International Business

Competing in the Global Marketplace

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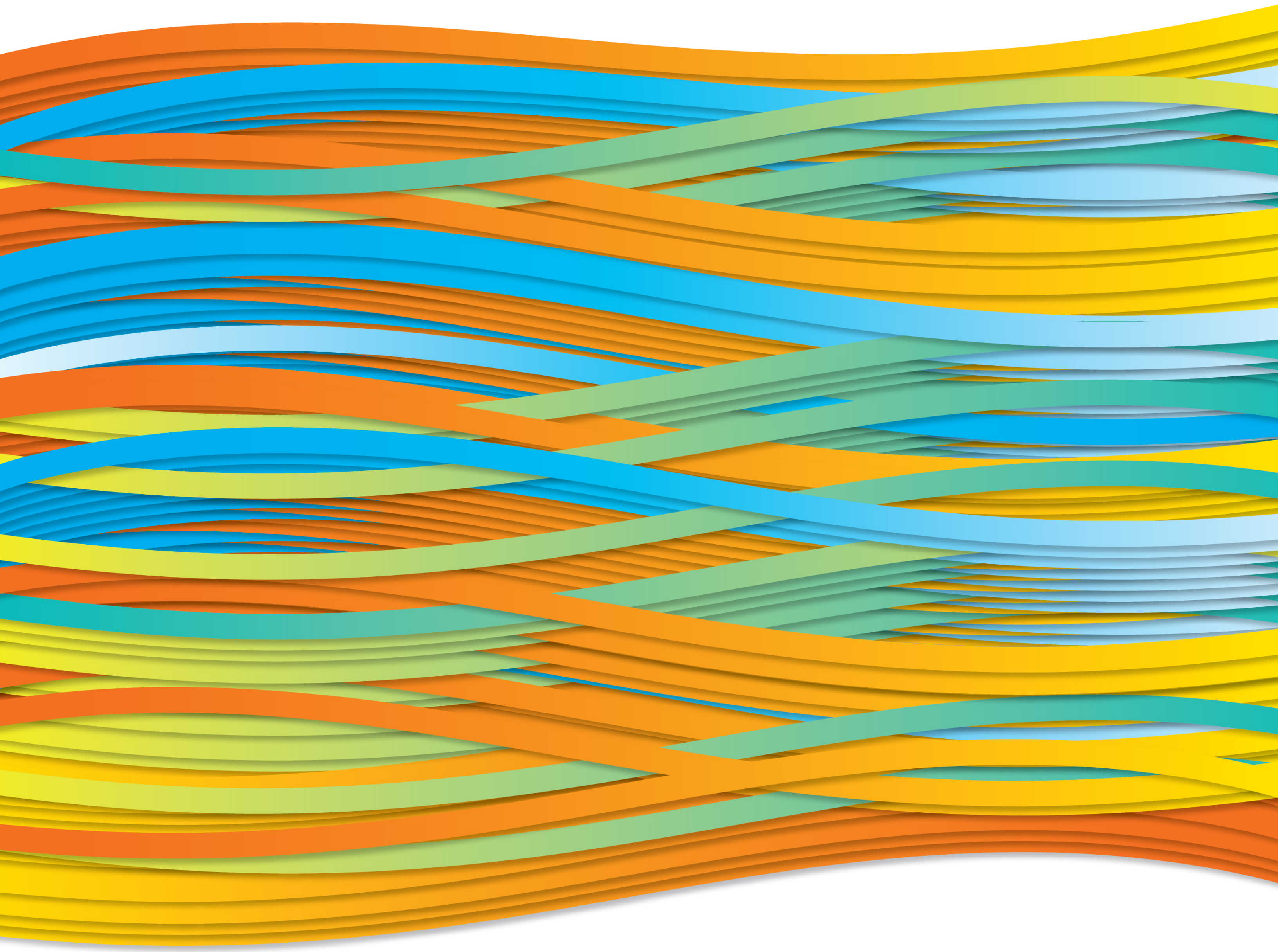

Charles W.L. Hill
G. Tomas M. Hult

McGraw Hill Education

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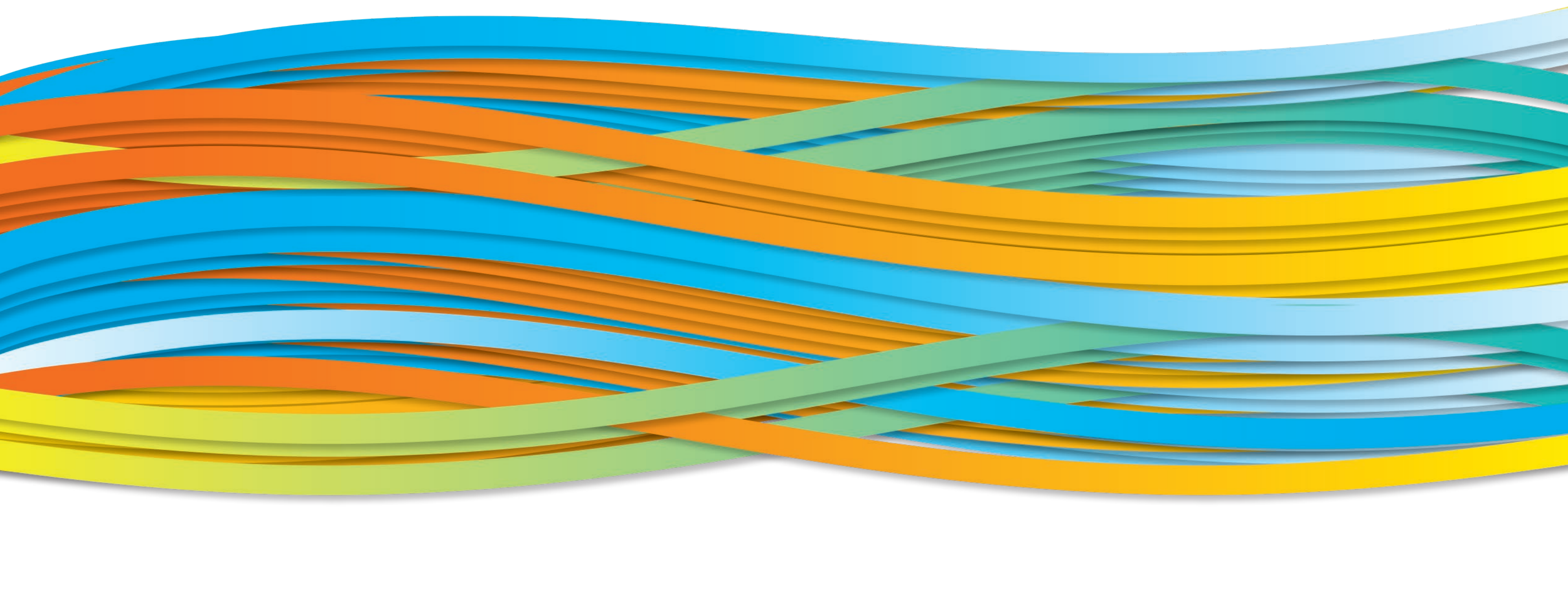

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International Business

COMPETING IN THE GLOBAL MARKETPLACE

Charles W. L. Hill

UNIVERSITY OF WASHINGTON

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MICHIGAN STATE UNIVERSITY

Mc Graw Hill Education

INTERNATIONAL BUSINESS: COMPETING IN THE GLOBAL MARKETPLACE, ELEVENTH EDITION

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For **June & Mike Hill**, my parents—**Charles W. L. Hill**

For **Gert & Margareta Hult**, my parents—**G. Tomas M. Hult**

about the AUTHORS

Charles W. L. Hill
University of Washington

Charles W. L. Hill is the Hughes M. and Katherine Blake Professor of Strategy and International Business at the Foster School of Business, University of Washington. The Foster School has a Center for International Business Education and Research (CIBER), one of only 17 funded by the U.S. Department of Education.

Professor Hill received his PhD from the University of Manchester in the United Kingdom. In addition to the University of Washington, he has served on the faculties of the University of Manchester, Texas A&M University, and Michigan State University.

Professor Hill has published over 50 articles in peer-reviewed academic journals including the *Academy of Management Journal, Academy of Management Review, Strategic Management Journal,* and *Organization Science.* Professor Hill has also published several textbooks including *International Business* (McGraw-Hill) and *Global Business Today* (McGraw-Hill). His work is among the most widely cited in international business and strategic management.

Professor Hill has taught in the MBA, Executive MBA, Technology Management MBA, Management, and PhD programs at the University of Washington. During his time at the University of Washington he has received over 25 awards for teaching excellence, including the Charles E. Summer Outstanding Teaching Award.

Professor Hill works on a private basis with a number of organizations. His clients have included Microsoft, where he has been teaching in-house executive education courses for two decades. He has also consulted for a variety of other large companies (e.g., AT&T Wireless, Boeing, BF Goodrich, Group Health, Hexcel, Microsoft, Philips Healthcare, Philips Medical Systems, Seattle City Light, Swedish Health Services, Tacoma City Light, Thompson Financial Services, WRQ, and Wizards of the Coast).

Professor Hill has served on the advisory board of several start-up companies. For recreation, Professor Hill enjoys mountaineering, rock climbing, skiing, and competitive sailing.

G. Tomas M. Hult
Michigan State University

G. Tomas M. Hult is the John W. Byington Endowed Chair, professor of marketing and international business, and director of the International Business Center in the Eli Broad College of Business at Michigan State University.

Professor Hult is an elected Fellow of the Academy of International Business (AIB), one of only about 80 scholars worldwide receiving this honor, and serves as the executive director and foundation president of AIB. He also serves on the U.S. District Export Council and holds board member positions on the International Trade Center of Mid-Michigan and the Sheth Foundation.

Several studies have ranked Professor Hult as one of the most cited scholars in the world in business and management. He has served as editor of *Journal of the Academy of Marketing Science* and has published more than 50 articles in premier business journals, including *Journal of International Business Studies, Academy of Management Journal, Strategic Management Journal, Journal of Management,* *Journal of Marketing, Journal of the Academy of Marketing Science, Journal of Retailing, Journal of Operations Management, Decision Sciences,* and *IEEE*.

Professor Hult has also published several books: *International Business* (2017), *Global Business Today (*2016), *Global Supply Chain Management* (2014), *Total Global Strategy* (2012), and *Extending the Supply Chain* (2005). He is a regular contributor of op-ed and articles in the popular press (e.g., *Time, Fortune, World Economic Forum, The Conversation*).

Professor Hult is a well-known keynote speaker on international business, international marketing, global supply chain management, global strategy, and marketing strategy. He teaches in doctoral, master's, and undergraduate programs at Michigan State University, plus he is a visiting professor at Leeds University (United Kingdom) and Uppsala University (Sweden).

He also teaches frequently in executive development programs and has developed a large clientele of the world's top multinational corporations (e.g., ABB, Albertsons, Avon, BG, Bechtel, Bosch, BP, Defense Logistics Agency, Domino's, FedEx, Ford, FreshDirect, General Motors, GroceryGateway, HSBC, IBM, Michigan Economic Development Corporation, Masco, NASA, Raytheon, Shell, Siemens, State Farm, Steelcase, Tech Data, and Xerox).

Tomas Hult is a dual citizen of the United States and Sweden and lives in Okemos, Michigan, with his wife, Laurie, and their children, Daniel and Isabelle. Tennis, golf, and traveling are his favorite recreational activities.

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part seven Integrative Cases

THE PROVEN CHOICE FOR INTERNATIONAL BUSINESS

RELEVANT. PRACTICAL. INTEGRATED.

It is now about a quarter of a century since work began on the first edition of *International Business: Competing in the Global Marketplace.* By the third edition the book was the most widely used international business text in the world. Since then its market share has only increased. The success of the book can be attributed to a number of unique features. Specifically, for the eleventh edition we have developed a learning program that

- Is comprehensive, state of the art, and timely.
- Is theoretically sound and practically relevant.
- Focuses on applications of international business concepts.
- Tightly integrates the chapter topics throughout.
- Is fully integrated with results-driven technology.

Over the years, and through now eleven editions, Dr. Charles Hill has worked hard to adhere to these goals. The eleventh edition, with Dr. Tomas Hult as a coauthor, follows the same approach. It has not always been easy. An enormous amount has happened over the past years, both in the real world of economics, politics, and business, and in the academic world of theory and empirical research.

Often, we have had to significantly rewrite chapters, scrap old examples, bring in new ones, incorporate new theory and evidence into the material, and phase out older theories that are increasingly less relevant to the dynamic world of international business. As noted later, there have been significant changes in this edition—and that will no doubt continue to be the case in the future. In deciding what changes to make, we have been guided not only by our own reading, teaching, and research, but also by the invaluable feedback we received from professors and students around the world, from reviewers, and from the editorial staff at McGraw-Hill. Our thanks go out to all of them.

RELEVANT AND COMPREHENSIVE

To be relevant and comprehensive, an international business package must

- Explain how and why the world's cultures, countries, and regions differ.
- Cover economics and politics of international trade and investment.
- Tackle international issues related to ethics, corporate social responsibility, and sustainability.
- Explain the functions and form of the global monetary system.
- Examine the strategies and structures of international businesses.
- Assess the special roles of an international business's various functions.

This text has always endeavored to be relevant, practical, and integrated. Too many other products have paid insufficient attention to some portion of the topics mentioned, being skewed toward a particular portion of international business. Our goal has always been to cover macro and micro issues equally, and in a relevant, practical, and integrated manner. We believe that anything short of such a breadth and depth of coverage is a serious deficiency. Many of the students in these international business courses will soon be working in international businesses, and they will be expected to understand the implications of international business for their organization's strategy, structure, and functions in the context of the global marketplace. We are proud and delighted to have put together this international business learning experience for the leaders of tomorrow.

Relevance and comprehensiveness also require coverage of the major theories. It has always been a goal to incorporate the insights gleaned from recent academic scholarship into the book. Consistent with this goal, insights from the following research, as a sample of theoretical streams used in the book, have been incorporated:

- New trade theory and strategic trade policy.
- The work of Nobel Prize–winning economist Amartya Sen on economic development.
- Samuel Huntington's influential thesis on the "clash of civilizations."
- Growth theory of economic development championed by Paul Romer and Gene Grossman.
- Empirical work by Jeffrey Sachs and others on the relationship between international trade and economic growth.
- Michael Porter's theory of the competitive advantage of nations.
- Robert Reich's work on national competitive advantage.

- The work of Nobel Prize–winner Douglass North and others on national institutional structures and the protection of property rights.
- The market imperfections approach to foreign direct investment that has grown out of Ronald Coase and Oliver Williamson's work on transaction cost economics.
- Bartlett and Ghoshal's research on the transnational corporation.
- The writings of C. K. Prahalad and Gary Hamel on core competencies, global competition, and global strategic alliances.
- Insights for international business strategy that can be derived from the resource-based view of the firm and complementary theories.
- Paul Samuelson's critique of free trade theory.
- Conceptual and empirical work on global supply chain management—logistics, purchasing (sourcing), operations, and marketing channels.

In addition to including leading-edge theory, in light of the fast-changing nature of the international business environment we have made every effort to ensure that this product was as up to date as possible when it went to press. A significant amount has happened in the world since we began revisions of this book. By 2016, almost $4 trillion per day was flowing across national borders. The size of such flows fueled concern about the ability of short-term speculative shifts in global capital markets to destabilize the world economy.

The world continued to become more global. Several Asian economies, most notably China and India, continued to grow their economies at a rapid rate. New multinationals continued to emerge from developing nations in addition to the world's established industrial powers. Increasingly, the globalization of the world economy affected a wide range of firms of all sizes, from the very large to the very small. And unfortunately, global terrorism and the attendant geopolitical risks keep emerging in various places globally, many new and inconceivable just a decade ago. These represent a threat to global economic integration and activity.

What's New in the Eleventh Edition

The most obvious change to the eleventh edition of *International Business* is the addition of a coauthor, G. Tomas M. Hult. Professor Hult is the John W. Byington Endowed Chair, professor of marketing and international business, and director of the International Business Center in the Eli Broad College of Business at Michigan State University. He is a notable scholar in the area of international business, marketing, and management, and a well-known expert on global supply chain management, global strategy, and marketing strategy. In addition, he has played a major role in the Academy of International Business, and is currently the executive director and foundation president of the Academy of International Business.

I am delighted to have Tomas on the book. Tomas has been a long-term user of the book and has contributed end-of-chapter material to the book for many editions (e.g., he is responsible for the Research Tasks that use Michigan State's globaledge.msu.edu knowledge resource). I believe that his skills complement my own. His energy, enthusiasm, and knowledge base helped make an already strong book even better. Tomas has made significant new contributions to all chapters in this edition, including most notably Chapters 4 on culture; Chapter 5 on ethics, corporate social responsibility, and sustainability; Chapters 10 to 12 on the global monetary system; Chapters 13 to 15 on strategy and structure; Chapters 16 to 20 on international business functions; and many of the Part Seven end-of-text integrated cases.

The success of the first 10 editions of *International Business* was based in part on the incorporation of leading-edge research into the text, the use of the up-to-date examples and statistics to illustrate global trends and enterprise strategy, and the discussion of current events within the context of the appropriate theory. Building on these strengths, our goals for the eleventh edition have focused on the following:

1. Incorporate new insights from scholarly research.
2. Make sure the content covers all appropriate issues.
3. Make sure the text is up to date with current events, statistics, and examples.
4. Add new and insightful opening and closing cases in most chapters.
5. Incorporate value-added globalEDGE features in every chapter.
6. Connect every chapter to a focus on managerial implications.
7. Add a new section—Part Seven—with integrated cases.

As part of the overall revision process, changes have been made to every chapter in the book. All statistics have been updated to incorporate the most recently available data, which typically refer to 2014 and 2015. For example, new examples, cases, and boxes have been added and older examples updated to reflect new developments.

Importantly, every chapter of the eleventh edition of *International Business* has a new feature spearheaded by Tomas. Specifically, we incorporated value-added globalEDGE features in every chapter. The Google number-one-ranked globaledge.msu.edu site (for "international business resources") is used in each chapter to add value to the chapter material and provide up-to-date data and information. This keeps chapter material constantly and dynamically updated for teachers who want to infuse globalEDGE material into the chapter topics, and it keeps student abreast of current developments in international business.

In addition to updating all statistics, figures, and maps to incorporate most recently published data, a chapter-by-chapter selection of changes for the eleventh edition include the following:

Chapter 1: Globalization

- New opening case: Medical Tourism and the Globalization of Health Care
- New closing case: Building the Boeing 787

Chapter 2: National Differences in Political, Economic, and Legal Systems

- New opening case: Corruption in Brazil
- Discussion of pseudo democracies added to section on democracy and totalitarianism.
- New Management Focus: Did Walmart Violate the Foreign Corrupt Practices Act?
- New closing case: Putin's Russia

Chapter 3: National Differences in Economic Development

- New opening case: Democracy and Economic Development in Sub-Saharan Africa
- Extended discussion of the 2008–2009 global financial crisis
- Revised closing case: Political and Economic Reform in Myanmar

Chapter 4: Differences in Culture

- New opening case: Best Buy and eBay in China
- Deeper treatment of culture, values, and norms
- Social media issues inserted into the culture discussion
- Added four basic principles to social stratification
- Added depth and coverage of the economic implications of Buddhism
- Updated the Hofstede culture framework with new research
- New closing case: World Expo 2020 in Dubai, UAE

Chapter 5: Ethics, Corporate Social Responsibility, and Sustainability

- New opening case: Making Toys Globally
- Deeper treatment of corruption
- New focus on corporate social responsibility (CSR)
- Added Management Focus on Stora Enso to illustrate CSR
- New focus on sustainability
- Added Management Focus on Umicore to illustrate global sustainability
- New closing case: Bitcoin as an Ethical Dilemma

Chapter 6: International Trade Theory

- New opening case: China and Australia Enter into a Free Trade Agreement
- Revised closing case: Creating the World's Biggest Free Trade Zone

Chapter 7: Government Policy and International Trade

- New opening case: U.S. Tariffs on Chinese Solar Panels Benefit Malaysia
- New Country Focus: Are the Chinese Illegally Subsidizing Auto Exports?
- New closing case: Sugar Subsidies Drive Candy Makers Abroad

Chapter 8: Foreign Direct Investment

- New opening case: Volkswagen in Russia
- New closing case: Foreign Direct Investment in Nigeria

Chapter 9: Regional Economic Integration

- New opening case: Regional Trade Pacts Give the Mexican Auto Industry an Edge
- Revised closing case: Tomato Wars

Chapter 10: The Foreign Exchange Market

- New opening case: Subaru's Sales Boom Thanks to the Weaker Yen
- New closing case: Embraer and the Wild Ride of the Brazilian Real

Chapter 11: The International Monetary System

- New opening case: The IMF and Ukraine's Economic Crisis
- Revised closing case: The IMF and Iceland's Economic Recovery

Chapter 12: The Global Capital Market

- New opening case: Alibaba's Record-Setting IPO
- Revised closing case: Declining Cross-Border Capital Flows—Retreat or Reset?

Chapter 13: The Strategy of International Business

- New opening case: IKEA's Global Strategy
- Discussion of the rise of regionalism
- Innovative new closing exercise/case focused on global strategy levers

Chapter 14: The Organization of International Business

- New opening case: P&G—Strength in Architecture
- New Management Focus: Walmart International
- Revised Management Focus: Lincoln Electric and Culture
- New closing case: Koninklijke Philips NV

Chapter 15: Entry Strategy and Strategic Alliances

- New opening case: Starbucks' Foreign Entry Strategy
- Revision to Entry Modes section
- Revised closing case: General Motors Corporation

Chapter 16: Exporting, Importing, and Countertrade

- New opening case: Exporting Desserts
- Added readiness to export and import material
- New Management Focus: Ambient Technologies and the Panama Canal
- Added material on globalEDGE Diagnostic Tools
- New closing case: Two Men and a Truck

Chapter 17: Global Production and Supply Chain Management

- New opening case: Apple: The Best Supply Chains in the World?
- Integration of the supply chain (logistics, purchasing, production, and operations).
- New section Strategic Roles for Production Facilities
- New section Make-or-Buy Decisions
- New section Global Supply Chain Functions
- New text for the section Role of Information Technology
- New section Coordination in Global Supply Chains
- New section Interorganizational Relationships
- New closing case: H&M: The Retail-Clothing Giant

Chapter 18: Global Marketing and R&D

- New opening case: Global Branding of *Avengers* and *Iron Man*
- Revised section Globalization of Markets and Brands
- Revised section Configuring the Marketing Mix, now with a new table with sample measures
- New section International Market Research, including company examples and six basic steps
- Revised positioning of the Product Development section
- New closing case: Domino's Worldwide

Chapter 19: Global Human Resource Management

- New opening case: A Global Team at Mary Kay Inc.
- Revised closing case: IBM and Its Human Resources

Chapter 20: Accounting and Finance in the International Business

- Revised opening case: Skype Now a Division of Microsoft
- Revised closing case: Google and Its Tax Strategy

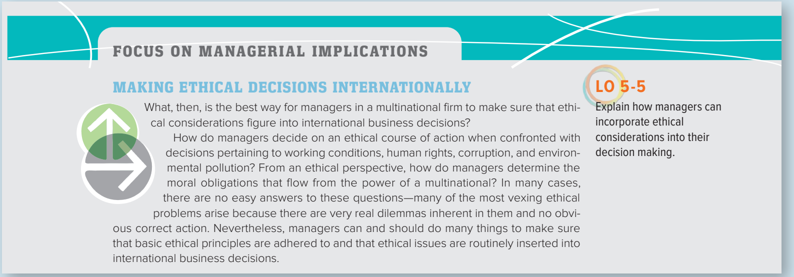
BEYOND UNCRITICAL PRESENTATION AND SHALLOW EXPLANATION

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

Related to this, we have attempted to explain the complexities of the many theories and phenomena unique to international business so the student might fully comprehend the statements of a theory or the reasons a phenomenon is the way it is. We believe that these theories and phenomena are explained in more depth in this work than they are in the competition, which seem to use the rationale that a shallow explanation is little better than no explanation. In international business, a little knowledge is indeed a dangerous thing.

Practical and Rich Applications

We have always believed that it is important to show students how the material covered in the text is relevant to the actual practice of international business. This is explicit in the later chapters of the book, which focus on the practice of international business, but it is not always obvious in the first half of the book, which considers many macroeconomic and political issues, from international trade theory and foreign direct investment flows to the IMF and the influence of inflation rates on foreign exchange quotations. Accordingly, at the end of each chapter in Parts Two, Three, and Four—where the focus is on the environment of international business, as opposed to particular firms—there is a section titled **Focus on Managerial Implications**. In this section, the managerial implications of the material discussed in the chapter are clearly explained.


FOCUS ON MANAGERIAL IMPLICATIONS

MAKING ETHICAL DECISIONS INTERNATIONALLY

What, then, is the best way for managers in a multinational firm to make sure that ethical considerations figure into international business decisions?

How do managers decide on an ethical course of action when confronted with decisions pertaining to working conditions, human rights, corruption, and environmental pollution? From an ethical perspective, how do managers determine the moral obligations that flow from the power of a multinational? In many cases, there are no easy answers to these questions—many of the most vexing ethical problems arise because there are very real dilemmas inherent in them and no obvious correct action. Nevertheless, managers can and should do many things to make sure that basic ethical principles are adhered to and that ethical issues are routinely inserted into international business decisions.

LO 5-5 Explain how managers can incorporate ethical considerations into their decision making.

Another tool that we have used to focus on managerial implications is the **Management Focus** box. Most chapters have at least one Management Focus. Like the opening cases, the purpose of these boxes is to illustrate the relevance of chapter material for the practice of international business.


MANAGEMENT FOCUS

Ethical Issues at Apple

In mid-2006, news reports surfaced suggesting there were systematic labor abuses at a factory in China that makes the iPhone and iPod for Apple, Inc. According to the reports, workers at Hongfujin Precision Industry were paid as little as $50 a month to work 15-hour shifts making Apple products. There were also reports of forced overtime and poor living conditions for the workers, many of them young women who had migrated from the countryside to work at the plant and lived in company-owned dormitories.

new housing for employees and limiting work to 60 hours a week.

However, Hongfujin did not immediately withdraw the defamation suit. In an unusually bold move in a country where censorship is still common, *China Business News* gave its unconditional backing to Wang and Weng. The Shanghai-based news organization issued a statement arguing that what the two journalists did "was not a violation of any rules, laws, or journalistic ethics." The Paris-based Reporters Without Borders also took up the case of Wang part two National Differences

National Differences in Economic Development

3

LEARNING OBJECTIVES

After reading this chapter, you will be able to:

LO3-1 Explain what determines the level of economic development of a nation.

LO3-2 Identify the macropolitical and macroeconomic changes occurring worldwide.

LO3-3 Describe how transition economies are moving toward market-based systems.

LO3-4 Explain the implications for management practice of national difference in political economy.

Source: © Frans lemmens/Alamy

In addition, each chapter begins with an **opening case** that sets the stage for the chapter content and familiarizes students with how real international companies conduct business.

A **closing case** to each chapter is designed to illustrate the relevance of chapter material for the practice of international business and provide continued insight into how real companies handle those issues.

CLOSING CASE

The IMF and Iceland's Economic Recovery

When the global financial crisis hit in 2008, tiny Iceland suffered more than most. The country's three biggest banks had been expanding at a breakneck pace since 2000 when the government privatized the banking sector. With a population of around 320,000, Iceland was too small for the banking sector's ambitions, so the banks started to expand into other Scandinavian countries and the UK. They entered local mortgage markets, purchased foreign financial institutions, and opened foreign branches, attracting depositors by offering high interest rates. The expansion was financed by debt, much of it structured as short-term loans that had to be regularly refinanced. By early 2008, the three banks held debts that amounted to almost six times the value of the entire economy of Iceland! So long as they could periodically refinance this debt, it was not a problem. However, in 2008, global financial markets imploded following the bankruptcy of Lehman Brothers and the collapse of the U.S. housing market. In the aftermath, financial markets froze. The Icelandic banks found that they could not refinance their debt, and they faced bankruptcy.

The Icelandic government lacked the funds to bail out the banks, so it decided to let the big three fail. In quick succession the local stock market plunged 90 percent and unemployment increased ninefold. The krona, Iceland's currency, plunged on foreign exchange markets, pushing up the price of imports, and inflation soared to 18 percent. Iceland appeared to be in free fall. The economy shrank by almost 7 percent in 2009 and another 4 percent in 2010.

To stem the decline, the government secured $10 billion in loans from the International Monetary Fund (IMF) and other countries. The Icelandic government stepped in to help local depositors, seizing the domestic assets of the Icelandic banks and using IMF and other loans to backstop deposit guarantees. Far from implementing austerity measures to solve the crisis, the Icelandic government looked for ways to shore up consumer spending. For example, the government provided means-tested subsidies to reduce the mortgage interest expenses of borrowers. The idea was to stop domestic consumer spending from imploding and further depressing the economy.

With the financial system stabilized, thanks to the IMF and other foreign loans, what happened next is an object lesson in the value of having a floating currency. The fall in the value of the krona helped boost Iceland's exports, such as fish and aluminum, while depressing demand for costly imports, such as automobiles. By 2009 the krona was worth half as much against the U.S. dollar and euro as it was in 2007 before the crisis. Iceland's exports surged and imports slumped. While the high cost of imports did stoke inflation, booming exports started

The **Part Seven Integrated Cases** are somewhat longer, allowing a more in-depth study of international companies. These cases can be used as standalone cases, in conjunction with a specific chapter, and also as integrated cases covering relevant and practical material from several chapters. The introduction to the Part Seven section discusses and lays out topics covered in each case.

part seven cases

Integrative Cases

For *International Business,* eleventh edition, we have included a set of 20 cases as value-added materials at the end of the textbook in addition to the 40 cases—opening case and closing case—that appear in the 20 chapters. These end-of-the-book cases replace what used to be cases included at the end of the core sectional "parts" of the textbook in earlier versions of the textbook.

The end-of-the-book cases serve a better and more strategically aligned objective for the core features of *International Business,* eleventh edition. Specifically, we are able to build on and enhance the market leadership of our *International Business* textbook

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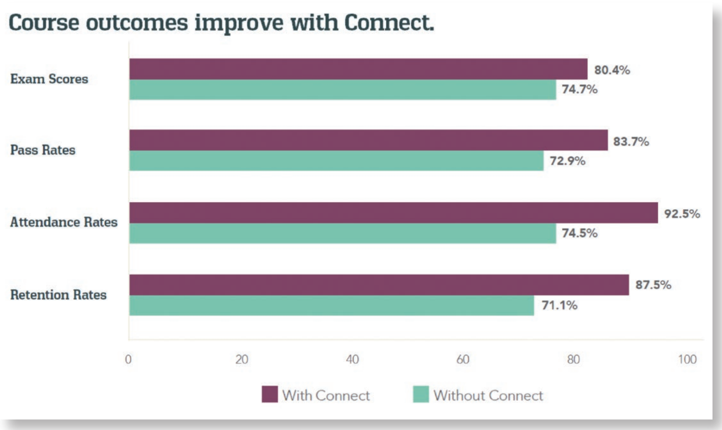

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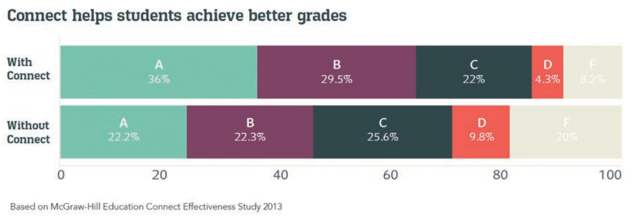

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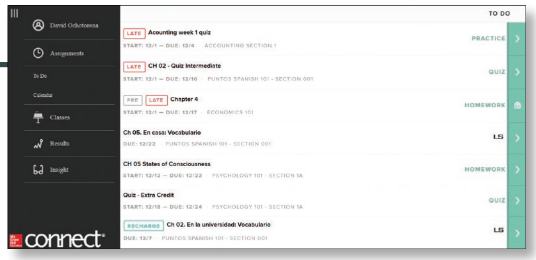

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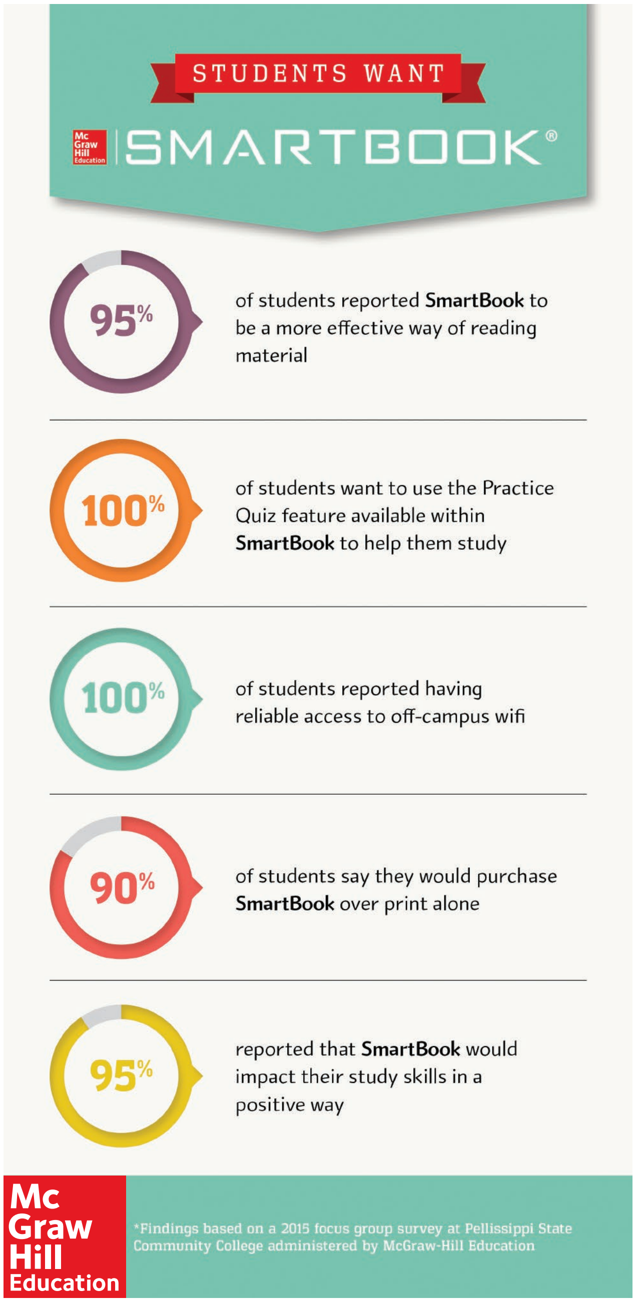

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To help students go a step further in expanding their application-level understanding of international business, each chapter incorporates two **globalEDGE research tasks** designed and written by Tomas Hult, Tunga Kiyak, and the team at Michigan State University's International Business Center and their globaledge.msu.edu site. The exercises dovetail with the content just covered.

INTEGRATED PROGRESSION OF TOPICS

A weakness of many texts is that they lack a tight, integrated flow of topics from chapter to chapter. This book explains to students in Chapter 1 how the book's topics are related to each other. Integration has been achieved by organizing the material so that each chapter builds on the material of the previous ones in a logical fashion.

Part One

Chapter 1 provides an overview of the key issues to be addressed and explains the plan of the book. Globalization of markets and globalization of production is the core focus.

Part Two

Chapters 2 through 4 focus on country differences in political economy and culture, and Chapter 5 on ethics, corporate social responsibility, and sustainability issues in international business. Most international business textbooks place this material at a later point, but we believe it is vital to discuss national differences first. After all, many of the central issues in international trade and investment, the global monetary system, international business strategy and structure, and international business functions arise out of national differences in political economy and culture.

Part Three

Chapters 6 through 9 investigate the political economy of global trade and investment. The purpose of this part is to describe and explain the trade and investment environment in which international business occurs.

Part Four

Chapters 10 through 12 describe and explain the global monetary system, laying out in detail the monetary framework in which international business transactions are conducted.

Part Five

In Chapters 13 through 15 attention shifts from the environment to the firm. In other words, we move from a macro focus to a micro focus at this stage of the book. We examine strategies and structures that firms adopt to compete effectively in the international business environment.

Part Six

In Chapters 16 through 20 the focus narrows further to investigate business functions and related operations. These chapters explain how firms can perform their key functions—exporting, importing, and countertrade; global production; global supply chain management; global marketing; global research and development (R&D); human resource management; accounting; and finance—to compete and succeed in the international business environment.

Throughout the book, the relationship of new material to topics discussed in earlier chapters is pointed out to the students to reinforce their understanding of how the material comprises an integrated whole. We deliberately bring a management focus to the macro chapters (Chapters 1 through 12). We also integrate macro themes in covering the micro chapters (Chapters 13 through 20). Part Seven with its integrated cases also provides a great learning vehicle to better understand macro and micro issues.

ACCESSIBLE AND INTERESTING

The international business arena is fascinating and exciting, and we have tried to communicate our enthusiasm for it to the student. Learning is easier and better if the subject matter is communicated in an interesting, informative, and accessible manner. One technique we have used to achieve this is weaving interesting anecdotes into the narrative of the text, that is, stories that illustrate theory.

Most chapters also have a **Country Focus** box that provides background on the political, economic, social, or cultural aspects of countries grappling with an international business issue.

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International
Business

COMPETING IN THE
GLOBAL MARKETPLACE

part one Introduction and Overview

Globalization

1

LEARNING OBJECTIVES

After reading this chapter, you will be able to:

LO1-1 Understand what is meant by the term *globalization*.

LO1-2 Recognize the main drivers of globalization.

LO1-3 Describe the changing nature of the global economy.

LO1-4 Explain the main arguments in the debate over the impact of globalization.

LO1-5 Understand how the process of globalization is creating opportunities and challenges for business managers.

Source: © The India Today Group/Getty Images

Medical Tourism and the Globalization of Health Care

OPENING CASE

You might think that health care is one of the industries least vulnerable to dislocation from globalization. Like many service businesses, surely health care is delivered where it is purchased? If an American goes to a hospital for an MRI scan, won't a local radiologist read that scan? If the MRI scan shows that surgery is required, surely the surgery will be done at a local hospital in the United States? Until recently, this was true, but we are now witnessing globalization in this traditionally most local of industries.

Consider the MRI scan: The United States has a shortage of radiologists, the doctors who specialize in reading and interpreting diagnostic medical images, including X-rays, CT scans, MRI scans, and ultrasounds. Demand for radiologists is reportedly growing twice as fast as the rate at which medical schools are graduating radiologists with the skills and qualifications required to read medical images. This imbalance between supply and demand means that radiologists are expensive; an American radiologist can earn as much as $400,000 a year. Back in the early 2000s, an Indian radiologist working at the prestigious Massachusetts General Hospital, Dr. Sanjay Saini, thought he had found a clever way to deal with the shortage and expense—send images over the Internet to India where they could be interpreted by radiologists. This would reduce the workload on America's radiologists and cut costs. A radiologist in India might earn one-tenth of his or her U.S. counterpart. Plus, because India is on the opposite side of the globe, the images could be interpreted while it was nighttime in the United States and be ready for the attending physician when he or she arrived for work the following morning.

As for the surgery, here too we are witnessing an outsourcing trend. Consider Howard Staab, a 53-year-old uninsured self-employed carpenter from North Carolina. Mr. Staab had surgery to repair a leaking heart valve—in India. Mr. Staab flew to New Delhi, had the operation, and afterward toured the Taj Mahal, the price of which was bundled with that of the surgery. The cost, including airfare, totaled $10,000. If Mr. Staab's surgery had been performed in the United States, the cost would have been $60,000 and there would have been no visit to the Taj Mahal.

Howard Staab is not alone. Driven by a desire to access low-cost health care, some 150,000 Westerners visit India every year for medical treatments. In general, medical procedures in India cost about 10–20% less than in the United States. The Indian industry generates $2 billion in revenues every year from foreign patients. In another example, after years of living in pain, Robert Beeney, a 64-year-old from San Francisco, was advised to get his hip joint replaced. After doing some research, Mr. Beeney elected instead for joint resurfacing, which was not covered by his insurance. Instead of going to a nearby hospital, he flew to Hyderabad in southern India and had the surgery done for $6,600, a fraction of the $25,000 the procedure would have cost in the United States.

Mr. Beeney had his surgery performed at a branch of the Apollo hospital chain. Apollo, which was founded by Dr. Prathap C. Reddy, a surgeon trained at Massachusetts General Hospital, runs a chain of 50 state-of-the-art hospitals throughout Asia. Eight of Apollo's hospitals have the highest level of international accreditation. Apollo's main hospitals in India are estimated to treat some 50,000 international patients from 55 countries every year, mainly from nations in Southeast Asia and the Persian Gulf, although a growing number are from western Europe and North America.

Will demand for American health services soon collapse as work moves offshore to places like India? That seems unlikely. Regulations, personal preferences, and practical considerations mean that the majority of health services will always be performed in the country where the patient resides. For example, the U.S. government–sponsored medical insurance program, Medicare, will not pay for services done outside the country.

Moreover, in an interesting countertrend, U.S. medical providers also seem to be benefiting from medical tourism, particularly from China, where health care services are poor and lag far behind U.S. levels. Over the past decade middle-class Chinese have flocked to South Korea for plastic surgery, and to the United States, Singapore, and India for treatment of life-threatening conditions. When Lin Tao was diagnosed with a lethal spinal tumor in 2012, rather than risk treatment in his native Hangzhou, China, he flew to San Francisco and paid $70,000 for treatment at UCSF Medical Center. UCSF Medical Center says that its Chinese population has grown by more than 25 percent in each of the past few years. Similarly, Massachusetts General Hospital is expecting its Chinese patients to more than double in 2015 over 2014. As China gets wealthier, ever more Chinese are apparently willing to spend more to get better treatment overseas, and America's world-class hospitals are benefiting from this trend.

Sources: G. Colvin, "Think Your Job Can't Be Sent to India?," *Fortune,* December 13, 2004, p. 80; A. Pollack, "Who's Reading Your X-Ray," *The New York Times,* November 16, 2003, pp. 1, 9; S. Rai, "Low Costs Lure Foreigners to India for Medical Care," *The New York Times,* April 7, 2005, p. C6; J. Solomon, "Traveling Cure: India's New Coup in Outsourcing," *The Wall Street Journal,* April 26, 2004, p. A1; J. Slater, "Increasing Doses in India," *Far Eastern Economic Review,* February 19, 2004, pp. 32–35; U. Kher, "Outsourcing Your Heart," *Time,* May 29, 2006, pp. 44–47; Anuradha Raghunathan, "The Reddy Sisters Have India's Apollo Hospitals Covered in Four Ways," *Forbes Asia*, January 8, 2014; Fanfan Wang, "Desperate Chinese Seek Medical Care Abroad," *The Wall Street Journal,* September 6, 2014; Apollo Hospital Group, Patients beyond Borders, **www.patientsbeyondborders.com/hospital/apollo-hospitals-group**, accessed April 2015.

Introduction

Over the past four decades a fundamental shift has been occurring in the world economy. We have been moving away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones, and language; and by national differences in government regulation, culture, and business systems. We are moving toward a world in which barriers to cross-border trade and investment are declining; perceived distance is shrinking due to advances in transportation and telecommunications technology; material culture is starting to look similar the world over; and national economies are merging into an interdependent, integrated global economic system. The process by which this transformation is occurring is commonly referred to as *globalization*.

The rise of medical tourism discussed in the opening case is one illustration of the trend toward globalization. Twenty years ago almost all medical procedures were delivered in the country where the patient resided. This is now changing. A global marketplace for medical care is developing. MRI images from U.S. patients may be diagnosed by radiologists in India. Wealthy Chinese may go to South Korea for plastic surgery and America for state-of-the-art medical treatment for life-threatening conditions. Some Americans make the trek to India for surgeries that can be done in internationally accredited hospitals at a fraction of the cost in the United States. In all of these cases, the motive is to get less expensive or better treatment than is available in the patient's home nation.

More generally, globalization now has an impact on almost everything we do. The average American, for example, might drive to work in a car that was designed in Germany and assembled in Mexico by Ford from components made in the United States and Japan, which were fabricated from Korean steel and Malaysian rubber. He may have filled the car with gasoline at a Shell service station owned by a British-Dutch multinational company. The gasoline could have been made from oil pumped out of a well off the coast of Africa by a French oil company that transported it to the United States in a ship owned by a Greek shipping line. While driving to work, the American might talk to his stockbroker (using a hands-free, in-car speaker) on an Apple iPhone that was designed in California and assembled in China using chip sets produced in Japan and Europe, glass made by Corning in Kentucky, and memory chips from South Korea. He could tell the stockbroker to purchase shares in Lenovo, a multinational Chinese PC manufacturer whose operational headquarters is in North Carolina, and whose shares are listed on the New York Stock Exchange.

This is the world in which we live. It is a world where the volume of goods, services, and investments crossing national borders has expanded faster than world output for more than half a century. It is a world where more than $5 trillion in foreign exchange transactions are made every day, where $19 trillion of goods and $4.9 trillion of services were sold across national borders in 2014.[1] It is a world in which international institutions such as the World Trade Organization and gatherings of leaders from the world's most powerful economies have repeatedly called for even lower barriers to cross-border trade and investment. It is a world where the symbols of material and popular culture are increasingly global: from Coca-Cola and Starbucks to Sony PlayStations, Facebook, MTV shows, Disney films, IKEA stores, and Apple iPads and iPhones. It is also a world in which vigorous and vocal groups protest against globalization, which they blame for a list of ills from unemployment in developed nations to environmental degradation and the Americanization of local culture.

For businesses, this globalization process has produced many opportunities. Firms can expand their revenues by selling around the world and/or reduce their costs by producing in nations where key inputs, including labor, are cheap. The global expansion of enterprises has been facilitated by favorable political and economic trends. Since the collapse of communism a quarter of a century ago, the pendulum of public policy in nation after nation has swung toward the free market end of the economic spectrum. Regulatory and administrative barriers to doing business in foreign nations have been reduced, while those nations have often transformed their economies, privatizing state-owned enterprises, deregulating markets, increasing competition, and welcoming investment by foreign businesses. This has allowed businesses both large and small, from both advanced nations and developing nations, to expand internationally.

As globalization unfolds, it is transforming industries and creating anxiety among those who believed their jobs were protected from foreign competition. Historically, while many workers in manufacturing industries worried about the impact foreign competition might have on their jobs, workers in service industries felt more secure. Now, this too is changing. Advances in technology, lower transportation costs, and the rise of skilled workers in developing countries imply that many services no longer need to be performed where they are delivered. The opening case described how this is occurring with medical services. The same is true of some accounting services. Today, many individual U.S. tax returns are compiled in India. Indian accountants, trained in U.S. tax rules, perform work for U.S. accounting firms.[2] They access individual tax returns stored on computers in the United States, perform routine calculations, and save their work so that it can be inspected by a U.S. accountant, who then bills clients. As the best-selling author Thomas Friedman has argued, the world is becoming flat.[3] People living in developed nations no longer have the playing field tilted in their favor. Increasingly, enterprising individuals based in India, China, or Brazil have the same opportunities to better themselves as those living in western Europe, the United States, or Canada.

In this text, we will take a close look at the issues introduced here and many more. We will explore how changes in regulations governing international trade and investment, when coupled with changes in political systems and technology, have dramatically altered the competitive playing field confronting many businesses. We will discuss the resulting opportunities and threats and review the strategies that managers can pursue to exploit the opportunities and counter the threats. We will consider whether globalization benefits or harms national economies. We will look at what economic theory has to say about the outsourcing of manufacturing and service jobs to places such as India and China and look at the benefits and costs of outsourcing, not just to business firms and their employees but also to entire economies. First, though, we need to get a better overview of the nature and process of globalization, and that is the function of this first chapter.

What Is Globalization?

LO 1-1
Understand what is meant by the term *globalization*.

As used in this text, **globalization** refers to the shift toward a more integrated and interdependent world economy. Globalization has several facets, including the globalization of markets and the globalization of production.

THE GLOBALIZATION OF MARKETS

The **globalization of markets** refers to the merging of historically distinct and separate national markets into one huge global marketplace. Falling barriers to cross-border trade have made it easier to sell internationally. It has been argued for some time that the tastes and preferences of consumers in different nations are beginning to converge on some global norm, thereby helping create a global market.[4] Consumer products such as Citigroup credit cards, Coca-Cola soft drinks, video games, McDonald's hamburgers, Starbucks coffee, IKEA furniture, and Apple iPhones are frequently held up as prototypical examples of this trend. The firms that produce these products are more than just benefactors of this trend; they are also facilitators of it. By offering the same basic product worldwide, they help create a global market.

A company does not have to be the size of these multinational giants to facilitate, and benefit from, the globalization of markets. In the United States, for example, according to the International Trade Administration, more than 295,000 small and medium-size firms with less than 500 employees exported in 2013, accounting for 98 percent of the companies that exported that year. More generally, exports from small and medium-size companies accounted for 33 percent of the value of U.S. exports of manufactured goods in 2013.[5] Typical of these is

B&S Aircraft Alloys, a New York company whose exports account for 40 percent of its $8 million annual revenues.[6] The situation is similar in several other nations. For example, in Germany, the world's largest exporter, a staggering 98 percent of small and midsize companies have exposure to international markets, via either exports or international production.[7]

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Despite the global prevalence of Citigroup credit cards, McDonald's hamburgers, Starbucks coffee, and IKEA stores, it is important not to push too far the view that national markets are giving way to the global market. As we shall see in later chapters, significant differences still exist among national markets along many relevant dimensions, including consumer tastes and preferences, distribution channels, culturally embedded value systems, business systems, and legal regulations. These differences frequently require companies to customize marketing strategies, product features, and operating practices to best match conditions in a particular country.

The most global of markets are not typically markets for consumer products—where national differences in tastes and preferences can still be important enough to act as a brake on globalization—but markets for industrial goods and materials that serve universal needs the world over. These include the markets for commodities such as aluminum, oil, and wheat; for industrial products such as microprocessors, DRAMs (computer memory chips), and commercial jet aircraft; for computer software; and for financial assets from U.S. Treasury bills to Eurobonds and futures on the Nikkei index or the euro. That being said, it is increasingly evident that many newer high-technology consumer products, such as Apple's iPhone, are being successfully sold the same way the world over.

In many global markets, the same firms frequently confront each other as competitors in nation after nation. Coca-Cola's rivalry with PepsiCo is a global one, as are the rivalries between Ford and Toyota; Boeing and Airbus; Caterpillar and Komatsu in earthmoving equipment; General Electric and Rolls-Royce in aero engines; and Sony, Nintendo, and Microsoft in video-game consoles. If a firm moves into a nation not currently served by its rivals, many of those rivals are sure to follow to prevent their competitor from gaining an advantage.[8] As firms follow each other around the world, they bring with them many of the assets that served them well in other national markets—their products, operating strategies, marketing strategies, and brand names—creating some homogeneity across markets. Thus, greater uniformity replaces diversity. In an increasing number of industries, it is no longer meaningful to talk about "the German market," "the American market," "the Brazilian market," or "the Japanese market"; for many firms there is only the global market.

THE GLOBALIZATION OF PRODUCTION

The **globalization of production** refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of

factors of production (such as labor, energy, land, and capital). By doing this, companies hope to lower their overall cost structure or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively. For example, Boeing has made extensive use of outsourcing to foreign suppliers. Consider Boeing's 777: eight Japanese suppliers make parts for the fuselage, doors, and wings; a supplier in Singapore makes the doors for the nose landing gear; three suppliers in Italy manufacture wing flaps; and so on.[9] In total, some 30 percent of the 777, by value, is built by foreign companies. And, for its most recent jet airliner, the 787, Boeing has pushed this trend even further; some 65 percent of the total value of the aircraft is outsourced to foreign companies, 35 percent of which goes to three major Japanese companies.

Part of Boeing's rationale for outsourcing so much production to foreign suppliers is that these suppliers are the best in the world at their particular activity. A global web of suppliers yields a better final product, which enhances the chances of Boeing winning a greater share of total orders for aircraft than its global rival, Airbus. Boeing also outsources some production to foreign countries to increase the chance that it will win significant orders from airlines based in that country. For another example of a global web of activities, consider the example of Vizio profiled in the accompanying Management Focus.

Early outsourcing efforts were primarily confined to manufacturing activities, such as those undertaken by Boeing, Apple, and Vizio; increasingly, however, companies are taking advantage of modern communications technology, particularly the Internet, to outsource service activities to low-cost producers in other nations. The Internet has allowed hospitals to outsource some radiology work to India, where images from MRI scans and the like are read at night while U.S. physicians sleep; the results are ready for them in the morning (see the opening case). Many software companies, including IBM and Microsoft, now use Indian engineers to perform test functions on software designed in the United States. The time difference allows Indian engineers to run debugging tests on software written in the United States when U.S. engineers sleep, transmitting the corrected code back to the United States over secure Internet connections so it is ready for U.S. engineers to work on the following day. Dispersing value-creation activities in this way can compress the time and lower the costs required to develop new software programs. Other companies, from computer makers to banks, are outsourcing customer service functions, such as customer call centers, to developing nations where labor is cheaper. In another example from health care, workers in the Philippines transcribe American medical files (such as audio files from doctors seeking approval from insurance companies for performing a procedure). Some estimates suggest the outsourcing of many administrative procedures in health care, such as customer service and claims processing, could reduce health care costs in America by as much as $70 billion.[10]

Robert Reich, who served as secretary of labor in the Clinton administration, has argued that as a consequence of the trend exemplified by companies such as Boeing, Apple, IBM, and Vizio, in many cases it is becoming irrelevant to talk about American products, Japanese products, German products, or Korean products. Increasingly, according to Reich, the outsourcing of productive activities to different suppliers results in the creation of products that are global in nature, that is, "global products."[11] But as with the globalization of markets, companies must be careful not to push the globalization of production too far. As we will see in later chapters, substantial impediments still make it difficult for firms to achieve the optimal dispersion of their productive activities to locations around the globe. These impediments include formal and informal barriers to trade between countries, barriers to foreign direct investment, transportation costs, issues associated with economic and political risk, and the shear managerial challenge of coordinating a globally dispersed supply chain (which was an issue for Boeing with the 787, as discussed in the closing case). For example, government regulations ultimately limit the ability of hospitals to outsource the process of interpreting MRI scans to developing nations where radiologists are cheaper.

Nevertheless, the globalization of markets and production will probably continue. Modern firms are important actors in this trend, their very actions fostering increased globalization. These firms, however, are merely responding in an efficient manner to changing conditions in their operating environment—as well they should.

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MANAGEMENT FOCUS

Vizio and the Market for Flat-Panel TVs

Operating sophisticated tooling in environments that must be kept absolutely clean, fabrication centers in South Korea, Taiwan, and Japan produce sheets of glass twice as large as king-size beds to exacting specifications. From there, the glass panels travel to Mexican plants located alongside the U.S. border. There, they are cut to size, combined with electronic components shipped in from Asia and the United States, assembled into finished flat-panel TVs, and loaded onto trucks bound for retail stores in the United States, where consumers spend more than $35 billion a year on flat-panel TVs.

Vizio's flat-panel TVs are assembled in Mexico from components produced in many different countries.

Source: © Jin Lee/Bloomberg/Getty Images

The underlying technology for flat-panel displays was invented in the United States in the late 1960s by RCA. But after RCA and rivals Westinghouse and Xerox opted not to pursue the technology, the Japanese company Sharp made aggressive investments in flat-panel displays. By the early 1990s, Sharp was selling the first flat-panel screens, but as the Japanese economy plunged into a decade-long recession, investment leadership shifted to South Korean companies such as Samsung. Then the 1997 Asian crisis hit Korea hard, and Taiwanese companies seized leadership. Today, Chinese companies are elbowing their way into the flat-panel display manufacturing business.

As production for flat-panel displays migrates its way around the globe to low-cost locations, there are clear winners and losers. U.S. consumers have benefited from the falling prices of flat-panel TVs and are snapping them up. Efficient manufacturers have taken advantage of globally dispersed supply chains to make and sell low-cost, high-quality flat-panel TVs. Foremost among these has been the California-based company Vizio, founded by a Taiwanese immigrant. In just 10 years, sales of Vizio flat-panel TVs ballooned from nothing to around $3.1 billion by 2013. The privately held company is the largest provider to the U.S. market with an 18 to 19 percent share. Vizio, however, has reportedly fewer than 500 employees. Its focus is on final product design, sales, and customer service. Vizio outsources most of its engineering work, all of its manufacturing, and much of its logistics. For each of its models, Vizio assembles a team of supplier partners strung across the globe. Its 42-inch flat-panel TV, for example, contains a panel from South Korea, electronic components from China, and processors from the United States, and it is assembled in Mexico. Vizio's managers scour the globe continually for the cheapest manufacturers of flat-panel displays and electronic components. They sell most of their TVs to large discount retailers such as Costco and Sam's Club. Good order visibility from retailers, coupled with tight management of global logistics, allows Vizio to turn over its inventory every three weeks, twice as fast as many of its competitors, which allows major cost savings in a business where prices are falling continually.

Sources: D. J. Lynch, "Flat Panel TVs Display Effects of Globalization," *USA Today,* May 8, 2007, pp. 1B, 2B; P. Engardio and E. Woyke, "Flat Panels, Thin Margins," *BusinessWeek,* February 26, 2007, p. 50; B. Womack, "Flat TV Seller Vizio Hits $600 Million in Sales, Growing," *Orange County Business Journal,* September 4, 2007, pp. 1, 64; E. Taub, "Vizio's Flat Panel Display Sales Are Anything but Flat," *The New York Times Online,* May 12, 2009; Greg Tarr, "HIS: Samsung Dusts Vizio in Q4 LCD TV Share in the U.S.," *This Week in Consumer Electronics,* April 12, 2012, p. 12.

The Emergence of Global Institutions

As markets globalize and an increasing proportion of business activity transcends national borders, institutions are needed to help manage, regulate, and police the global marketplace and to promote the establishment of multinational treaties to govern the global business system. Over the past half century, a number of important global institutions have been created to help perform these functions, including the **General Agreement on Tariffs and Trade (GATT)** and its successor, the World Trade Organization; the International Monetary Fund and its sister institution, the World Bank; and the United Nations. All these institutions were created by voluntary agreement between individual nation-states, and their functions are enshrined in international treaties.

The **World Trade Organization (WTO)** (like the GATT before it) is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by WTO member states. As of 2015, 160 nations that collectively accounted for 98 percent of world trade were WTO members, thereby giving the organization enormous scope and influence. The WTO is also responsible for facilitating the establishment of additional multinational agreements among WTO member states. Over its entire history, and that of the GATT before it, the WTO has promoted the lowering of barriers to cross-border trade and investment. In doing so, the WTO has been the instrument of its member states, which have sought to create a more open global business system unencumbered by barriers to trade and investment between countries. Without an institution such as the WTO, the globalization of markets and production is unlikely to have proceeded as far as it has. However, as we shall see in this chapter and in Chapter 7 when we look closely at the WTO, critics charge that the organization is usurping the national sovereignty of individual nation-states.

The **International Monetary Fund (IMF)** and the **World Bank** were both created in 1944 by 44 nations that met at Bretton Woods, New Hampshire. The IMF was established to maintain order in the international monetary system; the World Bank was set up to promote economic development. In the more than six decades since their creation, both institutions have emerged as significant players in the global economy. The World Bank is the less controversial of the two sister institutions. It has focused on making low-interest loans to cash-strapped governments in poor nations that wish to undertake significant infrastructure investments (such as building dams or roads).

The IMF is often seen as the lender of last resort to nation-states whose economies are in turmoil and whose currencies are losing value against those of other nations. During the past two decades, for example, the IMF has lent money to the governments of troubled states, including Argentina, Indonesia, Mexico, Russia, South Korea, Thailand, and Turkey. More recently, the IMF has taken a proactive role in helping countries cope with some of the effects of the 2008–2009 global financial crisis. IMF loans come with strings attached, however; in return for loans, the IMF requires nation-states to adopt specific economic policies aimed at returning their troubled economies to stability and growth. These requirements have sparked controversy. Some critics charge that the IMF's policy recommendations are often inappropriate; others maintain that by telling national governments what economic policies they must adopt, the IMF, like the WTO, is usurping the sovereignty of nation-states. We will look at the debate over the role of the IMF in Chapter 11.

The **United Nations (UN)** was established October 24, 1945, by 51 countries committed to preserving peace through international cooperation and collective security. Today, nearly every nation in the world belongs to the United Nations; membership now totals 193 countries. When states become members of the United Nations, they agree to accept the obligations of the UN Charter, an international treaty that establishes basic principles of international relations. According to the charter, the UN has four purposes: to maintain international peace and security, to develop friendly relations among nations, to cooperate in solving international problems and in promoting respect for human rights, and to be a center for harmonizing the actions of nations. Although the UN is perhaps best known for