of margin terms in the book. It is a very extensive collection of definitions of documents, institutions, concepts, and terms used in international business. The Glossary is an extremely valuable resource for students and instructors.



# [Acknowledgments]



To the long list of people to whom we are indebted, we want to add Professors Robert T. Aubey, University of Wisconsin, Madison; Mark C. Baetz, Wilfred Laurier University; Rufus Barton, Murray State University; Joseph R. Biggs, California Polytechnic State University; S. A. Billon, University of Delaware; James R. Bradshaw, Brigham Young University; Sharon Browning, Northwest Missouri State University; Dennis Carter, University of North Carolina, Wilmington; Mark Chadwin, Old Dominion University; Aruna Chandras, Ashland University; John Cleek, University of Missouri, Kansas City; Refik Culpun, Pennsylvania State University; Peter DeWill, University of Central Florida; Galpira Eshigi, Illinois State University; Christof Falli, Portland State University; Prem Gandhi, State University of New York, Plattsburgh; Kenneth Gray, Florida Agricultural and Mechanical University; Stanley D. Guzell, Youngstown State University; Gary Hankem, Mankato State University; Baban Hasnat, State University of New York, Brockport; Veronica Horton, University of Akron; Paul Jenner, Southwest Missouri State University; Bruce H. Johnson, Gustavus Adolphus College; Michael Kublin, University of New Haven; Eddie Lewis, University of Southern Mississippi; Carol Lopilato, California State University, Dominguez Hills; Lois Ann McElroy Lindell, Wartburg College; Fraser McLeay, University of Montana; Jeanne McNett, Assumption College; Les Mueller, Central Washington University; Gary Odden, San Jose State University; Mike Peng, Ohio State University; John Setnick, Mobile College; V. N. Subramanyam, Lancaster University; Angelo Tarallo, Ramapo College; Jesse S. Tarleton, William and Mary College; John Thanopoulos, University of Akron; Kenneth Tillery, Middle Tennessee State University; Hsin-Min Tong, Redford University; Dennis Vanden Bloomen, University of Wisconsin, Stout; George Westacott, State University of New York, Binghamton; and Terry Witkowski, California State University. Attorney Mary C. Tolton, Esq., of the law firm Parker, Poe, Adams & Bernstein of Raleigh, North Carolina, provided valuable supplementary readings for the legal forces chapter; and we acknowledge the help of Denalee Eaton and Kimberly Gainey, students at California State University, Long Beach, and Alexandra Brandt, Jose Salas, and Priti Verma, students at the University of Texas, Pan American.

We are also indebted to the following reviewers for helping us fine-tune the ninth edition to better meet market needs:

John Anderson, University of Tennessee, Knoxville; Bahman Bahrami, North Dakota State University; Lawrence Beer, Arizona State University; Gerald Crawford, University of North Alabama; Ellen Kaye Gerke, Alliant International University; Robert Guffey, Elon College; Tom Hinthorne, Montana State University; Lynette Mathur, Southern Illinois University, Carbondale; Darrell Neron, Peirce College; Ebele Oriaku, Elizabeth City State University; Tagi Sagafi-nejad, Loyola College, MD; Rakesh Sambharya, Rutgers University; Heidi Vernon, Northeastern University; and Habte Woldu, University of Texas, Dallas.

Hundreds of professors have reviewed this text over the past nine editions and have shaped it into the solid textbook it is. Their suggestions and feedback have been invaluable to us, and we very much appreciate their efforts and time.

We would like to offer our special thanks to Habte Woldu, Darrell Neron, and Andrew Yap for their work on the supplement package.



# A World of Resources...

*International Business: The Challenge of Global Competition* continues to be the most objective and thorough treatment of International Business available for students. Enriched with maps, photos and the most up-to-date world data, this text boasts the collective expertise of five authors specializing in international management, finance, law, global strategy, and marketing—a claim no other text can make. Only Ball, McCullough, Frantz, Geringer, and Minor can offer a complete and unbiased view of International Business as diverse as the backgrounds of your business students.

## Worldview Examples

Worldview Features in every chapter offer compelling examples of how international business is affected by legal, political, economic, and social issues, helping students understand how interrelated these seemingly unrelated business strategy and policy issues are.



### [Worldview]

#### REVERSE MAQUILA, A NEW CONCEPT

A new concept called *reverse maquila* is gaining attention in the Rio Grande Valley on the Texas-Mexico border, where over 200 in-bond plants (maquiladoras) are located. The term is so new that its definition is still fluid. Users are applying it to two different manufacturing situations: (1) a Mexican firm sets up production on the American side of the border and produces for sale in Mexico, and (2) a Mexican firm establishes production facilities on the American side of the border and sells the output in the United States.

Anyone familiar with the maquiladora concept recognizes that the first situation is the reverse of the usual maquiladora operation, in which an American or other non-Mexican company builds a plant on the Mexican side of the border to produce products by using foreign-made components and the cheaper Mexican labor and then exports them to the United States. Here is an example of the reverse of that operation. A Mexican snack company owned by PepsiCo International is building a plant in the Texas border city of Weslaco to make snacks that will be sold in Mexico. Why build the plant on the American side of the border, where labor is more expensive?

There are a number of reasons being offered for locating on the U.S. side:

1. Many of the American materials used in the manufacturing process are of consistently superior quality to what the firm can obtain in Mexico. According to PepsiCo, the quality of the American potatoes is better for their needs.
2. There are far fewer problems with organized labor on the American side.
3. Operational services such as electricity and waste disposal are less expensive.
4. NAFTA-level import duties for both nations are becoming progressively lower.
5. Less bureaucracy and less corruption exist on the American side.
6. The finished product does not have to undergo what can be a time-consuming process: passing through U.S. customs.
7. Roads, telecommunications, and waste disposal on the American side are far superior.
8. There has been a lessening of the difference in effective hourly wages: \$6 average in Mexico

compared with less than \$16 in the American border area. For products produced by automated manufacturing processes, labor costs commonly range from 15 to 20 percent of production costs compared with 45 to 55 percent of production costs for raw materials.

9. Workers on the American side of the border are better educated and more accustomed to factory work. They are bilingual.

10. Far less housing is available on the Mexican side for the workers, many of whom literally live in cardboard boxes. Because of the poor living conditions, a large number leave after a short time, causing the turnover of the workers to be much higher on the Mexican side of the border.

An example of the second situation is the case of a Mexican manufacturer of elastic for the underwear industry. The company, Select Elastics of America, is now constructing a plant in McAllen, Texas, also in the Rio Grande Valley and near the PepsiCo plant mentioned above. This firm has been supplying elastic to American producers of underwear, such as Playtex and VF, from Mexican production, using Mexican raw materials. To maintain these customers, the company recognizes that it must deliver, on time, a consistently top-quality product. To do so, it must have raw materials of superior quality, and they must be constantly available. The labor cost is 16 to 18 percent of the production cost compared to 48 to 52 percent for the raw materials cost. Thus, the savings in labor costs are insignificant compared to the expense caused by the factors listed above. A company representative believed that the management chose a location close to the border and still far from its clients in the north because the Mexican owners felt more comfortable with an operation in an area with a strong Mexican culture and where most people speak both Spanish and English. It is also much closer to their headquarters in Mexico City.

Representatives of the McAllen Economic Development Corporation are talking with numerous companies from both sides of the border about moving to the area and are finding a high level of interest because of the reasons stated above.

Source: Personal interviews.

### Small and Medium-Sized Enterprises

#### A Small Business Fights the Standards Barrier

If you sell in one EU member-country, you can sell in them all, right? Wrong. EU rules allow member-countries to prohibit imports that threaten public safety, and there is no agreement on that. Dermont Manufacturing Co., a small firm (\$25 million in sales), makes hoses that connect gas appliances to gas outlets. It had been selling them throughout Europe when, suddenly, one day a U.S. manufacturer of deep-fat fryers who was supplying McDonald's told Dermont's president, Evan Seagal, that McDonald's

could no longer use his hoses in its British restaurants. Similar situations began occurring elsewhere: French health inspectors ordered Euro Disney to replace Dermont hoses before it opened to the public. The reason for the different national standards was that the gas hoses were considered essential to the safe operation of the gas appliances and therefore fell under product safety rules, thus permitting each nation to establish its own standards.

Seagal studied the various rules and realized that his product could not meet them. As is often the case, the rules were written by committees composed of a nation's experts. Who were they? The producers of the hoses who were Dermont's competitors. Designs varied from country to country, and all were different from Dermont's hose. Seagal argues that there were no reasons for the differences in design except to keep his product out of the local market. They had no bearing on either the safety or the performance. The president of the American National Standards Institute, the U.S. standards organization, claimed that the Dermont case is "clearly a case of European standards being used as a barrier to trade."

Meanwhile, Dermont has begun obtaining product approval from individual EU countries. The U.S. government has been urging the European Committee for Standardization to begin developing a harmonized standard for Europe for the past three years but has made little progress.

Source: "Europe's 'Unity' Undoes a U.S. Exporter," *The Wall Street Journal*, April 1, 1996, p. B1; and Office of the Foreign Trade Representative, "The 2000 Estimate Report on Foreign Trade Barriers," [www.usitc.gov/estimates/2000/2000estimates.html](http://www.usitc.gov/estimates/2000/2000estimates.html) (August 28, 2000).

complaints that the United States is causing a problem for foreign imports because it pays little attention to standards set by international standardizing bodies. The American complaint is that the EU has not completed EU-wide standards. These barriers concern exporters who either (1) make a product that will meet the standards of some countries and not attempt to cover all of the market or (2) make a variety of types in an attempt to meet the requirements of the entire market (see "A Small Business Fights the Standards Barrier" on hose standards).

These few examples will give you an idea of the complexity involved in trying to eliminate nontariff barriers. You have seen that as a consequence of the Uruguay Round,\* considerable progress has been made.

Trading and Investing in International Business

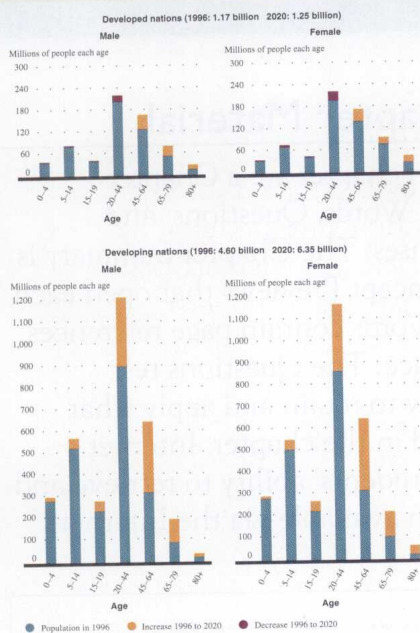
81

## Small and Medium-Sized Enterprise Examples

These boxed features in every chapter illustrate how small businesses compete for global markets. Students find these examples interesting as they learn that you don't have to be a multinational to sell overseas.



[Figure 7.4] Population by Age and Sex—1996 and 2020 (Millions)



Economic and Socioeconomic Forces

247

chapter 7

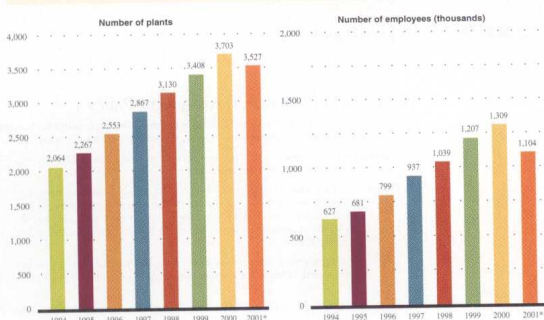
## Current and Comprehensive

For the increasingly visual student population the tables, figures, and maps in the text bring international business to life. Students are better able to absorb ideas and compare and contrast information on different countries when it is presented in a visual format rather than long passages of text.

## Instructive Maps

These maps not only include valuable data—they help students grasp geographic implications by highlighting on an inset map where the featured region is located on the globe.

[Figure 2.1] Number of Maquila Plants and Maquiladora Employment



approximately 70 percent of the plants and nearly 85 percent of in-bond plant employment are still in Mexico's northern states bordering the United States. There were over 3,500 in-bond plants in 2001 (see Figure 2.1), an increase of over 70 percent since 1994. More than 1.1 million workers (representing approximately 1 out of 5 manufacturing jobs in Mexico) were employed in maquiladoras in November 2001.<sup>23</sup> Their production, led by electronics, electronic machinery, transportation equipment, and textiles, amounted to \$99 billion in 2001. Delphi Automotive Systems of the United States, with 47 plants employing 40,586 workers, was the largest maquiladora operator in 2002.<sup>24</sup> According to the Mexican Commerce Industry, 81 percent of Mexican trade with the United States, and more than 40 percent of all exports from Mexico, are from the maquiladora industry.<sup>25</sup>

Because of the North American Free Trade Agreement (NAFTA), beginning in the year 2001 in-bond plants have had to pay Mexican import duties on components coming from outside the NAFTA member-nations. As a result, a key advantage of using an in-bond plant has been lost to the hundreds of Japanese, Korean, and other Asian firms that had previously been importing most of their raw materials, especially for electronic products, from Asia. Because Mexican suppliers had been providing only 2 percent of the total inputs used by the in-bond plants, Japanese companies were concerned that this change would cause them to purchase components from American manufacturers. To avoid this, Japan sent experts to advise Mexico on how to foster greater development of suppliers to the Japanese industry.<sup>26</sup>

Another factor will change the way the in-bond plants operate. Since the beginning of 1994, they could sell 50 percent of their production in Mexico, and as of January 1, 2001, all their production could be sold in the domestic market. However, because most plants

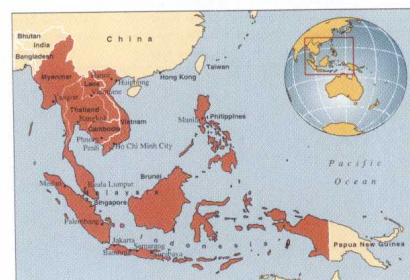
**North American Free Trade Agreement (NAFTA)**  
A treaty establishing a free trade area consisting of the United States, Mexico, and Canada; quotas on each other's goods were eliminated in January 1994, and import duties will be phased out over 10 years

chapter 2

Trading and Investing in International Business

79

[Figure 4.4] Map of ASEAN Members



Members of the Association of Southeast Asian Nations (ASEAN) as of October 2000

Singapore, Thailand, and Vietnam—are major trading partners of the United States. Figure 4.4 presents a map of ASEAN members. ASEAN's purpose is to promote economic growth and peace in the region.

### European Free Trade Association (EFTA)

The European Free Trade Association (EFTA), created in 1960 in reaction to the EU, consisted of many European countries that were not EU members. EFTA countries wanted to stimulate trade among themselves and enable bargaining with the EU as an organization rather than as individual countries. As EFTA countries observed EU progress toward unification, they realized that a potentially powerful European force was in the making. They feared being excluded from it and reacted in different ways. Many former EFTA members are now members of the EU.

The original EFTA members were Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom. The current EFTA members are Iceland, Liechtenstein, Norway, and Switzerland.

### African Trade Agreements

To promote economic growth throughout the continent, several African countries have formed trade and investment groups. Three of those groups are the Economic Community of West African States (ECOWAS), the Common Market for Eastern and Southern Africa (COMESA), and the Southern African Development Community (SADC). Figure 4.3 includes their locations and the member-nations.

section 2

170

International Business



## End of Chapter Material

Following each chapter are a Chapter Summary, Key Words, Questions, and Internet Exercises. The Chapter Summary is tied to the Concept Previews that open each chapter. Key Words contain page references for easy reference. The Questions test students' ability to retain and apply what they've learned in the chapter. Internet Exercises test students' ability to retrieve and use information available via the Internet.

### [Summary]

#### Understand the purpose of economic analyses.

To keep abreast of the latest economic developments and also to plan for the future, firms regularly assess and forecast economic conditions at the local, state, and national levels. When they enter international operations, the economic analysis increases in complexity because managers are operating in two new environments: foreign and international. There are more economies to study, and these economies are frequently highly divergent.

#### Recognize the economic and socioeconomic dimensions of the economy.

The various functional areas of a firm require data on the size and rates of change of a number of economic and socioeconomic factors. Among the more important economic dimensions are GNP, GNP/capita, distribution of income, personal consumption expenditures, price levels, exchange rates, inflation, and population distribution.

### [Key Words]

gross domestic product (GDP) (p. 000)      population distribution (p. 000)  
income distribution (p. 000)      rural-to-urban shift (p. 000)  
discretionary income (p. 000)      promotional mix (p. 000)  
unit labor costs (p. 000)      national economic plans (p. 000)  
economically integrated (p. 000)      indicators (p. 000)

### [Questions]

1. Management learns from the economic analysis of Country A that wage rates are expected to increase by 10 percent next year. Which functional areas of the firm will be concerned? Why is management concerned?
2. What are "international dollars"? What is their significance to international businesspeople?
3. What common problem does the use of GNP per capita and population density value pose?

### [Internet Exercises]

#### Using the Internet

1. Compare the relative social indicators of the developing countries in Latin America with those of the industrialized nations.
  - a. Which developing country has the lowest life expectancy index?
  - b. Which country has the lowest daily calorie supply index?
  - c. Compared to the average of the industrialized nations, which developing nation has the lowest relative adult literacy rate?
  - d. Which developing nation has the lowest indicator for safe drinking water?
  - e. Which developing nation has the lowest value for mean years of schooling?
2. According to the *OECD in Figures* website,

**Baker:** Great. How are you going to do it? It has to be honest, Ed.

**Anderson:** Well, you know that they have to pay a 40 percent ad valorem import duty on our \$1.60 invoice price plus 60 pesos per quart specific duty. If, however, we send them the adhesive in 55-gallon drums, the import duty drops to 30 percent ad valorem plus a specific duty of 6,600 pesos per drum.

**Baker:** Yes, but then they'll have to buy 1-quart cans and labels and fill them in Colombia. This adds to their expense.

**Anderson:** True, but because we won't have to fill the cans or charge them for cans and labels, we will save 20 cents per quart, which we'll pass on to them.

**Baker:** How much will it cost to fill the cans locally?

**Anderson:** They tell me the cans, labels, and labor to fill the cans will come to 180 pesos per can, and the only investment required is a shutoff valve, which they screw in the drumhead when the cans are filled.

**Baker:** I'm not sure I see the advantage. Ed. The cans, labels, and labor are more expensive in Colombia than they are here. Where is the advantage?

**Anderson:** Let me show you, John.

Show Ed Anderson's calculations. Disregard any possible freight savings for shipping in bulk.

### [Minicase 3.2]

#### The Impact of Galawi's Development Policy

Armando Suarez, CEO, and Pedro Garcia, director of international operations for Industrias Globales, are discussing a statement made today by the secretary of treasury in Galawi.

**Suarez:** Pedro, did you listen to the secretary's comments today about the proposed change in development strategy?

**Garcia:** Yes, I did, and I'm concerned. We have spent considerable time and money planning our entry into the Galawi market, and if the government proceeds with the new economic strategy, we've got to change our plant design, plan to produce different product lines, and completely change our marketing plans.

**Suarez:** This apparently is more serious than I thought. How can a change in their development strategy from import substitution to export promotion affect us?

**Garcia:** Hang on to your chair, Chief, and I'll explain each strategy and how the change will affect our entire startup program in Galawi. Oh, and by the way, our Galawi competitors are going to have to make changes, too.

Imagine you are Pedro Garcia.

1. Describe the two strategies for the CEO.
2. Explain how the change in development strategy will affect the firm in many ways.
3. What changes in the entry plans will the firm have to make?

[1]  
section

142

International Business

## Minicases

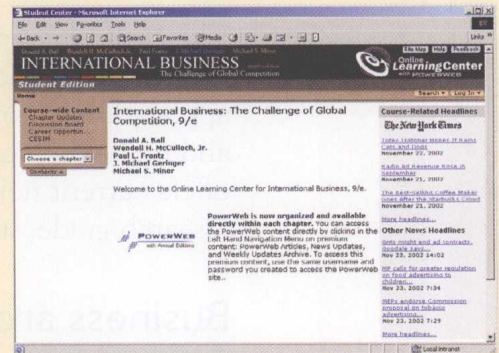
Minicases also appear at the end of each chapter. These brief scenarios challenge students to apply concepts discussed in the chapter to a real world situation.



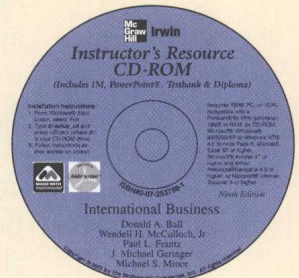
# Supplements for Instructors

## Keep Your Course Current with PowerWeb

**NEW!** Online Learning Center with PowerWeb (OLC) is a Web site that follows the *International Business* 9/e chapter by chapter with digital supplementary content germane to the book. As students read the book, they can go online to take self-grading quizzes, review material, and work through interactive exercises. Thanks to embedded PowerWeb content, students can get quicker access to real-world news and essays that pertain to international business. OLC can be delivered multiple ways—through the textbook Web site, through PageOut, or within a course management system such as WebCT or Blackboard.



The following supplements are put in digitized format for you on McGraw-Hill's exclusive Instructor's Resource CD (IRCD). Now everything is on one convenient CD.



## Instructors Manual

This manual written by the authors and updated by Habte Woldu, University of Texas, Dallas, will help save you invaluable time preparing for the course by providing suggestions for heightening your students' interest in the material. Each chapter-by-chapter section presents concept previews, an overview of the chapter, suggestions and comments, student involvement exercises, video case suggestions, and a detailed chapter outline.

## Test Bank

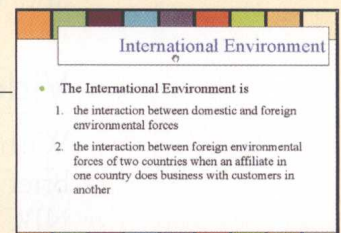
(Available in Print and Computerized Format) Written by the authors, the test bank contains approximately 100 questions per chapter in multiple choice, true/false, and short answer format. Each question is ranked for difficulty level, and the page references in the textbook are given for the answers.

## PowerPoint Slides

Authored by Andrew Yap of Florida International University, this PowerPoint presentation includes key points from each chapter, sample figures from the text, and supplemental exhibits that help illustrate the main points in a chapter. Over 600 images are included.

## Videos

The video program provides footage from NBC, PBS, and exclusive, on-location videos such as *Honda, North America* covering foreign direct investment, *Bailing Out Brazil* covering the IMF loan, and *Money Change* covering the Euro transition. These programs focus on international business issues, challenges, and processes.





# Supplements for Students

# PowerWeb

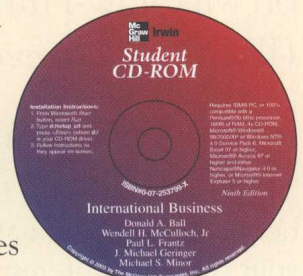
This online reservoir of international business news articles and essays offers a great way for students to reinforce textbook concepts with real-world applications. Professor-reviewed articles and essays from leading periodicals and niche publications ensure fruitful search results every time. PowerWeb also offers current news, weekly updates with assessment, interactive exercises, Web research guide, study tips, and much more!

# Business around the World

Demographic information for most of the world's countries is now only a click away with this Web-based, interactive world map. This free resource is available from the text's Web site at [www.mhhe.com/ball9e](http://www.mhhe.com/ball9e).

## Student Resource CD-ROM

Each new copy of the book is packaged with a free Global Business Plan and Resource CD-ROM, which contains a global business plan project and the interactive atlas “Business Around the World.” Designed to help students gain experience in conducting research and applying text concepts to the real world of international business, the Global Business Plan Project consists of a series of modules 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 in each module, they can link to glossary terms from the book, view related video clips, or launch to the book website and Internet. New to this edition, the interactive “Business Around the World” atlas allows students to research information about doing business in various countries by clicking on an area on the map to access business news and analysis, general facts, and business guidelines.



## Videos on the CD

With nine videos in all, there are both full and brief video clips on the CD consisting mainly of NBC News footage and original business documentaries on topics such as Honda Plants in Indiana that addresses foreign direct investment, An Interview with MTV/Viacom's Deputy Manager on the changing culture in China, and a documentary on the Russian market collapse.





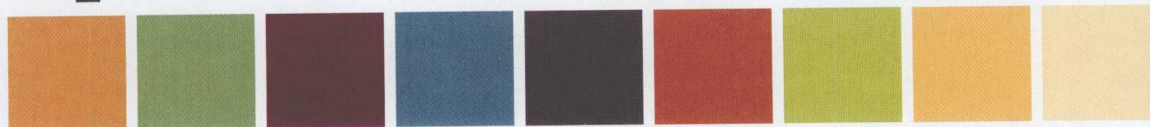
## [Dedication]



Don dedicates this edition to his wife, Vicki; children, Don, Jr., Lianne, and Dulce; their spouses, Susan and Jim and his grandchildren, Alison, Sean, and Alexandra. Wendell would like to dedicate this edition to his wife, Sally, and his children, Malinda and Kevin. Paul would like to dedicate this book to Charlotte and Kirke Frantz, his parents. Mike dedicates this edition to his parents, Ray and JoAnn, and to his wife, Colette Frayne. Michael dedicates this edition to Karen and Amy, who endured long hours at the office, and to the memory of his father. He thanks Melinda Zuniga, who accommodated his work on the book even when other responsibilities called.



# [Brief Table of Contents]



## [SECTION I] The Nature of International Business 1

- Chapter 1  
The Rapid Change of Global Business 2
- Chapter 2  
Trading and Investing in International Business 56
- Chapter 3  
Economic Theories of International Business 104

## [SECTION II] The International Environment 143

- Chapter 4  
The Dynamics of International Organizations 144
- Chapter 5  
Understanding the International Monetary System 178

## [SECTION III] The Foreign Environmental Forces 205

- Chapter 6  
Financial Forces: Influencing International Business 206
- Chapter 7  
Economic and Socioeconomic Forces 232
- Chapter 8  
Physical and Environmental Forces 260
- Chapter 9  
Sociocultural Forces 290

- Chapter 10  
Political Forces 332

- Chapter 11  
Legal Forces 362

- Chapter 12  
Labor Forces 388

- Chapter 13  
Competitive Forces 414

## [SECTION IV] The Organizational Environment 461

- Chapter 14  
International Strategy, Organizational Design, and Control 462

- Chapter 15  
Assessing and Analyzing Markets 502

- Chapter 16  
Marketing Internationally 522

- Chapter 17  
Export and Import Practices 556

- Chapter 18  
Human Resource Management 592

- Chapter 19  
Financial Management 622

- Chapter 20  
Global Operations Management: The Third Industrial Revolution 648