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INTERNATIONAL BUSINESS

A Managerial Perspective

NINTH EDITION

Ricky W. Griffin
Michael W. Pustay



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To the memory of my father, James P. Griffin, who provided
encouragement and guidance in ways he never imagined.

R. W. G.

To the newest members of our family,
Quinlan, Zane, and Andrew.

M. W. P.

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New To This Edition

The ninth edition features new cases, boxes, and analyses reflecting the latest challenges and opportunities confronting international businesses. More specifically, the following content is new or revised to reflect the latest global trends:

- The pressures on multinational organizations to consider the impact of their actions on the natural environment and on the general welfare of society continue to increase. The context box, **People, Planet, and Profits**, addresses the challenges that international businesses face in promoting their triple bottom lines.
- The international business course at most colleges and universities encompasses both the external environment and the internal environment of international businesses. We have introduced several new boxes and cases and updated others that focus on changes in the external environment that create opportunities and challenges for firms competing in the international market place. These new and updated cases and boxes include discussions of territorial disputes in the South China Sea, China's One Belt, One Road initiative, technology transfer controversies, upheavals in the world energy market as a result of fracking, the opening up of the fabled Northwest Passage, sustainable global sourcing, expansion of the Panama Canal, and growing concerns about cyber privacy.
- New and updated profiles of the challenges and opportunities provided international firms as they confront and master the complexities of the international marketplace, including new cases and boxes featuring Gulf air carriers, Huawei, Whirlpool, Rolls-Royce, ENI, and McDonald's, and updated treatments of LVMH, Alshaya, Tata, Toyota, Disney, Harley-Davidson, Unilever, and Danone, among others.
- New and updated analyses of the impact of globalization on competition within industries, including the global wine industry, the global flower industry, the coffee industry, the international cinema market, Germany's Mittelstand, and the international airline industry.
- New and updated cases exploring how firms address cultural, legal, and technological differences among countries. Students gain deeper and more nuanced understandings of the politics, culture, and social problems of individual countries through in-depth examination of issues such as Russia and the rule of law, the impact on the European Union of Brexit, Japan and its cultural and demographic challenges, South Africa and Fairtrade, the hidden role of the Communist Party in Chinese businesses, China's controversial technology transfer policies, Islamic finance, the GLOBE leadership project, and the growth of unionization activity in China.
- New and updated examples and cases assessing the ethical and social responsibilities of international businesses and international businesspeople, including direct trade coffee, disposal of e-waste, BP and the Gulf oil spill, green energy and free trade, DuPont's quest for zero waste, Maersk and pollution in Hong Kong harbor, the Chad pipeline, the Siemens bribery scandal, and Grameen Bank.
- New and updated examples of international trade and investment conflicts and the challenges they present international business practitioners, including Whirlpool's struggles to enter various international markets, the global taxation war, rare earths, tax shelters, jumbo jet subsidies, sovereign wealth funds, and trade in counterfeit goods.
- The ninth edition also provides up-to-date coverage of the impact of how recent natural disasters and political upheavals have affected international business. Examples include the earthquake and tsunami that shattered Japan and the resultant impact on global supply chains, Toyota's massive recalls and quality problems, and the political unrest that swept through the Middle East beginning in 2011.
- All data and other statistical information in the book have been thoroughly updated, including international trade statistics, exchange rates, and expatriate costs of living in various global business centers.

Solving Teaching and Learning Challenges

We've taught International Business courses for 30 years and enjoyed every moment of the experience. From the instructor's perspective, the joy and excitement of the course lies in its importance and dynamism. Its importance cannot be denied. The jobs, careers, and livelihoods of virtually every human being on the planet are affected by international commerce. For some, that commerce represents an opportunity; for others, a threat. Almost a third of the world's economic activity is attributable to international trade, and foreign direct investment has surpassed \$31 trillion. Nor can its dynamism be denied. Think of the changes that have occurred in the years between the publication of the eighth edition and the ninth edition of this text: the United Kingdom voting to withdraw from the European Union, the United States reversing its long-term policies toward free trade, China's "One Belt, One Road" initiative, Russia's meddling in U.S. elections, a complete upheaval in world energy markets as a result of hydraulic fracturing, Nokia's shifting from mobile market leader to dead-in-the-water (at least in Wall Street's view), and the #MeToo movement, to name but a few examples. We have incorporated many of these developments in **Bringing the World into Focus** and as examples in the text in this edition.

From the student's perspective the dynamism of international business—and the sheer breadth of the subject matter—can be intimidating. We discuss every region of the world and draw on every business discipline—accounting, marketing, management, finance, supply chain management, MIS—and numerous liberal arts disciplines—economics, geography, anthropology, sociology, history, international relations, political science, and the law. It's not surprising that students can feel overwhelmed by the magnitude of the course. We have striven to reduce students' fears of not being able to master this extensive material by providing clear, concise discussions of the principle concepts and challenges of international business and by offering numerous examples of these issues in action.

The retained content boxes that highlight coverage of current issues related to technology, entrepreneurship, and conducting business with a global perspective for the students are:

VENTURING ABROAD



THE CARRY TRADE

Although covered-interest arbitrage is an important component of the foreign-exchange market, uncovered-interest arbitrage—the so-called **carry trade**—is a growing phenomenon. The carry trade tries to exploit differences in the interest rates between countries. Because Japan's interest rates have been among the lowest of the major trading nations, the yen is a favorite currency of the carry trade. The strategy is simple: Borrow yen at a low interest rate, and use the borrowed yen to buy bonds, notes, or certificates of deposit denominated in currencies that are paying higher interest rates, such as the Australian dollar or the New Zealand dollar. The strategy is risky: If the yen rises in value relative to the second currency, the carry trader can lose lots of money very quickly. Some experts have

platforms. A cottage industry of investing clubs, books, and online blogs has mushroomed to aid these legions of amateur currency traders. All told, private Japanese investors were estimated to account for 30 percent of the spot trading in the yen, 5 percent of trading in the Australian dollar, and 4 percent in the British pound in a recent year.

Volatile currency markets are poisonous to the carry trade. For instance, as the problems with subprime mortgages became more widely known during the summer of 2007, the currency and capital markets became increasingly skittish. During one week in August 2007, the yen rose 4 percent versus the U.S. dollar, 9 percent against the Australian dollar, and 11 percent relative to the New Zealand dollar. When the yen began to rise, many carry traders tried to cut

■ **VENTURING ABROAD** Exposes students to the opportunities and challenges of conducting business outside their home country.

■ **E-WORLD** Provides insights into the impact of e-commerce on how business is conducted internationally.

E-WORLD



CYBER PRIVACY

The Internet by its very nature transcends national boundaries. Yet national governments have very different policies when it comes to the privacy rights of their citizens. With its tradition of free speech and belief in free markets, the United States has generally adopted a laissez-faire approach to Internet content. Such is not the case in Europe, where the memories of the abuses of the Gestapo in Nazi Germany and the territories it occupied in World War II are still fresh and raw.

In many ways, the European Union has been the pacesetter in establishing and protecting personal cyber privacy. In 2018, the EU's General Data Protection Regulation (GDPR) took effect. The GDPR regulates the collection, storing, and usage of personal data of EU residents by both EU and non-EU companies, regardless of where the data activity took place. The GDPR covers personal information like names and addresses, photos, financial and medical records, social media postings—even computer IP addresses. Failure to comply may expose

neo-Nazi propaganda. The EU has imposed a one-hour time limit on the removal of such content once a law enforcement agency notifies the web provider.

Conversely, in the United States platforms are not legally liable for user content. However, major social media companies like Facebook, Twitter, and YouTube are coming under increasing public pressure to monitor and delete objectionable materials and increase consumers' cyber privacy due to news reports of Russian interference in the 2016 election, the proliferation of "fake news" on the Internet, the growth of "clickbait" sites, and the public backlash from the Cambridge Analytica scandal, in which the profiles and postings of 87 million Facebook members were used without their knowledge to assist a presidential campaign. Facebook alone gets one million user reports of objectionable content per day. Needless to say, the leading social media companies face major challenges in complying with the new EU regulations and in placating the concerns of American

BRINGING THE WORLD INTO FOCUS



THE LINCOLN FALLACY

Foreign trade policy has been debated by politicians, pundits, and professors for centuries. Proponents of free trade see little distinction between domestic trade and foreign trade: If the voluntary exchange of goods, services, and assets between two residents of the same country is to be encouraged because it benefits both parties to the transaction, the same logic should hold true for voluntary exchanges between a domestic resident and a foreigner. But other groups argue that government policy should favor domestic producers over foreign producers. In their view, foreign trade builds up the economies of foreign countries while weakening the domestic economy. Abraham Lincoln, for example, endorsed this position with his characteristic clarity: "I know this much. When we

buy goods manufactured abroad, we get the goods and the foreigner gets the money. When we buy goods manufactured at home, we get both the goods and the money."

Although Lincoln's statements may seem like common sense to patriots concerned about strengthening their nation's economy and promoting job opportunities for their fellow citizens, trade experts find his argument misleading and incomplete. Lincoln is correct in asserting that buying goods from foreign producers gives our money to foreigners, whereas buying goods from domestic producers gives our money to fellow citizens. What his argument fails to consider is the resources—the factors of production—needed to create the goods. When we buy goods produced domestically, domestic factors of production, such

■ **BRINGING THE WORLD INTO FOCUS**
Helps students understand the historical, cultural, and political contexts of international business.

■ **EMERGING OPPORTUNITIES**

Highlights challenges and opportunities in emerging international markets.

EMERGING OPPORTUNITIES



LOCATION, LOCATION, LOCATION

Real estate agents are often quoted as saying that the three most important considerations in selling property are "location, location, and location." Three Middle Eastern airlines have taken that saying to heart and are rapidly transforming themselves into major players in international civil aviation. The oldest and largest of the three, Emirates, was founded in 1985. It is headquartered and owned by the sovereign wealth fund of the government of Dubai. Emirates flew 56 million passengers to 140 cities in 2017, allowing it to claim the title of the fourth largest carrier in the world.

It is the world's largest operator of the world's largest commercial airliner, the Airbus A-380, although Boeing aircraft are also part of its fleet. Its home port, Dubai International Airport, is now the third largest airport in the world, serving 88 million passengers in 2017. The second of the three carriers, Qatar Airways, commenced operations in 1994. Based at Doha's new airport, Hamad International Airport, this state-owned airline operates 196 aircraft. It generated \$10.8 billion in revenues in 2017 while serving more than 150 cities. The youngest of the three, Etihad Airways, which began operations in 2003, is

PEOPLE, PLANET, AND PROFITS



LIONS AND TIGERS AND BEARS, OH MY!

Sick of his advisors responding, "on the one hand . . . on the other hand . . ." President Harry S. Truman famously requested that someone should find him a one-armed economist. Truman would no doubt be frustrated by the answers he would receive if he asked whether globalization harms or aids the world's threatened and endangered wildlife. On the one hand, critical habitat has been destroyed, turned into farm land, or paved over to build new factories to serve global markets. On the other hand, global concerns about greenhouse gas emissions and the rise of ecotourism have induced nations and local citizens to protect critical habitat.

The Nature Conservancy, a leading environmental NGO, defines ecotourism as "Environmentally responsible travel to natural areas, in order to enjoy and appreciate nature . . . have low visitor impact, and provide for beneficially active socio-economic involvement of local peoples. . . . [Ecotourism provides] sustainable benefits to local communities. . . . [Ecotourism provides] sustainable benefits for local residents, who are often desperately poor, to help protect habitat and the animals themselves. Consider the mountain gorillas of Rwanda, which were made famous by Dian Fossey and her book *Gorillas in the*

Mist, later made into a movie of the same name starring Sigourney Weaver. The mountain gorilla population is threatened by loss of habitat by subsistence farmers encroaching on their territory and poachers who killed the animals for their skins, heads, and hands. The rise of ecotourism and the willingness of affluent foreigners to pay hundreds of dollars a day to see the animals in the wild have allowed outfitters to develop profitable business models that promote sustainability. One such effort, the creation of the Iby/Iwacu Cultural Village by a safari outfitter, hires former poachers to serve as guides, wardens, and staff for trips to gorilla habitat. The project has led to a 60 percent decrease in poaching and a 40 percent increase in ecotourist revenues.

In Kenya, safari operators are leasing land from the local Masai tribes and allowing the land to revert to traditional habitat, attracting wildebeest, zebras, lions, and other African wildlife and a flood of foreign tourists eager to observe them. To ensure that the local people benefit from the project, the safari operators then hire the local tribespeople as guides and game wardens at wages higher than they would earn as farmers. The staff of Sandibe, a safari lodge in Botswana, helped nearby villagers cultivate small plots of land and then taught them how to grow

■ **PEOPLE, PLANET, AND PROFITS**
Offers our readers insights into many of the most important social and environmental issues confronting international business practitioners today.

■ **IN PRACTICE** This is an in-chapter feature at the end of each major section of every chapter. This feature consists of two concise major "take-away" points from the preceding section and a thought-provoking question for further consideration.

In Practice

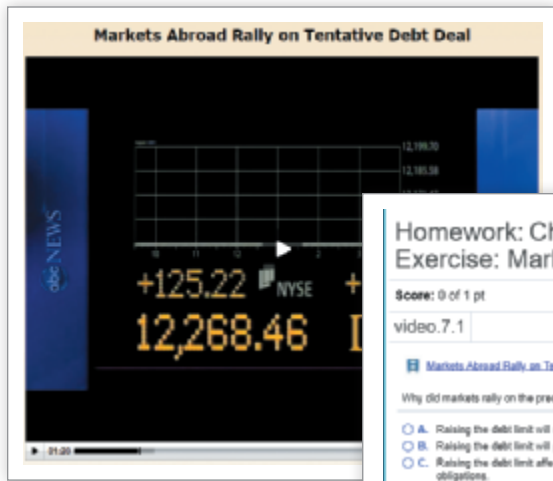
- Although many African countries have benefitted from rising commodity prices in the past decade, many Africans still engage in subsistence farming. A major task confronting African governments is wisely using the cash generated by commodity sales to improve the lives of their ordinary citizens.
- Many of the so-called petro-states, as well as some of the major Asian trading nations, such as China and Singapore, have constructed impressive state-controlled portfolios of foreign investments known as **sovereign wealth funds**. These sovereign wealth funds have grown so large that they have created significant political concerns.

For further consideration: This chapter's closing case discusses the impact of hydraulic fracking on the world energy market. If you were the advisor to the government of an oil-rich country in Africa or the Middle East, what recommendations would you make as to how to respond to this technological change?

Applied Learning Opportunities Throughout

To improve student results, we recommend pairing the text content with MyLab Management, which is the teaching and learning platform that empowers you to reach every student. By combining trusted author content with digital tools and a flexible platform, MyLab personalizes the learning experience and will help your students learn and retain key course concepts while developing skills that future employers are seeking in their candidates. MyLab Management helps you teach your course, your way. Learn more at www.pearson.com/mylab/management. Some of the features included in this MyLab Management are:

- **Videos Exercises.** *Video Exercises* are available for select chapter topics to help engage students and hold them accountable for their learning.



This is an example of a Video Exercise from Chapter 7. These engaging videos explore a variety of business topics related to the theory students are learning in class. The following Exercise Quizzes assess students' comprehension of the concepts in each video.



- **Market Entry Strategy Project (MESP).** *MESP* is an interactive simulation that asks students to research a country as a future market for a new video game system.



Students get an opportunity to evaluate the potential of a nation as a future market for a new video game system, 'The M-Box'. Working as part of a team within a group, the students will select, research and analyze a country, followed by recommending a course of action to the producer of the M-Box, MES-Sim Corporation.

- **Study Plan.** *Study Plan* gives students personalized recommendations, practice opportunities, and learning aids to help them stay on track.

This allows students to focus their study time by pinpointing the precise areas they need to review, and allowing them to use customized practice and learning aids—such as videos, eTexts, tutorials, and more—to help students stay on track.

The study plan settings for this course are shown below. Click edit if you wish to make changes.

Mastery Settings			edit
Assignments that affect mastery	Assigned 1 quiz Assigned 1 quiz Sample sets from Pearson Quiz the floor the Study Plan	100% 100% 100% 100%	
Quiz life settings	Number of quizzes	3	
Access			edit
Study Plan Content page Recommendations page	Always Available Always Available		
Coverage and Scoring			edit
Learning Objectives scoring	Learning Objectives scored and recommended	100% of 128	
Question coverage	Questions available for practice	100% of 100	
Study Plan Homepage			edit
Study Plan Homepage	Study Plan Recommendations		

Writing Assignment: MGMT 10: Work-Life Balance [Auto-graded] Close Assignment

Due Date 08/01 **Status**

Recent Activity **Alerts**

Instructions Start Writing

Many organizations are offering more flexible work arrangements that help their employees balance their work and their personal lives. While many organizations have found that offering these arrangements help them attract and keep the best employees, these options can pose challenges as well.

Write an essay identifying some of the most common types of flexible work arrangements offered by organizations today. Describe the advantages and disadvantages within organizations of the offerings you identify.

Assignment Tools

- Sample Documents
- Assignment Resources
- Checklist
- Dictionaries & Thesaurus

- **Homework and Test Manager.** A powerful tool that lets you create, import, and manage online homework assignments, quizzes, and tests that are automatically graded.

Our Book's Vision

Our vision in writing this book is to prepare students to be effective participants in the worldwide marketplace. That was the vision we laid out in the preface of the first edition of this book, and it remains so in the ninth. We noted that many of the existing textbooks are written in needlessly technical terms and seem to be concerned only with students who are specializing in international business. However, all students—even those who will never have an overseas assignment—need to be knowledgeable about the global economy.

That is why we feel so strongly about our vision for this book. We want students to attain “cultural literacy” in international business. We want them, for example, to be able to speak comfortably with a visiting foreign exchange student or to ask insightful questions of a visiting executive from a foreign-headquartered multinational corporation. For many students, this textbook and the course that it accompanies is just the first step in a long journey to being an effective businessperson and an informed citizen in a globalizing world. We hope in writing this textbook that that first step will be made a bit easier, a bit more informed, and a bit more exciting.

Developing Employability Skills

Understanding and mastering the key concepts of international business is critical to career success in the twenty-first century, given the growing importance of international business activities in the economies of the world's countries. Equally important is acquiring the skills that employer surveys have identified as the ones most vital to career development and success: critical thinking, communication, collaboration, knowledge application and analysis, business ethics and social responsibility, information technology applications and computing skills, and data literacy. To help you simultaneously master these concepts and acquire these critical skills, we've included a variety of exercises, cases, and projects to hone your skills identified by employer surveys as vital for your career development and success. So, in studying, don't ignore the wealth of materials we've included in this book to enrich your understanding of international business and to develop these career skills: cases, boxes, review questions, discussion questions, and building global skills exercises, as well as the text itself.

Instructor Teaching Resources

Supplements available to instructors at www.globaleditions.com	Features of the Supplement
<p>Instructor’s Resource Manual authored by John Capela</p>	<ul style="list-style-type: none"> • Lecture outline • Teaching notes • Chapter-by-chapter summaries • Solutions to all questions and problems in the book
<p>Test Bank authored by John Capela</p>	<p>2,300 multiple-choice, true/false, and short-answer questions with these annotations:</p> <ul style="list-style-type: none"> • Difficulty level (1 for straight recall, 2 for some analysis, 3 for complex analysis) • Skill • Learning Objective • AACSB learning standard (Written and Oral Communication; Ethical Understanding and Reasoning; Analytical Thinking; Information Technology; Interpersonal Relations and Teamwork; Diverse and Multicultural Work; Reflective Thinking; Application of Knowledge)
<p>Computerized TestGen®</p>	<p>TestGen allows instructors to:</p> <ul style="list-style-type: none"> • Customize, save, and generate classroom tests • Edit, add, or delete questions from the Test Item Files • Analyze test results • Organize a database of tests and student results.
<p>PowerPoints authored by Ben Mammoun</p>	<p>Slides include graphs and tables in the textbook. PowerPoints meet accessibility standards for students with disabilities. Features include, but not limited to:</p> <ul style="list-style-type: none"> • Keyboard and Screen Reader access • Alternative text for images • High color contrast between background and foreground colors

Acknowledgments

The cover of this book identifies two authors by name. In reality, every edition represents a true team effort involving literally dozens of skilled professionals. Although any and all errors of fact, omission, and emphasis are solely our responsibility, we would be remiss if we did not acknowledge those who contributed to this and previous editions of this book.

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Thanks go also to our colleagues at other universities who reviewed the manuscript for this edition and previous ones, contributed suggestions, and helped us make this the best international business textbook for students and teachers. We are grateful for their reviews and truly believe that their feedback was indispensable.

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Professor Griffin has written several successful textbooks, including *Management, Organizational Behavior* (with Jean Phillips) and *Business Essentials*. He is currently conducting research on talent management and how it is practiced in Canada, Japan, Europe, and the United States, and emergent leadership practices in South Africa.

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Professor Pustay is a member of numerous professional organizations, including the Academy of International Business, the American Economic Association, the Association for Canadian Studies in the United States, and the Transportation Research Forum. He has served as a consultant for a variety of public and private organizations, including the U.S. Department of Transportation, the Small Business Administration, the Civil Aeronautics Board, and Reliant Energy.

1

An Overview of International Business



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LEARNING OBJECTIVES

- 1.1. Discuss the meaning of international business.
- 1.2. Explain the importance of understanding international business.
- 1.3. Identify and describe the basic forms of international business activities.
- 1.4. Discuss the causes of globalization.

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