

# GLOBAL BUSINESS TODAY



# GLOBAL BUSINESS TODAY

**Fifth Canadian Edition**

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**Global Business Today  
Fifth Canadian Edition**

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ISBN-13: 978-1-25-927125-0

ISBN-10: 1-25-927125-0

1 2 3 4 5 6 7 8 9 TCP 22 21 20 19 18

Printed and bound in Canada.

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Cover Design: Jennifer Stimson & Lightbox Visual Communications Inc.

Cover Images: Bulbs: PeopleImages/Getty Images; Globe: skegbydave/Getty Images

Interior Design: Michelle Losier

Composition & Page Layout: Aptara<sup>®</sup>, Inc.

Printer: Transcontinental Printing Group

## Dedication

For my mother June Hill, and the memory of my father, Mike Hill.

*–Charles Hill*

For Gert & Margareta Hult, my parents.

*–G. Tomas M. Hult*

To my mother, Dorothy McKaig.

*–Thomas McKaig*

To my father, Wm. George Richardson, CD, OBM

*–Wm. Tim G. Richardson*

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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*. He 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 multiple Charles E. Summer Outstanding Teaching Awards, most recently in 2016.

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## THE *GLOBAL BUSINESS TODAY* APPROACH

*Global Business Today* is intended for the first international business course at either the undergraduate or the MBA level. Our goal with this fifth Canadian edition is to set new standards for international business textbooks. We have written a book that (1) integrates the Canadian perspective on international business and Canada's place within the international business environment; (2) is comprehensive and up-to-date; (3) goes beyond an uncritical presentation and shallow explanation of the body of knowledge; and (4) focuses on implications for business while making important theories, issues, and practices accessible and interesting to Canadian students.

Over the past five editions, we have worked hard to adhere to these goals. It has not always been easy. An enormous amount has happened over the past decade, 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, delete 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 modern and 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.

## INTEGRATED COVERAGE OF THE CANADIAN PERSPECTIVE

Although this book is geared to the Canadian reader, this does not mean that all examples within are Canadian examples. The authors have written about those realities and examples that best portray chapter topical themes, as well as writing about what the market wants, based upon market research in the academic field. The textbook pays particular attention to small- and medium-sized enterprises, who continue to play a vital role in the Canadian economy, and their push onto the international business scene.

## COMPREHENSIVE AND UP-TO-DATE COVERAGE

To be comprehensive, an international business textbook must clearly communicate

- how and why the world's countries differ;
- why a comprehensive review of economics and politics of international trade and investment is necessary in understanding international trade;
- how the functions and form of the global monetary system are tied into global trade;
- how the strategies, objectives, and international structures of international business need to conform to certain guidelines set out by international organizations and other bodies; and
- the special roles of an international business's activities.

This book pays close attention to these issues. Ultimately, a successful business is an informed business. It is our intention to cover, in an in-depth manner, the linkages

between success and knowledge on the global business stage. As time moves forward, an increasing number of students will become international managers, and this book will better equip them with knowledge about the strategies, operations, and functions of small and large businesses alike.

The theories behind international trade help students to grasp the scope and execution of international business. Many books convey an adequate task of communicating long-established theories (e.g., the theory of comparative advantage and Vernon's product life-cycle theory), but they ignore important newer works included in *Global Business Today*, such as

- the new trade theory and strategic trade policy;
- the work of Hernando de Soto on the link between property rights and development;
- the work of Nobel prize-winning economist Amartya Sen on economic development;
- Samuel Huntington's influential thesis on the "clash of civilizations";
- the new growth of economic development championed by Paul Romer and Gene Grossman;
- recent 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 Douglas 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;
- C.A. Bartlett and S. 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; and
- Paul Samuelson's critique of free trade.

In addition to providing cutting-edge theory and examples of the exponentially quickening pace of the international business environment, every effort has been made to ensure that this book is as current as possible when it goes to press. The book includes discussion questions attached to each Management Focus and Country Focus, as well as to the Closing Case. This Canadian edition contains current data from the World Trade Organization, the Organisation for Economic Co-operation and Development (OECD), and the United Nations Commission on Trade and Development (UNCTAD), among others. This book provides readers with a fresh insight into factors influencing Canada and other countries in the world of international trade, Canadian businesses' forays into world markets, and reactions to ongoing economic structural readjustments in 2018 and beyond.

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 refers to 2016. For example, in Chapter 2, the Opening Case looks at how the policies of Russian President Vladimir Putin have shaped the economic, political, and legal systems of that nation and affect the attractiveness of Russia as a destination for international business, while there are two new Country Focus features,

as well as a new Management Focus feature discussing allegations that Wal-Mart violated the Foreign Corrupt Practices Act while doing business in Mexico.

New material has been inserted wherever appropriate to reflect recent academic work or important current events. Detailed discussion of the 2008–2009 global financial crisis and its aftermath, including the 2010–2013 sovereign debt crises in the Euro Zone and its implications for international business, have been included in many chapters. Similarly, further discussion of the unrest that continues to sweep across the Middle East following the Arab Spring of 2011 and the ongoing turmoil in Egypt and Syria has been added to the book. And, perhaps most importantly, has been the rise of anti-globalism and protectionism as displayed in the Trump administration and through the Brexit vote.

Here are some examples:

- Chapter 2, “Country Differences in Political Economy,” deals with critical forces affecting Canadian businesses working in the global arena.
- Chapter 5, “International Trade Theories,” explains various international trade theories while providing practical explanations of their applications within various international companies.
- Chapter 9, “The Foreign Exchange Market,” provides insights into how Canadian corporations can receive payment in international transactions. Similarly, foreign exchange risks and various economic theories of exchange rate determination will prove helpful for those individuals and corporations contemplating doing business beyond Canada’s borders.
- Chapter 11, “Global Strategy,” comprehensively covers leveraging core competencies and formulating global strategies through distributions channels and more.
- Chapter 12, “Entering Foreign Markets,” offers insight into reactions in other countries to privatization issues, as described in the Closing Case, “JCB in India.”
- Chapter 15, “Global Production, Outsourcing, and Logistics,” neatly clarifies the details of global supply management through its opening case, “Apple: The Best Supply Chain in the World?”. Significant explanations are provided on strategy, manufacturing and logistics, the strategic roles of foreign factories, and make-or-buy decisions.
- Chapter 16, “Global Human Resource Management,” underscores the benefits and disadvantages of human resource management in terms of dealing with expatriate employees. International labour relations complicate the fabric of human resource departments for those companies with foreign operations.

## **BEYOND UNCRITICAL PRESENTATION AND SHALLOW EXPLANATION**

Many issues in international business are complex and thus necessitate considerations of pros and cons. To demonstrate this concept 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. This is seen especially in a feature new to this edition, the Debate the Issues box that can be found in every chapter.



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. These theories and phenomena typically are explained in more depth in *Global Business Today* than they are in other textbooks.

### FOCUS ON BUSINESS IMPLICATIONS AND ACCESSIBLE PRESENTATION

The fifth Canadian edition of *Global Business Today* offers many opportunities for students to engage with and apply the material to their lives and their future careers. The features listed below are explained in greater detail in the Learning Features section.

- Each chapter begins with a new or an updated **Opening Case** and concludes with a new or updated **Closing Case** that illustrates the relevance of chapter material for the practice of international business.
- Each chapter also contains two types of focus boxes. Updated **Management Focus** boxes, like the updated cases, illustrate the relevance of the chapter material for the practice of international business. **Country Focus** boxes highlight chapter issues in Canada and other countries.
- **Another Perspective** sidebars, which have been substantially changed and updated in this edition, help students to think critically about adjacent text material.
- **Debate the Issues** sidebars, new in this edition, are ways to practically illustrate the chapter material and get the students engaged.
- Each chapter concludes with an **Implications for Business** section that explains the managerial implications of the chapter material. This feature helps business students to understand the linkage between practice and theory.
- **Sustainability in Practice Cases** help students to understand how businesses are engaging in the solutions to sustainable development challenges.
- **GlobalEdge™ Research Tasks** allow students to practice using real business data.

## THE STRUCTURE OF *GLOBAL BUSINESS TODAY*, FIFTH CANADIAN EDITION

*Global Business Today*, fifth Canadian edition, offers a tight, integrated flow of topics from chapter to chapter.

### PART ONE: GLOBALIZATION

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

### PART TWO: COUNTRY DIFFERENCES

Chapters 2, 3, and 4 focus on national differences in political economy and culture and the implications of these differences for ethical decision making. Most international business textbooks place this material later, 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 operations arise out of national differences in political economy and culture. To understand these issues, students must first appreciate the differences in countries and cultures.

### **PART THREE: CROSS-BORDER TRADE AND INVESTMENT**

Chapters 5, 6, 7, and 8 investigate the political economy of international trade and investment, fostering understanding of the trade and investment environment in which international business occurs.

### **PART FOUR: GLOBAL MONEY SYSTEM**

Chapters 9 and 10 examine the global monetary system, while detailing the monetary framework in which international business transactions are carried out.

### **PART FIVE: COMPETING IN A GLOBAL MARKETPLACE**

Chapters 11, 12, 13, 14, 15, and 16 move away from the macro environment of the international business realities into the workings of companies within this framework. How do companies adapt their strategies to compete beyond their own borders? How do production and logistics proceed on a global scale? These chapters explain how firms can perform their key functions—manufacturing, marketing, research and development, and human resource management—to compete and succeed in the international business environment.

## **WHAT'S NEW IN THE FIFTH CANADIAN EDITION?**

This fifth Canadian edition not only explains theoretical aspects of international trade but, more importantly, attempts to connect the practical applications involving international trade into a framework of helpful understanding for those exporters, both new and experienced, in this field. Extensive re-writes of content and cases and sidebars have been undertaken. Thought-provoking questions are found at the end of each of the popular Management Focus and Country Focus boxes, as well as for the Closing Case.

### **CHAPTER-BY-CHAPTER CHANGES**

**Chapter 1: Globalization.** All of the statistics have been updated to the most recent available at the time of this book going to production. A new Opening Case on “The Globalization of Production at Boeing” has been written. The emergence of global institutions is detailed. The Globalization Debate introduces some of the latest antiglobalization ideas found both in the United States and around the world. The innovative spirit of one of Canada’s best known corporations shines through in an updated Closing Case, “Tim Hortons—A Canadian Company Looking for New Markets,” as this “made-in-Canada” enterprise increases its forays into the American marketplace.

**Chapter 2: Country Differences in Political Economy.** The discussion of differences in legal systems provides insight into the linkage between corruption and negative economics within a country. Demonstrating this theme is the new Opening Case written about Putin’s Russia. A new Country Focus looks at Nigeria, and a new Closing Case, “Ghana: An African Dynamo” depicts the transformation of a socialist system.

**Chapter 3: The Cultural Environment.** The chapter opens with a new Opening Case on Best Buy and eBay's entry into the Difficult Chinese market. Data throughout has been extensively updated. A new Country Focus "Using IT to Break India's Caste System" is included, as is another new Country Focus on "Islamic Capitalism in Turkey." Various religions and their significance within the world are discussed, and the new Closing Case pertains to Dubai's World Expo in 2020.

**Chapter 4: Ethics in International Business.** The chapter opens with a new Opening Case about the most corrupt industry sectors based on an OECD study. As well, the chapter has been updated and includes references to recent Canadian events.

**Chapter 5: International Trade Theories.** Over the past few years, numerous empirical studies have been published that look at the relationship between a country's "openness" to international trade and its economic growth. This work is discussed in this chapter. A new Opening Case looks at the shifting political landscape in attempts to create a new free-trade zone. A new Closing Case, "The Rise of India's Drug Industry," links thematically to international trade theories.

**Chapter 6: The Political Economy of International Trade.** The contentious bilateral trade issues that have periodically soured Canadian trade relations with the United States over the past couple of decades are dealt with in the context of the World Trade Organization and the North American Free Trade Agreement, as are current U.S. government approaches to NAFTA. There is a new Opening Case, "Sugar Subsidies Drive Candy Makers Abroad," in addition to a new Country Focus, "Are the Chinese Illegally Subsidizing Auto Exports?" and a new Closing Case.

**Chapter 7: Foreign Direct Investment.** Both up-to-date international foreign direct investment (FDI) flows and FDI figures show the importance of FDI, in its different forms, including mergers and acquisitions, in the economies of Canada and other countries. A new Opening Case on FDI in Nigeria and a new Closing Case on foreign retailers in India neatly *illustrate* the topic of foreign direct investment.

**Chapter 8: Regional Economic Integration.** The changing views towards regional economic integration are a fairly new phenomena, and are detailed in this chapter. A new Opening Case on "Tomato Wars" within NAFTA shows some of the consequences of regional integration. This theme continues in a new Country Focus on "The Greek Sovereign Debt Crisis." To reflect the importance of the European Union within this chapter, a new Closing Case has been added, "I Want My Greek TV!" Within the text a new section has been added on the Trans-Pacific Partnership, made famous through the 2016 U.S. presidential election cycle.

**Chapter 9: The Foreign Exchange Market.** The Canadian dollar's recent fall against the U.S. dollar and other currencies is significant for Canadian importers and exporters. Also, economic theories of exchange rate determination are explained because this information is vital to business people conducting business abroad. A new Opening Case, "The Wild Ride of the Brazilian Real," ties in neatly with our chapter's theme, as does the new Closing Case, "The Rise (and Fall) of the Japanese Yen." The Management Focus has been expanded and updated to include hedging across the entire Canadian gold industry.

**Chapter 10: The Global Monetary System.** One of the more interesting phases of the development and growth of the Canadian economy came during the period in which Canada was under the gold standard from 1854–1914 and 1914–26. Internationally, many policies and institutions have influenced and shaped the value of currencies. The ever-increasing U.S. trade deficit and the fall of the U.S. dollar have wreaked

havoc on the international monetary system. The universality of currency problems is depicted in a new Opening Case, “The IMF and Iceland’s Economic Recovery.” A new Closing Case looks at further currency troubles. A new Management Focus looks at a Canadian company with a new approach to global payments using small amounts of gold as a basis for trade.

**Chapter 11: Global Strategy.** Multinational corporations have long recognized the importance of leveraging skills, strategic alliances, and competencies in their foreign locations for improved business practices at home and abroad. A new Opening Case, “IKEA’s Supply Chain,” has been written along with a new Management Focus on creating new yogurt brands in Canada. Both of these detail strategic elements that companies had to implement. A new Closing Case on Ford’s international strategy concludes this important chapter.

**Chapter 12: Entering Foreign Markets.** The ways through which companies enter foreign markets is covered through a look at the pros and cons of greenfield investments and other alternative strategies for entering foreign markets. The new Opening Case, “Market Entry at Starbucks,” shows the methods it has taken in different countries around the world. The Canadian-based Management Focus and the Country Focus have been revised. Two new Debate the Issues boxes are included in this chapter, while a new Closing Case, about JCB, describes that company’s global reach.

**Chapter 13: Exporting, Importing, and Countertrade.** The discussion on export assistance to Canadian companies provides a detailed look at the institutional means and mechanisms through which many Canadian companies engage in export, for example, with the assistance of Export Development Canada. A new opening case, “Growing Through Exports,” details the role of smaller companies in the exporting and importing world. The three Canadian-based components, the Management Focus, Country Focus, and Closing Case, have been adapted and revised and all further explain exporting, importing, and countertrade.

**Chapter 14: Global Marketing, and Research and Development.** Global marketing and R&D are what makes or breaks a company. A new Opening Case, “Global Branding of Avengers and Iron Man,” shows how branding in the entertainment world can lead to billion-dollar revenues. Several “Another Perspective” boxes have been revised throughout this chapter. Distribution and communication strategies are also discussed within this chapter. The seemingly never-ending American–Canadian softwood lumber issue has also been updated.

**Chapter 15: Global Production, Outsourcing, and Logistics.** A new Opening Case focuses on Apple, well known for having perhaps the best supply chain in the industry and possibly the world. A new Closing Case on retailer H&M ties the need for a good supply chain with the successful sale of fashion items. A new Country Focus is included on Phillips Electronics in China, while a new Management Focus deals with an issue very dear to the heart of U.S. president Donald Trump: the movement of manufacturing firms back to the United States.

**Chapter 16: Global Human Resource Management.** Employment legislation can have both positive and negative impacts for foreign businesses operating abroad, and companies must be aware of rules and guidelines so they can act accordingly. A new Canadian Opening Case based on 2017 interviews with Arlene Tober, Consultant in gender issues, titled “Diversity Matters,” shows that both globally and within Canada, gender diversity matters to firm performance. The Sustainability in Practice case of Interface has been re-edited, and new “Another Perspective” boxes added throughout.

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# Acknowledgements

Numerous people deserve recognition for their assistance in preparing this book.

First and foremost, I would like to thank my mother, Dorothy McKaig, for always being my greatest supporter. Special thanks to my sister Janet McKaig, brother-in-law Geoff Kelly, brother Woody McKaig, and sister-in-law Sara Premi for their always-helpful support and advice.

I would also like to express my sincere appreciation to my Research Director, Jim Helik. He was able to handle my requests for research information and synthesize it to meet my demanding time lines. He exceeded my high expectations in the quality of his input. I would like to offer my gratitude to Sallie L. Storey for her kind assistance through the years. I would like to specially thank Fernando López-Fabregat, current Uruguayan Ambassador to the United Kingdom for providing insights on international business as appearing in Chapter 16. Thank you as well to Arlene Tober for the extensive information she provided both in the Opening Case and throughout Chapter 16. I would like to express my gratitude to Alexander Fry and Rodrigo Ribeiro, Partners with KPMG. Rodrigo and Alexander have been of great personal and professional assistance to me over the past ten years when doing business in Uruguay. Thank you.

I would like to thank Charles W. L. Hill, for creating an excellent textbook and strong base from which this Canadian edition was made possible. As well, I would like to thank Dr. George Bragues, Program Head, Business and Assistant Vice Provost, University of Guelph-Humber, for his continued support and assistance. I would also like to thank Charles Janthur for his international business support.

Market feedback indicated that more expansive coverage of the important role that ethics plays in the international business arena was necessary. We called upon Tim Richardson, who teaches at Seneca College of Applied Arts and Technology and the University of Toronto, Department of Management, [www.witiger.com](http://www.witiger.com). Tim enthusiastically and ably responded to this request, providing Chapter 4, "Ethics in International Business," rich in Canadian content and current research. We thank him for his invaluable and ongoing contribution to this text.

The team at McGraw-Hill Ryerson was also superb, including Kim Brewster and Alwynn Pinard, Portfolio Manager; Erin Catto, Content Developer; Jessica Barnoski, Supervising Editor; and Margaret Henderson, Copy Editor.

Finally, I extend sincere thanks to the reviewers of the fifth Canadian edition, who provided insightful feedback that helped to shape this book.

Thomas McKaig

## Learning Features

*Global Business Today*, fifth Canadian edition, has a rich selection of learning features that highlight companies' ups and downs in the international business arena, stimulate learning and understanding, and challenge students to respond.

### Opening Case

Each chapter begins with an engaging opening case that sets the stage for the chapter. These brief case studies introduce students to critical issues and often challenge their preconceptions. The opening case provides rich, introductory examples from actual countries and organizations.

#### OPENING CASE

##### PUTIN'S RUSSIA

The modern Russia state was born in 1991 after the dramatic collapse of the Soviet Union. Early in the post-Soviet era, Russia embraced ambitious policies designed to transform a communist dictatorship with a centrally planned economy into democratic state with a market-based economic system. The policies, however, were imperfectly implemented. Political reform left Russia with a strong presidency that—in hindsight—had the ability to subvert the democratic process. On the economic front, the privatization of many state-owned enterprises was done in such a way as to leave large shareholdings in the hands of the politically connected, many of whom were party officials and factory managers under the old Soviet system. Corruption was also endemic, and organized crime was able to seize control of some newly privatized enterprises. In 1998, the poorly managed Russian economy went through a financial crisis that nearly bought the country to its knees.

Fast-forward to 2017, and Russia still has a long way to go before it resembles a modern democracy with a functioning free market-based economic system. On the positive side, the economy grew at a healthy clip during most of the 2000s and up until 2008, helped in

### Learning Objectives

Each chapter contains a list of Learning Objectives right after the opening case. These two features tell students what they will know after completing the chapter, and a notation in the chapter indicates where the learning objective is discussed in the text.

#### LO LEARNING OBJECTIVES

By the end of this chapter you should be able to:

1. Define the term *globalization*.
2. Examine the rise of global institutions.
3. Recognize why globalization and innovation are now proceeding at a rapid rate.
4. Illustrate the changing demographics of the global economy.
5. Explain the main arguments in the debate over the impact of globalization on job security, income levels, labour and environmental policies, and national sovereignty.
6. Show how the process of globalization is giving rise to numerous opportunities and challenges that business managers must confront in Canada and beyond.

## Debate the Issues

A new feature in this edition is a “Debate the Issues” box in each chapter, outlining different sides to some of the issues raised in each chapter.

### DEBATE THE ISSUE



#### What Will Happen to Manufacturing in the United States?

The United States has the largest and most technologically powerful economy in the world, with a per capita GDP (gross domestic product) of \$49,100. Most of the labour force (79.4 percent) is employed in the services sector, with 19.5 percent employed in manufacturing industries, and only 1.1 percent in the agricultural area. China, India, and the European Union have labour forces larger than the United States, which ranks fourth in the world. Data show that the U.S. has become much more of a service economy over the years, as manufacturing jobs have moved to Mexico (which was a frequent refrain of President Donald Trump). Will the U.S. continue to increase its service sector, and does this increase come at the cost of manufacturing and agriculture?

Source: U.S. Central Intelligence Agency, *World Factbook*, [www.cia.gov](http://www.cia.gov), accessed March 3, 2014.

## Another Perspective

With multiple examples per chapter, Another Perspective boxes provide students with an alternate way of thinking about important global issues presented in the text. These not only hone students’ critical thinking skills, but also give a deeper understanding of chapter topics.

### ANOTHER PERSPECTIVE



#### UN and International Law

The International Court of Justice ([www.icj-cij.org/](http://www.icj-cij.org/)), located in The Hague (Netherlands), is one of the six major organs of the United Nations. The Court, in existence since 1946, serves as the successor to the Permanent Court of International Justice established by the League of Nations and derives its mandate from one of the statutes forming an integral part of the Charter of the United Nations. The Court has two functions: to render judgements on disputes submitted to it by States and to furnish advisory opinions on questions referred to it by authorized bodies.

Source: International Court of Justice, <http://www.icj-cij.org/court>.

## Country Focus

Country Focus boxes, found in each chapter, provide real-world examples of how different countries grapple with political, economic, social, or cultural issues.

### COUNTRY FOCUS



#### Antiglobalization Protests in France

If someone was only watching North American television during the 2016 U.S. presidential campaign, they might think that calls to “rip up trade agreements” and promote “fair trade, not free trade” are something new, or a feeling only expressed in the United States. However there is a long and global history of actions against globalization.

One night in August 1999, ten men, under the leadership of local sheep farmer and rural activist José Bové, crept into the town of Millau in central France and vandalized a McDonald’s restaurant under construction, causing an estimated \$150 000 worth of damage. These were no ordinary vandals, however, at least according to their supporters, for the “symbolic dismantling” of the McDonald’s outlet had noble aims, or so it was claimed. The attack was initially presented as a protest against unfair American trade policies. The European Union had banned imports of hormone-treated beef from the United States, primarily because of fears that hormone-treated beef might lead to health problems (although EU scientists had concluded there was no evidence of this). After a careful review, the World Trade Organization stated the EU ban was not allowed under trading rules that the EU and United States were party to, and that the EU would have to lift it or face retaliation.



## Management Focus

Management Focus boxes, found in each chapter, illustrate the relevance of chapter concepts for the practice of international business.

### MANAGEMENT FOCUS



#### Vizio and the Market for Flat-Panel TVs

Operating sophisticated tooling in environments that must be kept absolutely clean, fabrication centres 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.

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 starting to elbow their way into the flat-panel display manufacturing business.

## GlobalEDGE/CIBER™ Research Task

Using the text and the GlobalEDGE™ Web site, <http://globaledge.msu.edu>, students solve realistic international business problems related to each chapter. These exercises expose students to the types of tools and data sources international managers use to make informed business decisions.

### Research Task



[globaledge.msu.edu](http://globaledge.msu.edu)

Use the globalEDGE™ site to complete the following exercises:

1. The "Freedom in the World" survey evaluates the state of political rights and civil liberties around the world. Provide a description of this survey and a ranking, in terms of "freedom," of the leaders and laggards. What factors are considered in this survey when forming the rankings?
2. Market Potential Indicators (MPI) is an indexing study conducted by the Michigan

State University Center for International Business Education and Research (MSU-CIBER) to compare emerging markets on a variety of dimensions. Provide a description of the indicators used in the indexing procedure. Which of the indicators would have greater importance for a company that markets laptop computers? Considering the MPI rankings, which developing countries would you advise this company to enter first?

## Critical Thinking and Discussion Questions

These questions are suited for in-class discussion or personal reflection.

### Critical Thinking and Discussion Questions

1. Outline why the culture of a country might influence the costs of doing business in that country. Illustrate your answer with examples.
2. Do you think that business practices in an Islamic country are likely to differ from business practices in Canada, and if so, how?
3. What are the implications for an international business of differences in the dominant religions and/or ethical systems of countries in which it is based?
4. Choose two countries that appear to be culturally diverse. Compare the cultures of those countries and then indicate how cultural differences influence (a) the costs of doing business in each country; (b) the likely future economic development of that country; (c) business practices; and (d) business ethics.

## Implications for Business

At the end of every chapter, this section spotlights the managerial implications and practical aspects of the chapter material.

### IMPLICATIONS FOR BUSINESS

The implications for international business of the material discussed in this chapter fall into two broad categories. First, the political, economic, and legal environment of a country clearly influences the attractiveness of that country as a market and/or investment site. The benefits, costs, and risks associated with doing business in a country are a function of that country's political, economic, and legal systems. Second, the political, economic, and legal systems of a country can raise important ethical issues that have implications for the practice of international business. Here we consider each of these issues.

## Key Terms and Learning Objectives Summary

These resources help students review key concepts. The Learning Objectives Summary ties back to the Learning Objectives on the opening pages of each chapter.

### Key Terms

foreign direct investment (FDI)

General Agreement on Tariffs and Trade (GATT)

globalization

globalization of markets

globalization of production

international business

International Monetary Fund (IMF)

international trade

Moore's Law

multinational enterprise (MNE)

United Nations

World Bank

World Trade Organization (WTO)

## Closing Case

The closing case wraps up the material in the chapter by relating the experience of a company to the practice of international business.

### CLOSING CASE

#### GHANA: AN AFRICAN DYNAMO

The West African nation of Ghana has emerged as one of the fastest-growing countries in sub-Saharan Africa during the last decade. Between 2000 and 2015, Ghana's average annual growth rate in GDP was over 8 percent, making it the fastest-growing economy in Africa. In 2011, this country of 25 million people became Africa's newest middle-income nation. Driving this growth has been strong demand for two of Ghana's major exports—gold and cocoa—as well as the start of oil production in 2010. Indeed, due to recent oil discoveries, Ghana is set to become one of the biggest oil producers in sub-Saharan Africa, a fact that could fuel strong economic expansion for years to come.

## Sustainability in Practice

Located at the end of some parts, these vignettes illustrate how businesses are engaging in the solutions to sustainable development challenges.

### Sustainability in Practice

#### ADIDAS GROUP: SUPPLY-CHAIN MANAGEMENT

##### SITUATION

The Adidas Group is the second largest sportswear manufacturer in the world. Its German holding company, Adidas AG, produces products under the Reebok, Rockport, and Ashworth brands, among others including the flagship Adidas brand.

Existing as a company for almost a hundred years, and with operations all over the world, the company has taken a highly visible and integrated approach to sustainability.

## The Complete Course Solution

We listened to educators from around the world, learned about their challenges, and created a whole new way to deliver a course.

Connect2 is a collaborative teaching and learning platform that includes an instructionally designed complete course framework of learning materials that is flexible and open for instructors to easily personalize, add their own content, or integrate with other tools and platforms.

- Save time and resources building and managing a course.
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- Help students master course content.
- Make smarter decisions by using real-time data to guide course design, content changes, and remediation.



### MANAGE — Dynamic Curriculum Builder

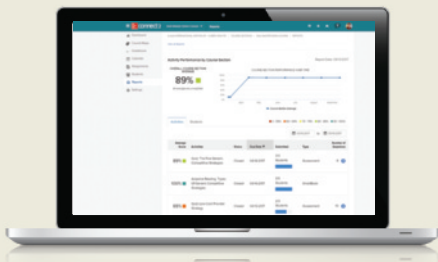
Quickly and easily launch a complete course framework developed by instructional design experts. Each Connect2 course is a flexible foundation for instructors to build upon by adding their own content or drawing upon the wide repository of additional resources.

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- Receive expert support and guidance on how best to utilize content to achieve a variety of teaching goals.

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Improve student performance with instructional alignment and leverage Connect2's carefully curated learning resources. Deliver required reading through Connect2's award-winning adaptive learning system.

- Teach at a higher level in class by helping students retain core concepts.
- Tailor in-class instruction based on student progress and engagement.
- Help focus students on the content they don't know so they can prioritize their study time.



### MEASURE — Advanced Analytics

Collect, analyze and act upon class and individual student performance data. Make real-time course updates and teaching decisions backed by data.

- Visually explore class and student performance data.
- Easily identify key relationships between assignments and student performance.
- Maximize in-class time by using data to focus on areas where students need the most help.

#### Course Map

The flexible and customizable course map provides instructors full control over the pre-designed courses within Connect2. Instructors can easily add, delete, or rearrange content to adjust the course scope and sequence to their personal preferences.



#### Implementation Guide

Each Connect2 course includes a detailed implementation guide that provides guidance on what the course can do and how best to utilize course content based on individual teaching approaches.



#### Instructor Resources

A comprehensive collection of instructor resources are available within Connect2. Instructor Support and Seminar Materials provide additional exercises and activities to use for in-class discussion and teamwork.



## Part 1 Globalization



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## Chapter 1 Globalization

### OPENING CASE

#### THE GLOBALIZATION OF PRODUCTION AT BOEING

Executives at the Boeing Corporation, America's largest exporter, like to say that building a large commercial jet aircraft like the 747 or 787 involves bringing together more than a million parts in flying formation. Forty-five years ago, when the early models of Boeing's venerable 737 and 747 jets were rolling off the company's Seattle-area production lines, foreign suppliers accounted for only 5 percent of those parts on average. Boeing was vertically integrated and manufactured many of the major components that went into the planes. The largest parts produced by outside suppliers were the jet engines, where two of the three suppliers were American companies. The lone foreign engine manufacturer was the British company Rolls Royce.

Fast-forward to the modern era, and things look very different. In the case of its latest aircraft, the super efficient 787 Dreamliner, 50 outside suppliers spread around the world account for 65 percent of the value of the aircraft. Italian firm Alenia Aeronautica makes

the centre fuselage and horizontal stabilizer. Kawasaki of Japan makes part of the forward fuselage and the fixed trailing edge of the wing. French firm Messier-Dowty makes the aircraft's landing gear. German firm Diehl Luftfahrt Elektronik supplies the main cabin lighting. Sweden's Saab Aerostructures makes the access doors. Japanese company Jamco makes parts for the lavatories, flight decks interiors, and galleys. Mitsubishi Heavy Industries of Japan makes the wings. KAA of Korea makes the wing tips. And so on.

Why the change? One reason is that 80 percent of Boeing's customers are foreign airlines, and to sell into those nations, it often helps to be giving business to those nations. In Canada, for example, Boeing directly employs almost 2,000 Canadians. It buys supplies from about 560 firms across Canada.

This trend started in 1974 when Mitsubishi of Japan was given contracts to produce inboard wing flaps for the 747. The Japanese reciprocated by placing big orders for Boeing jets. A second rationale was to disperse component-part production to those suppliers who are the best in the world at their particular activity. Over the years, for example, Mitsubishi has acquired considerable expertise in the manufacture of wings, so it was logical for Boeing to use Mitsubishi to make the wings for the 787. Similarly, the 787 is the first commercial jet aircraft to be made almost entirely out of carbon fibre, so Boeing tapped Japan's Toray industries, a world-class expert in sturdy but light carbon-fibre composites, to supply materials for the fuselage. A third reason for the extensive outsourcing on the 787 was that Boeing wanted to unburden itself of some of the risks and costs associated with developing production facilities for the 787. By outsourcing, it pushed some of those risks and costs onto suppliers, who had to undertake major investments in capacity to ramp up to produce for the 787.

So what did Boeing retain for itself? Engineering design, marketing and sales, and final assembly at its Everett plant north of Seattle, all activities where Boeing maintains it is the best in the world. Of major component parts, Boeing only made the tail fin and wing to body fairing (which attaches the wings to the fuselage of the plane). Everything else was outsourced.

As the 787 moved through development in the 2000s, however, it became clear that Boeing had pushed the outsourcing paradigm too far. Coordinating a globally dispersed production system this extensive turned out to be very challenging. Parts turned up late, some parts didn't "snap together" the way Boeing had envisioned, and several suppliers ran into engineering problems that slowed down the entire production process. As a consequence, the date for delivery of the first jet was pushed back more than four years, and Boeing had to take millions of dollars in penalties for late deliveries. In Canada, Air Canada finally took delivery of its first 787-7 Dreamliner in May 2014 after many delays.

There are now signs that Boeing is rethinking some of its global outsourcing policy. For its next jet, a new version of its popular, wide-bodied 777 jet, the 777X, which will use the same carbon-fibre technology as the 787, Boeing will bring wing production back in-house. Mitsubishi and Kawasaki of Japan produce much of the wing structure for the 787, and for the original version of the 777. However, recently Japan's airlines have been placing large orders with Airbus, breaking with their traditional allegiance to Boeing. This seems to have given Boeing an opening to bring wing production back in-house. Boeing executives also note that Boeing has lost much of its expertise in wing production over the last 20 years due to outsourcing, and bringing it back in-house for new carbon-fibre wings might enable Boeing to regain these important core skills and strengthen the company's competitive position.

Sources: K. Epstein and J. Crown, "Globalization Bites Boeing," *Bloomberg Businessweek*, March 12, 2008; H. Mallick, "Out of Control Outsourcing Ruined Boeing's Beautiful Dreamliner," *The Star*, February 25, 2013; P. Kavilanz, "Dreamliner: Where in the World Its Parts Come From," *CNN Money*, January 18, 2013; S. Dubois, "Boeing's Dreamliner Mess: Simply Inevitable?" *CNN Money*, January 22, 2013; A. Scott and T. Kelly, "Boeing's Loss of a \$9.5 Billion Deal Could Bring Jobs Back to the U.S.," *Business Insider*, October 14, 2013; "Air Canada Welcomes First Boeing 787-9 Dreamliner to its Fleet," *Canada Newswire*, July 31, 2015; and *Boeing in Canada*, <http://www.boeing.ca/boeing-in-canada/backgrounder.page?8Z0b/Z3iHGrcb5yXR>.

## LO LEARNING OBJECTIVES

By the end of this chapter you should be able to:

1. Define the term *globalization*.
2. Examine the rise of global institutions.
3. Recognize why globalization and innovation are now proceeding at a rapid rate.
4. Illustrate the changing demographics of the global economy.
5. Explain the main arguments in the debate over the impact of globalization on job security, income levels, labour and environmental policies, and national sovereignty.
6. Show how the process of globalization is giving rise to numerous opportunities and challenges that business managers must confront in Canada and beyond.

## Introduction

Over the past several decades, a fundamental shift has been occurring in the world economy. We are 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. And we are moving toward a world in which barriers to cross-border trade and investment are tumbling; 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 global economic system. The process by which this is occurring is commonly referred to as globalization.

The global dispersal of production of Boeing's 787 Dreamliner, as outlined in the opening case, is one example of this trend towards globalization. More broadly, in this interdependent global economy, a Canadian might drive to work in a car designed in Germany that was assembled in Canada by Ford, from components made in the United Kingdom and Japan, and that were fabricated from Korean steel and Malaysian rubber. She may have filled the car with gasoline at a service centre owned by a Dutch multinational company that changed its name to Shell Canada to obscure its national origins. The gasoline could have been made from oil pumped out of a well in the Hibernia fields off the coast of Newfoundland "and shipped by a shipping line registered in Monaco."<sup>1</sup>

While driving to work, the Canadian might talk to her investment adviser on a Finnish-manufactured, but Texas-assembled Nokia cellphone that is linked through a Nortel PBX system in Toronto. Afterwards, she might turn on her car radio, which was made in Malaysia by a Japanese firm, to hear a popular song composed by an Italian and sung by a group of Quebecois residing in France. The driver might pull into a drive-through Starbucks coffee shop managed by a Korean immigrant and order a "single, tall, nonfat latte" and chocolate-covered biscotti. The coffee beans came from Costa Rica and the chocolate from Peru, while the biscotti was made locally using an old Italian recipe. After the song ends, a news announcer might inform the Canadian

listener that financial crisis that started in the U.S. banking sector may trigger a global recession and is sending stock markets down all over the world.

This is the world we live in. It is a world where the volume of goods, services, and investment crossing national borders expanded faster than world output every year during the last two decades of the twentieth century. According to the Bank for International Settlements, foreign-exchange trading in 2014 increased to an average of \$5.3 trillion a day. To put this into perspective, this averages out to be \$220 billion per hour.<sup>2</sup>

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 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 McDonald's to Sony PlayStations, Samsung smartphones, MTV shows, and Disney films. It is a world in which products are made from inputs that come from all over the world. It is a world in which a financial crisis in America can trigger a global economic recession, which is exactly what occurred beginning in 2008.

But not everyone is unanimous in this thinking. It is also a world in which vigorous and vocal groups protest against globalization, which opponents blame for a list of ills, from unemployment in developed nations (especially in manufacturing jobs) to environmental degradation and the Americanization of popular culture. And political leaders are listening. In the recent U.S. presidential election, both Republican and Democratic nominees spoke of renegotiating free trade agreements. The president, Donald Trump, spoke repeatedly about tearing up the North American Free Trade Agreement (NAFTA). Just days after his election, Prime Minister Justin Trudeau said that he was open to looking at this decades-old free trade agreement.

For businesses, despite the current economic slowdown and a rising chorus of voices against free trade, this is in many ways the best of times. Globalization has increased the opportunities for a firm to expand its revenues by selling around the world and reduce its costs by producing in nations where key inputs are cheap. Since the collapse of communism at the end of the 1980s, 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 come down, 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.

The history of Starbucks exemplifies the opportunities that a global economy offers businesses. The original idea for Starbucks came from Italian coffeehouses. After refining the concept in the United States, in 1995 the company started to expand globally. As a result, a company that had only a handful of stores 25 years ago is now one of the world's best-known



The United Nations has the important goal of improving the well-being of people around the world. © Purestock/Getty Images

brands with more than 17 000 stores in almost 60 countries. Starbucks has had an impact on consumer behaviour around the world, changing the way people consume coffee and profiting in the process. The company is also changing the way coffee is produced. By committing itself to purchasing only Fair Trade Certified coffee beans, Starbucks is promoting nonexploitive and environmentally sound growing policies in developing nations, and finding that doing good is also good business, because it reinforces the value of the Starbucks brand.

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 same is true of some accounting services. Today, many individual Canadian and U.S. tax returns are compiled in India. Indian accountants, trained in Canadian and U.S. tax rules, perform work for North American accounting firms.<sup>3</sup> They access individual tax returns, perform routine calculations, and save their work so that it can be inspected by a Canadian or U.S. accountant, who then bills clients. As the best-selling author Thomas Friedman has argued, the world is becoming flat.<sup>4</sup> People living in developed nations no longer have the playing field tilted in their favour. Increasingly, enterprising individuals based in India, China, or Brazil have the same opportunities to better themselves as those living in western Europe, Canada, or the United States.

In this book 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.

## L01 What Is Globalization?

As used in this book, **globalization** refers to the shift toward a more integrated and interdependent world economy. Globalization has several different facets, including the globalization of markets, the globalization of production, and the globalization of consumers. The developments in communications technology and a homogenization of economies have resulted in the concept of a worldwide consumer.

### 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 to create a global market.<sup>5</sup> Consumer products such as Citicorp credit cards, Coca-Cola soft drinks, Apple iPods, and McDonald's hamburgers are frequently held up as prototypical examples of this trend. Firms such as Citicorp, Coca-Cola, McDonald's, and Apple are more than just benefactors of this trend; they are also facilitators of it. By offering a standardized product worldwide, they help to create a global market.

There are also many examples closer to home. Eventscape Inc. is a Toronto-based company that builds structures for designers and architects worldwide. Several years ago, Eventscape Inc. was recruited to create a 3-D logo structure for New York's Rockefeller Center. Since then, business has taken off internationally. Projects included framing for a casino stage in Macau, a chandelier for a royal wedding in Abu Dhabi, and most recently a perforated-steel acoustic wall for the Allen Theatre in Cleveland, Ohio (see <http://eventscape.com>).

Despite the global prevalence of Apple's products and McDonald's hamburgers, the view that national markets are giving way to the global markets should not be pushed too far. As we shall see in later chapters, very significant differences still exist between 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 that marketing strategies, product features, and operating practices be customized to best match conditions in a country. For example, automobile companies will promote different car models depending on a range of factors such as local fuel costs, income levels, traffic congestion, and cultural values.

Currently most global markets are not markets for consumer products—where national differences in tastes and preferences are still often important enough to act as a brake on globalization—but are markets for industrial goods and materials that serve a universal need the world over. These include the markets for commodities such as aluminum, oil, and wheat; the markets for industrial products such as microprocessors, DRAMs (computer memory chips), and commercial jet aircraft; the markets for computer software; and the markets for financial assets, from Canadian Treasury bills to eurobonds to futures on the Nikkei index or the Mexican peso.

In many global markets, the same firms frequently confront each other as competitors in nation after nation. Coca-Cola's rivalry with Pepsi is a global one, as are the rivalries between Ford and Toyota, Bombardier and Embraer, Caterpillar and Komatsu, and Sony, Nintendo, and Microsoft in video-game consoles. If one firm moves into a nation that is not currently served by its rivals, those rivals are sure to follow to prevent their competitor from gaining an advantage.<sup>6</sup> As firms follow each other around the world, they bring with them many of the assets that served them well in other national markets—including their products, operating strategies, marketing strategies, and brand names—creating some homogeneity across markets. Thus, greater uniformity replaces diversity. Due to such developments, 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 Canadian market”; for many firms there is only the global market.

## The Globalization of Production

The **globalization of production** refers to sourcing 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 labour, energy, land, and capital). By doing this, companies hope to lower their overall cost structure and/or improve the quality or functionality of their product offering, thereby allowing them to compete more

effectively. Consider Bombardier's ongoing global expansion in manufacturing its CS300 series of regional aircraft, with its first sale in November 2016 to Air Baltic, the flag carrier of Latvia.<sup>7</sup>

The global dispersal of productive activities is not limited to giants such as Bombardier. Smaller firms are also tapping into the global marketplace. Matrikon, based in Edmonton, Alberta, was founded in 1988, and was bought by Honeywell International in 2010 in a deal valued at about \$145 million (CAD\$). Matrikon specializes in performance-monitoring solutions with clients in different industry sectors. Foreign direct investment, along with diversification of its manufacturing, design, and distributor channels, enable Matrikon to build a global competitive advantage for process-improvement software.<sup>8</sup>

As a consequence of the trend exemplified by Bombardier and Matrikon, in many industries it is becoming irrelevant to talk about Canadian products, Japanese products, German products, or Korean products. Given the growth of international outsourcing, manufactured goods are increasingly being described as global products. But as with the globalization of markets, one 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, and issues associated with economic and political risk.

## DEBATE THE ISSUE



### What Will Happen to Manufacturing in the United States?

The United States has the largest and most technologically powerful economy in the world, with a per capita GDP (gross domestic product) of \$49,100. Most of the labour force (79.4 percent) is employed in the services sector, with 19.5 percent employed in manufacturing industries, and only 1.1 percent in the agricultural area. China, India, and the European Union have labour forces larger than the United States, which ranks fourth in the world. Data show that the U.S. has become much more of a service economy over the years, as manufacturing jobs have moved to Mexico (which was a frequent refrain of President Donald Trump). Will the U.S. continue to increase its service sector, and does this increase come at the cost of manufacturing and agriculture?

Source: U.S. Central Intelligence Agency, *World Factbook*, [www.cia.gov](http://www.cia.gov), accessed March 3, 2014.

## ANOTHER PERSPECTIVE



### UN and International Law

The International Court of Justice ([www.icj-cij.org/](http://www.icj-cij.org/)), located in The Hague (Netherlands), is one of the six major organs of the United Nations. The Court, in existence since 1946, serves as the successor to the Permanent Court of International Justice established by the League of Nations and derives its mandate from one of the statutes forming an integral part of the Charter of the United Nations. The Court has two functions: to render judgements on disputes submitted to it by States and to furnish advisory opinions on questions referred to it by authorized bodies.

Source: International Court of Justice, <http://www.icj-cij.org/court>.

Nevertheless, we are travelling down the road toward a future characterized by the increased globalization of markets and production. Modern firms are important actors in this drama, by their very actions fostering increased globalization. These firms, however, are merely responding in an efficient manner to changing conditions in their operating environment—as they should. In the next section, we look at the main drivers of globalization.

## LO2 The Emergence of Global Institutions

As markets globalize and an increasing proportion of business activity transcends national borders, institutions need to help manage, regulate, and police the global marketplace and promote the establishment of multinational treaties to govern the global business system. During the past 50 years, a number of important global institutions have been created to help perform these functions. These institutions include the **General Agreement on Tariffs and Trade (GATT)** and its successor, the World Trade Organization (WTO); the International Monetary Fund (IMF) and its sister institution, the World Bank; and the United Nations (UN). All these institutions were created by voluntary agreement between individual nation-states, and their functions are enshrined in international treaties.

The **World Trade Organization** (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. With the accession of Afghanistan in July 2016, there are 164 countries in the WTO. Currently, the accession process is underway for 21 nations to join WTO.

Over its entire history, and that of the GATT before it, the WTO has promoted lowering 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, it is unlikely that globalization would have proceeded as far as it has. However, as we shall see in this chapter and in Chapter 6 when we take a close look at the WTO, critics charge that the WTO is usurping the national sovereignty of individual nation-states.

The **International Monetary Fund** and the **World Bank** were both created in 1944 by 44 nations that met at Bretton Woods, New Hampshire. The task of the IMF was to maintain order in the international monetary system, and that of the World Bank was to promote economic development. In the over 70 years 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 rate loans to cash-strapped governments in poor nations that wish to undertake significant infrastructure investments (such as building dams or road systems).

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. Repeatedly during the last decade, 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 very proactive role in helping countries to cope with some of the effects of the 2008–09 global financial crisis.

The IMF loans come with strings attached: in return for loans, the IMF requires nation-states to adopt specific policies aimed at returning their troubled economies to

stability and growth. These “strings” have generated the most debate; some critics charge that the IMF’s policy recommendations are often inappropriate, while others maintain that, like the WTO, by telling national governments what economic policies they must adopt, the IMF is usurping their sovereignty. We shall look at the debate over the role of the IMF in Chapter 10.

The **United Nations** 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 sets out 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 centre for harmonizing the actions of nations. Although the UN is perhaps best known for its peacekeeping role, one of the UN’s central mandates is the promotion of higher standards of living, full employment, and conditions of economic and social progress and development—all issues that are central to the creation of a vibrant global economy. As much as 70 percent of the work of the UN system is devoted to accomplishing this mandate. To do so, the UN works closely with other international institutions such as the World Bank. Guiding the work is the belief that eradicating poverty and improving the well-being of people everywhere are necessary steps in creating conditions for lasting world peace.<sup>9</sup>

### L03 Drivers of Globalization

Two macro factors seem to underlie the trend toward greater globalization.<sup>10</sup> The first is the decline in barriers to the free flow of goods, services, and capital that has occurred since the end of World War II. The second factor is technological change, particularly the dramatic developments in recent years in communication, information processing, and transportation technologies.

## Declining Trade and Investment Barriers

During the 1920s and ’30s, many nations erected formidable barriers to international trade and foreign direct investment. **International trade** occurs when a firm exports goods or services to consumers in another country. **Foreign direct investment** occurs when a firm invests resources in business activities outside its home country. Many of the barriers to international trade took the form of high tariffs on imports of manufactured goods. The typical aim of such tariffs was to protect domestic industries from foreign competition. One consequence, however, was “beggar thy neighbour” retaliatory trade policies with countries progressively raising trade barriers against each other. Ultimately, this depressed world demand and contributed to the Great Depression of the 1930s.

Having learned from this experience, after World War II the advanced industrial nations of the West committed themselves to removing barriers to the free flow of goods, services, and capital between nations.<sup>11</sup> This goal was enshrined in the General Agreement on Tariffs and Trade (GATT). Under the umbrella of GATT, eight rounds of negotiations among member states, which then numbered 148, have since worked to lower barriers to the free flow of goods and services. The most recent round of negotiations, known as the Uruguay Round, was completed in December 1993. The