Chapter 1: Globalization and International Linkages

Learning Objectives and Chapter Summary

1. **ASSESS** the implications of globalization for countries, industries, firms, and communities.

   Globalization—the process of increased integration among countries—continues at an accelerated pace. More and more companies—including those from developing countries—are going global, creating opportunities and challenges for the global economy and international management. Globalization has become controversial in some quarters due to perceptions that the distributions of benefits are uneven and due to the questions raised by offshoring. There have emerged sharp critics of globalization among academics, NGOs, and the developing world, yet the pace of globalization and integration continues unabated.

2. **REVIEW** the major trends in global and regional integration.

   Economic integration is most pronounced in the triad of North America, Europe, and the Pacific Rim. The North American Free Trade Agreement (NAFTA) is turning the region into one giant market. In South America, there is an increasing amount of intercountry trade, sparked by Mercosur. Additionally, trade agreements such as the Central American Free Trade Agreement (CAFTA) are linking countries of the Western Hemisphere together. In Europe, the expansion of the original countries of the European Union (EU) is creating a larger and more diverse union, with dramatic transformation of Central and Eastern European countries such as the Czech Republic, Poland, and Hungary. Asia is another major regional power, as reflected in the rapid growth shown not only by Japan, but also the economies of China, India, and other emerging markets. Countries in Africa and the Middle East continue to face complex problems but still hold economic promise for the future. Emerging markets in all regions present both opportunities and challenges for international managers.
3. **EXAMINE** the changing balance of global economic power and trade and investment flows among countries.

Different growth rates and shifting demographics are dramatically altering the distribution of economic power around the world. Notably, China’s rapid growth will make it the largest economic power in the world by midcentury, if not before. India will be the most populous country in the world, and other emerging markets will also become important players. International trade and investment have been increasing dramatically over the years. Major multinational corporations (MNCs) have holdings throughout the world, from North America to Europe to the Pacific Rim to Africa. Some of these holdings are a result of direct investment; others are partnership arrangements with local firms. Small firms also are finding that they must seek out international markets to survive in the future. MNCs from emerging markets are growing rapidly and expanding their global reach. The internationalization of nearly all business has arrived.

4. **ANALYZE** the major economic systems and recent developments among countries that reflect those systems.

Different economic systems characterize different countries and regions. These systems, which include market, command, and mixed economies, are represented in different nations and have changed as economic conditions have evolved.

**The World of International Management: An Interconnected World**

1. **Summary:**

The opening vignette discusses and highlights how social networks, such as Facebook, YouTube, and Twitter, are revolutionizing the way people and companies interact and communicate with each other. Social networks offer companies an inexpensive, yet highly effective means of reaching their target audiences across the globe. In fact, social networks are rewriting the rules for marketing. Consumers today can quickly and easily get information about products and services from trusted friends via social media and bypass more traditional methods of gathering information. Companies must identify ways to adapt to, and capitalize on, this new marketing reality.

Social media also impacts diplomacy. Various high-profile people have spearheaded social causes vis Twitter, thus aiding the efforts of governments to influence other nations. Such globalization through social networks, which extends to businesses, brings populations of the world closer together and accelerates integration.
2. Suggested Class Discussion

1. Students should be encouraged to discuss the impact of social media on international business and its implications for both consumers and companies.

2. Students should consider the pace of globalization as it pertains to social media and the pros and cons of the process.

3. Students should explore the different ways companies can use social media to support their international strategies and what companies must do to remain competitive in this rapidly changing environment.

3. Related Internet Sites:
   - Facebook: {http://www.facebook.com/facebook}
   - Twitter: {https://twitter.com}
   - YouTube: {http://www.youtube.com}
   - Google: {https://www.google.com}

Chapter Outline with Lecture Notes and Teaching Tips

Introduction

1) International management is the process of applying management concepts and techniques in a multinational environment and adapting management practices to different economic, political, and cultural environments.

2) International management is distinct from other forms of management in that knowledge and insights about global issues and specific cultures are a requisite for success.

3) A multinational corporation (MNC) is a firm that has operations in more than one country, international sales, and a mix of nationalities among managers and owners.

Teaching Tip: The trend towards investing in international markets has not gone unnoticed at many premier universities around the world. An organization called the Network of International Business Schools {http://www.nibsnet.net/Default.aspx}. The Network site provides a forum for schools with international business programs to discuss their curriculums. Consider visiting this website and providing your students some examples of how colleges and universities are integrating the realities of globalization into their business school curriculums.

Teaching Tip: Each year, Fortune magazine publishes a list of the 500 largest global corporations {http://money.cnn.com/magazines/fortune/global500/2010/}. In 2013, the ten largest global (or multinational) corporations were: (1) Royal Dutch Shell; (2) Wal-Mart stores; (3) Exxon Mobil; (4) Sinopec; (5) China National Petroleum; (6) BP; (7) State Grid; (8) Toyota Motor; (9) Volkswagen; (10) Total.
Globalization and Internationalization

Globalization, AntiGlobalization, and Global Pressures

1) *Globalization* is the process of social, political, economic, cultural, and technological integration among countries around the world.

2) *Outsourcing* is the subcontracting or contracting out of activities to external locations instead of in their countries of origin.

3) Advantages of globalization include: lower prices, greater availability of goods, better jobs, and access to technology.

4) *Offshoring* is the process by which companies undertake some activities at offshore locations instead of in their countries of origin.

5) Disadvantages of globalization include: the offshoring of jobs to lower-wage countries, growing trade deficits, slow wage growth, a lack of responsiveness to the economic effects of the process, and the potential for a “race to the bottom” in which companies and countries place downward pressure on wages and working conditions.

Global and Regional Integration

1) *World Trade Organization (WTO)*—The global organization of countries that oversees rules and regulations for international trade and investment. Various rounds of negotiations took place under the General Agreement on Tariffs and Trade (GATT):
   a) The December 1999 “Battle in Seattle”: protesters and developing countries who felt their views were not considered disrupted the meeting.
   b) The November 2001 “Development Round” in Doha, Qatar: recognized the needs of and impact on developing countries, but initiated little progress.
   c) The September 2003 meeting in Cancun: 20+ developing countries, led by Brazil and India, united to press developed countries to reduce barriers to agricultural imports.

   **Teaching Tip:** The WTO website {http://www.wto.org} provides a wide range of current information about the WTO.

   **Teaching Tip:** The GATT Agreement is available online in Adobe Acrobat format at {http://docsonline.wto.org}.

2) *North American Free Trade Agreement (NAFTA)*—A free trade agreement between the United States, Canada, and Mexico that has removed most barriers to trade and investment.

   **Teaching Tip:** FAS Online supplies a large amount of information dealing with the NAFTA. The site is available at {http://ffas.usda.gov/info/factsheets/NAFTA.asp} (2010).
3) The Free Trade Agreement of the Americas (FTAA)—a free-trade agreement among the 34 democratically governed countries of the Western Hemisphere.

4) Latin America—economic activity in Latin America continues to be volatile. Despite the continuing political and economic setbacks these countries periodically experience, export growth continue in Brazil, Chile, and Mexico. The CAFTA (later, CAFTA-DR) agreement between the U.S. and Central American countries presents new opportunities for trade, investment, services, and working conditions in the region.

   **Teaching Tip:** Many Latin American countries are using the Internet to promote themselves. The website for Chile, which is available at [http://www.thisischile.cl/](http://www.thisischile.cl/), is an excellent example.

5) The European Union (EU)—a unified market that in 2003 consisted of 15 nations including Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, Holland, Ireland, Italy, Luxembourg, Portugal, Spain, and Sweden. Ten countries: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia joined in 2004, Romania and Bulgaria joined in 2007, and Croatia in 2013. The EU is better integrated as a single market than NAFTA, CAFTA, or the allied Asian countries.

   **Teaching Tip:** The EU maintains an excellent website at [http://www.europa.eu/](http://www.europa.eu/).

6) Japan—Although Japan has experienced economic problems since the early 1990s, it continues to be one of the primary economic forces in the Pacific Rim. Japanese MNCs want to take advantage of the huge, underdeveloped Asian markets.

   **Teaching Tip:** As a way of demonstrating to your students how "global" the world has become, consider showing them Yahoo Japan, which is the Yahoo search engine written in Japanese [http://www.yahoo.co.jp/](http://www.yahoo.co.jp/) or Facebook’s Japanese site [http://ja-jp.facebook.com/](http://ja-jp.facebook.com/).

7) The Association of Southeast Asian Nations (ASEAN), made up of Indonesia, Malaysia, the Philippines, Singapore, Brunei, Thailand, and in recent years Cambodia, Myanmar, and Vietnam, is advancing trade and economic integration and now poses challenges to China as a region of relatively low cost production and export.

8) The Trans-Pacific Partnership (TPP) currently includes Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. If Japan enters, as the U.S. Trade Representative intends, this group will be the most credible pathway to broader Asia-Pacific regional economic integration.

9) Central and Eastern Europe, Russia, and the other republics of the former Soviet Union are still trying to make stable transitions to market economies.

**The Shifting Balance of Economic Power in the Global Economy**
1) Economic integration and the rapid growth of emerging markets are creating a shifting international economic landscape; the developing and emerging countries of the world are now predicted to occupy increasingly dominant roles.
   a) *Foreign direct investment (FDI)* is the term used to indicate the amount invested in property, plant, and equipment in another country.

b) The economic potential of Brazil, Russia, India, and China (the “BRIC” economies) may constitute four of the top five most dominant economies by the year 2050, with China surpassing the United States in output by 2027.

c) PricewaterhouseCoopers, using data from the World Bank, has made estimates about the future growth of emerging versus developed economies; see Tables 1–4 and 1–5.

d) The N-11 (N stands for “next”) are a group of economies that may constitute the next wave of emerging markets growth: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea, and Vietnam.

e) African countries could constitute the next wave of dynamic emerging markets.

2) International trade and investment patterns.

a) Despite the global recession of 2009, global trade and investment continues to grow at a healthy rate, outpacing domestic growth in most countries.

b) There have been recent increases in merchandise exports AND foreign direct investment (FDI),

c) As nations become more affluent, they begin looking for countries with economic growth potential where they can invest. An emerging global community is becoming increasingly interdependent economically.

Teaching Tip: International trade is not without controversy. Many labor groups, in countries all over the world, fear that imports cost domestic workers their jobs and threaten their national sovereignty. Proponents of international trade argue that imports provide consumers more choices and cost savings, and actually create domestic employment because consumers can take the money that they save by buying imports and purchase more domestically produced products. It is appropriate to point out these two sides of the issue to your students. Many websites are dedicated to the debate surrounding these issues. An example is the site at [http://www.usw.org]. The site is sponsored by the United Steelworkers of America and supports labor's point of view.

Global Economic Systems

1) The evolution of global economies has resulted in three main systems: a market economy, a command economy, and a mixed economy.

Market Economy

1) Market economy—Private enterprise reserves the right to own property and monitor the production and distribution of goods and services while the state simply supports competition and efficient practices.
Command Economy

1) Command economy—Comparable to a monopoly in the sense that the organization, in this case the government, has explicit control over the price and supply of a good or service.

Mixed Economy

1) Mixed economy—A combination of a market and command economy. While some aspects of this system reflect private ownership and the freedom and flexibility of the law of demand, other sectors are subject to government planning.

Economic Performance and Issues of Major Regions

Established Economies

1) North America: One of the four largest trading blocs in the world. The combined purchasing power of the United States, Canada, and Mexico is more than $12 trillion.

2) United States: MNCs have holdings throughout the world. At the same time, foreign MNCs are finding the United States to be a lucrative market for expansion.

3) Canada: Canada is the United States’ largest trading partner, a position it has held for many years. The United States also has considerable FDI in Canada, more than in any other country except the United Kingdom.

4) Mexico: By the early 1990s, Mexico had recovered from its economic problems of the previous decade and become the strongest economy in Latin America. In 1994, Mexico became part of NAFTA, and it appeared to be on the verge of becoming the major economic power in Latin America. Because of NAFTA, Mexican businesses are finding themselves able to take advantage of the U.S. market by replacing goods that were previously purchased from Asia.
   a) Maquiladora—A factory (the majority are located in Mexican border towns) that imports materials and equipment on a duty- and tariff-free basis for assembly or manufacturing and re-export.

   Teaching Tip: An excellent chart of the advantages of doing business in Mexico is available at [http://www.calpacifico.com/mexicoadvantajes.htm](http://www.calpacifico.com/mexicoadvantajes.htm). The site is maintained by Cal Pacifico, a company that specializes in helping American firms establish manufacturing operations in Mexico. The chart reports that the average production worker compensation in Mexico in 2008, including benefits, was $3.12 per hour. This compares with $25.65 in the U.S., $23.15 in Japan, and $36.07 in Germany. Some students may raise ethical issues when looking at these numbers. Is it ethical for an American firm to pay Mexican workers only $3.12 per hour, even though that is the going rate in Mexico?
5) **The EU:** the ultimate objective of the EU is to eliminate all trade barriers among member countries.
   a) This economic community eventually will have common custom duties as well as unified industrial and commercial policies regarding countries outside of the union.
   b) The challenge for the future for the EU is to absorb their eastern neighbors, the former communist-bloc countries.
   c) Since 2009 the EU has faced one of the most severe challenges; several member nations, including Greece, Portugal, Spain, and Ireland, have had dangerously large deficits that resulted from both structural conditions and shorter-term economic pressures.

6) **Japan:** during the 1970s and 1980s, Japan's economic success had been without precedent. However, there has been a steady decline in Japan’s overseas investments since the 1990s due to a slowing Japanese economy, poor management decisions, and competition from emerging economies, such as China.
   a) *Ministry of Trade and Industry (MITI)*—A Japanese government agency that identifies and ranks national commercial pursuits and guides the distribution of national resources to meet these goals.
      
      **Teaching Tip:** to learn more about MITI go to {http://www.meti.go.jp/english/}.

   b) *Keiretsus*—an organizational arrangement in Japan in which a large group of vertically integrated companies whose holdings supply much of the assistance needed in providing goods and services to end users.

**Emerging Economies**

1) **Central and Eastern Europe:** Russia’s economy continues to grow as poverty declines and the middle class expands. Direct investment in Russia, along with its membership in the International Monetary Fund (IMF), is helping to raise GDP and decrease inflation, offsetting the hyperinflation created from the initial attempt to transition to a market-based economy.
   
   **Teaching Tip:** Current information about Russia can be obtained on a daily basis via Ria Novosti, a news site available at {http://en.ria.ru/}.

2) Other countries including Hungary, Poland, and the Czech Republic are also growing and attracting foreign investment. Albania still struggles but is slowly making progress.

3) **China:** China’s GDP has remained strong, growing at 9.1 percent in 2009, 10.4 percent in 2010, 9.3 percent in 2011, and 8.0 percent in 2012, despite the global economic crisis. However, concerns about undervaluation of China’s currency, the remnimbi (also know as the yuan), and continued policies that favor domestic companies over foreign ones, make China a complicated and high-risk venture.
   a) Trade relations between China and developed countries and regions, such as the United States, and the EU, remain tense.
4) **Other Emerging Markets of Asia**: In addition to Japan and China, there are a number of other important economies in Asia (see also Table 1-14 in the text).

a) **South Korea**—In South Korea, the major conglomerates, called *chaebols*, are very large, family-held conglomerates that have considerable political and economic power.

b) **Hong Kong**—Bordering southeast China and now part of the People's Republic of China (PRC), Hong Kong has been the headquarters for some of the most successful multinational operations in Asia.

c) **Singapore**—Singapore is a major success story. Its solid foundation leaves only the question of how to continue expanding in the face of increasing international competition.

d) **Taiwan**—Despite being hit hard by the downturn in Asia, Taiwan’s economy continues to grow steadily and is now dominated by more technologically sophisticated industries.

e) Other countries in Southeast Asia, including Thailand, Malaysia, Indonesia, and Vietnam, are also showing strong economic growth trends. The relatively large populations and inexpensive labor in these countries are attractive to international investors.

5) **India**: With a population of about 1 billion and growing. India has traditionally had more than its share of political and economic problems. Nonetheless, for a number of reasons, India is attractive to multinationals, and especially to U.S. and British firms.

**Developing Economies on the Verge**

1) **South America**: Countries in South America have had difficult economic problems. Although most have tried to implement economic reforms reducing their debt, periodic economic instability and the emergence of populist leaders have had an impact on the attractiveness of countries in the region.

a. Brazil’s economy has evolved into a flourishing system. Though Brazil’s GDP has slowed somewhat since 2011, its growth continues to outpace most developed nations.

b. Chile’s market-based economic growth has fluctuated between 3 and 6 percent over the last decade. Chile attracts a lot of foreign investment and continues to participate in globalization by engaging in further trade agreements.

c. Argentina has one of the strongest economies overall with abundant natural resources, a highly literate population, an export-oriented agricultural sector, and a diversified industrial base; however it has suffered the recurring economic problems of inflation, external debt, capital flight, and budget deficits. Growth has rebounded since 2009.

d. Another major development in South America is the growth of intercountry trade, spurred by the progress toward free market policies.

2) **Middle East and Central Asia**: Because most industrial nations rely, at least to some degree, on imported oil, an understanding of this part of the world is important to the study of international management.

3) **Africa**: Even though they have considerable natural resources, many African nations remain very poor and underdeveloped, and international trade is not a major source of income. Problems include overwhelming diversity and political instability, but growth is noticeable.
The World of International Management—Revisited

Questions & Suggested Answers

1. What are some of the pros and cons of globalization and free trade?

   Answer: Pros: lower prices, greater availability of goods, increased product and service choices, better jobs, access to technology, improved competitiveness, and overall economic growth. Cons: offshoring of jobs to low-wage countries, growing trade deficits, slow wage growth, lack of responsiveness to the economic, social, and environmental needs of developing countries.

2. How might the rise of social media result in closer connections (and fewer conflicts) among nations?

   Answer: Social media is changing how we connect, shaping business strategy and operations, and even affecting diplomacy. Social media and social networks are revolutionizing the nature of international management by allowing producers and consumers to interact directly and bringing populations of the world closer together. This phenomenon can help break down barriers between people and could even minimize the potential for conflicts between nations. Companies can use social media to circumvent national limitations on advertising that would have traditionally limited their ability to market products in certain nations, and exposure to new products and ideas via social media sites can support grass roots efforts for change in countries.

3. Which regions of the world are most likely to benefit from globalization and integration in the years to come, and which may experience dislocations?

   Answer: Answers may vary, but regions that are likely to gain include Asia, Central and Eastern Europe, and South America, at the expense of most developed countries.
**Key Terms**

Chaebols—Very large, family-held Korean conglomerates that have considerable political and economic power

European Union—(EU) A political and economic community consisting of 28 member states

Foreign Direct Investment—Investment in property, plant, or equipment in another country

Free Trade Agreement of the Americas—(FTAA) A free-trade agreement among the 34 democratically governed countries of the Western Hemisphere

Globalization—The process of social, political, economic, cultural, and technological integration among countries around the world

International management—Process of applying management concepts and techniques in a multinational environment and adapting management practices to different economic, political, and cultural contexts

Keiretsu—An organizational arrangement in Japan in which a large group of vertically integrated companies bound together by cross-ownership, interlocking directorates, and social ties provide goods and services to end users

Management—Process of completing activities efficiently and effectively with and through other people

Maquiladora—Factory, mostly located in Mexican border towns, that imports materials and equipment on a duty- and tariff-free basis for assembly or manufacturing and re-export

Ministry of International Trade and Industry (MITI)—A Japanese government agency that identifies and ranks national commercial pursuits and guides the distribution of national resources to meet these goals

MNC—A firm having operations in more than one country, international sales, and a nationality mix among managers and owners

North America Free Trade Agreement (NAFTA)—A free-trade agreement between the United States, Canada, and Mexico that has removed most barriers to trade and investment

Offshoring—The process by which companies undertake some activities at offshore locations instead of in their countries of origin

Outsourcing—The subcontracting or contracting out of activities to external organizations that had previously been performed by the firm

World Trade Organization (WTO)—The global organization of countries that oversees rules and regulations for international trade and investment
Chapter 01 - Globalization and International Linkages

**Review and Discussion Questions**

1. How has globalization affected different world regions? What are some of the benefits and costs of globalization for different sectors of society (companies, workers, communities)?

   Answer: North America continues to constitute one of the largest trading blocs in the world, with the United States leading international trade and investment, Canada being its largest trading partner. Mexico is on the verge of becoming the major economic power in Latin America, but still suffers from economic problems, as do many South American countries, some of which seem to be doing better than others (e.g., Chile, Argentina and Brazil). European countries have been most successful in integrating their economies, with the top challenge being integrating their former communist neighbors in Central and Eastern Europe. In addition to Japan and China, there are a number of other important economies in the region, including South Korea, Hong Kong, Singapore, and Taiwan. Together, the countries of the ASEAN bloc are also fueling growth and development in the region. India is attractive to multinationals, especially U.S. and British firms. Many people around the world, including those in the West, work for Arab employers. Many African nations remain very poor and undeveloped, and international trade is only beginning to serve as a major source of income. Globalization and the rise of emerging markets’ MNCs have brought prosperity to many previously underdeveloped parts of the world.

MNCs face the challenge of balancing the potential returns of investing in various lucrative markets that are currently emerging, with the risks of political and economic instability in these markets. Strategic decisions are currently being made beyond national borders, taking into consideration the parameters of integrated economic blocs. Workers are primarily impacted by their own increased mobility (geographically and occupationally), as well as that of their organizations. Increased rate of change and uncertainty necessitates a different skill set and continuous learning. Increased global competition for jobs, especially from countries with lower labor costs, necessitates adaptation. Finally, the community primarily benefits in terms of long-term efficiencies and increased choices. However, communities will vary in the short-term factors they may face, which could include unemployment and severe competition for their local industries.
2. How has NAFTA affected the economies of North America and the EU affected Europe? What importance do these economic pacts have for international managers in North America, Europe, and Asia?

Answer: NAFTA so far seem to be both bad news and good news. There is evidence that it has caused a number of jobs and capital to shift from the more economically advanced nations (particularly the U.S.) to Mexico. On the other hand, once Mexico gets back on its feet after its economic woes of recent years, there is evidence that, in the long run, the agreement will benefit all North American nations because it will create increased efficiencies, more purchasing power, and overall a more economically powerful North America. The EU has made significant progress over the past decade in becoming a unified market. In 2003, the EU consisted of 15 nations and has since, gained 13 additional nations. Not only have most trade barriers between members been removed, but a subset of European countries has adopted a unified currency called the euro. These economic pacts will force international managers to stay current on all trade regulations, economic activity, and status. Different economic systems characterize different countries and regions.

3. Why are Russia and Eastern Europe of interest to international managers? Identify and describe some reasons for such interest.

Answer: Russia and Eastern Europe are of interest to international managers because they present an opportunity to get in on the "ground floor." Even though these countries have struggled with the transition to a market economy for several years, MNCs that are willing to take the substantial risks involved with operating in these countries may find substantial rewards in years to come. However, investment in Russia and Eastern Europe may not produce immediate returns. It may be years, perhaps even decades, before some investments become profitable.

4. Many MNCs have secured a foothold in Asia, and many more are looking to develop business relations there. Why does this region of the world hold such interest for international management? Identify and describe some reasons for such interest.

Answer: Asia has been of interest to MNCs because of the tremendous growth in this region in the last decade. Although the growth has been uneven, Japan, Hong Kong, Taiwan, Singapore, South Korea, emerging Southeastern Asian countries such as Malaysia, the Philippines, Singapore, Brunei, Thailand, Cambodia, Myanmar, Vietnam, and especially China, continue to present numerous investment opportunities. A large population base, relatively inexpensive labor, and natural resources have been the important reasons for investments in this region.
5. Why would MNCs be interested in South America, India, the Middle East and Central Asia, Africa, and the less developed and emerging countries of the world? Would MNCs be better off focusing their efforts on more industrialized regions? Explain.

Answer: Each of these regions has its own characteristics, which may be attractive to certain multinational corporations. South America has a trading bloc (Mercosur), India has a huge population base and considerable untapped potential, the Middle East has enormous oil wealth, and Africa has a tremendous supply of natural resources. Of course, all these regions are beset by some significant problems. Multinationals considering investment in the less-developed and emerging countries must carefully weigh the risks and benefits of operating in these regions.

6. MNCs from emerging markets (India, China, Brazil) are beginning to challenge the dominance of developed MNCs. How might MNCs from North America, Europe, and Japan respond to these challenges?

Answer: Many obstacles are faced by multinationals when attempting to enter emerging markets such as India, China, or Brazil. MNCs must be persistent when dealing with these governments. One response is to help these countries realize that foreign investments have a positive effect on the economy. Another alternative would be to threaten to invest the money in another economy.

Answers To The In-Chapter Quiz

1. a. De'Longhi, an Italy.-based MNC, bought the Braun company from Proctor & Gamble in 2012.
2. d. BIC SA is a French company.
4. a. Technicolor SA of France produces RCA televisions.
5. a. General Mills, of the United States, acquired the Green Giant product line (together with the Pillsbury company) in 2001 from Britain’s Diageo PLC.
6. d. Godiva chocolate is owned by Yildiz Holding, a Turkish conglomerate.
7. b. Vaseline is manufactured by the Anglo-Dutch MNC Unilever PLC.
8. d. Wrangler jeans are made by the VF Corporation based in the United States.
9. d. Holiday Inn is owned by Britain’s InterContinental Hotels Group PLC.
10. c. Tropicana orange juice was purchased by U.S.-based PepsiCo.
Internet Exercise: Global Competition in Fast Food


Suggestions for Using the Exercise

1. This exercise provides an excellent vehicle to compare the approaches of three international foodservice companies. Each of the brands discussed in this search has a mission, vision, plan, or philosophy.
   - McDonald’s: McDonald’s is the leading global foodservice retailer with more than 34,000 local restaurants serving approximately 69 million people in 118 countries each day. More than 80% of McDonald’s restaurants worldwide are owned and operated by independent local men and women. McDonald’s customer-focused Plan to Win provides a common framework for our global business yet allows for local adaptation. Through the execution of initiatives surrounding the five elements of our Plan to Win—People, Products, Place, Price and Promotion—we have enhanced the restaurant experience for customers worldwide and grown comparable sales and customer visits in each of the last eight years. This Plan, combined with financial discipline, has delivered strong results for our shareholders.
   - Yum!: Yum! Brands, Inc., based in Louisville, Kentucky, has nearly 40,000 restaurants in more than 130 countries and territories. Vision and Strategy: Build leading brands across China in every single category. Drive aggressive international expansion and build strong brands everywhere. Dramatically improve U.S. brand positions, consistency and returns. Drive Industry leading long-term shareholder and franchisee value.
   - Jollibee: A dominant market leader in the Philippines, Jollibee has also embarked on an aggressive international expansion plan in the USA, Vietnam, Hong Kong, Saudi Arabia, Qatar and Brunei, firmly establishing itself as a growing international QSR player. Values—customer focus, excellence, respect for the individual, teamwork, spirit of family and fun, humility to listen and learn, honesty and integrity, frugality. Mission—To serve great tasting food, bringing the joy of eating to everyone.

2. This exercise also provides an excellent opportunity to talk about the power of global brand names. The McDonald’s name (and golden arches) is recognized around the world; likewise, Yum businesses (KFC, Pizza Hut, and Taco Bell) are ever-present. It is a challenge for a “new kid on the block” such as Jollibee to compete. This is where adaptation to local taste can make the difference.
Questions and Answers Following this Exercise

1. Which of these companies seems best positioned in Southeast Asia?

   Answer: Opinions will vary. Jollibee has the most extensive menu aimed at this part of the world. They also have an extensive menu that competes with McDonald’s and a seasoned fried chicken menu to compete with KFC. However, customers in Southeast Asia may well be looking for the more “western” experience in restaurant dining.

2. What advantages might a "local" brand like Jollibee have over the global companies?

   Answer: A “local” customer base may have or develop a loyalty to Jollibee based on pride or on food-preference.

3. What is your prediction in terms of future growth potential?

   Answer: All three companies are seeking to expand their worldwide operations to increase their market share and return on invested capital. Franchising allows the companies to expand their presence at minimal cost, while maintaining quality control. Opinions will vary regarding success in future growth.
In The International Spotlight: India

Questions and Suggested Answers

1. What is the climate for doing business in India? Is it supportive of foreign investment?

Answer: The purpose of the first question in each of the "Spotlight" cases is for the instructor to bring in current happenings in the country featured. The suggested answer below may be somewhat dated by the time you go over this in class but can be used as part of your discussion and as a point of departure for new material.

India is one of the world’s largest industrialized nations, although 70 percent of the people depend in some way on agriculture. However, millions of people in India live in poverty, most of them in small villages.

In the past, doing business in India has been quite difficult. Recently, however, the government has been relaxing its bureaucratic rules, particularly those relating to foreign investments. The government realizes many MNCs are making a critical choice: India or China? Additionally, foreign investments are having a very positive effect on the Indian economy.

2. How important is a highly educated human resource pool for MNCs wanting to invest in India? Is it more important for some businesses than for others?

Answer: Highly educated human resources would be extremely important because it means that the MNC can draw on local talent to help staff and manage its operations, even high tech operations. If the work force were poorly educated, it is likely that total reliance might be placed on expatriate managers. Education is more important in businesses where the work literally requires a formal education. For example, if a company needs engineers, technicians, or computer analysts, a highly educated work force is more important than if the company were interested in salesclerks or assembly line workers. India has such a highly educated pool.

3. Given the low per-capita income of the country, why would you still argue for India to be an excellent place to do business in the coming years?

Answer: In addition to the above-mentioned points, there are other attractions that make it likely that India will be an excellent place to do business in the coming years: (1) a large number of highly educated people, especially in areas such as medicine, engineering, and computer science; (2) widespread use of English, long accepted as the international language of business; and (3) low wages and salaries, which often are 10 to 30 percent of those in the world’s economic superpowers.

Notice how low wages are compared to similar jobs in the U.S., Japan, and Western Europe. The big question mark surrounding India is its political stability, and its ongoing boarder disputes with Pakistan.
International Management in Action: Tracing the Roots of Modern Globalization

Summary

1. Globalization is not new. Consider this concept in terms of historical events before reading the article. Think the Silk Road and other trade routes dating back thousands of years. Then review the examples in the article:
   - Middle Eastern Intercontinental Trade: King’s Highway (Royal Road), Silk Road, Arabian caravans
   - Trans-Saharan Cross-continental Trade: North to West Africa
   - China as an Ancient Global Trading Initiator: Ocean routes
   - European Trade Imperative: Greeks and Phoenians, Roman Empire, British Isles, Silk Road (once again), Christopher Columbus and the New World

2. Globalization in U.S. History
   - Trade with England
   - Today

A Closer Look: Outsourcing and Offshoring

Summary

**Offshoring:** The process by which companies undertake some activities at offshore locations instead of in their countries of origin.

**Outsourcing:** The subcontracting or contracting out of activities to external organizations that had previously been performed within the firm and is a wholly different phenomenon.

The two have combined in **offshore outsourcing.** Offshoring began with manufacturing and, with globalization, expanded to services like call centers, R&D, information services, legal work, and banking services. Sensitive information and privacy issues are of concern.

International Management in Action: Recognizing Cultural Differences

Summary

1. Doing business overseas cannot happen without learning about and trying to understand the customs, cultures, and work habits of people in other countries. Equally, effective management styles must be developed.

2. The example of Russia follows. Russia is moving from a central to a market economy, and management is changing along with that new direction. The U.S. and Russia interpret “partnerships” differently. Management in Russia is more authoritarian than in the U.S.; chain of command, responsibility, communication, and the decision-making process are all affected by this difference in management style. Looking back at history and incorporating the evolutionary knowledge can assist in understanding emerging economies.

International Management in Action: Brazilian Economic Reform

Summary

1. Brazil has transformed itself from a relatively closed and frequently unstable economy to one of the global leading “BRIC” countries and the anchor of South American economic development.
   - The Plano Real (Real Plan, 1994) sought to peg the real to the U.S. dollar in order to bring inflation down. Brazilian goods became more expensive relative to imports. However, foreign financial groups took an interest in Brazil. The country’s debt came down, and this helped reassure investors that Brazil will maintain tight fiscal and monetary policy even with a floating currency.
   - Luís Inácio Lula da Silva was elected president in 2002 and reelected in 2006. The economy continued to grow, although there was a slowdown during the global financial crisis. Confidence in Brazil’s economy continued with the 2010 election and transition.
   - Brazil has expanded exports from agricultural products to include manufacturing and services. Other countries and many businesses are investing in Brazil’s economy.

2. Websites: [http://www.wto.org/english/tratop_e/tpr_e/tp312_e.htm]