**Chapter 1**

**Globalization and International Linkages**

**Learning Objectives and Chapter Summary**

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

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

1. Review the major trends in global and regional integration.

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

1. Examine the changing balance of global economic power and trade and investment flows among countries.

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

1. Analyze the major economic systems and recent developments among countries that reflect those systems.

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

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

1. Summary

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

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

1. Suggested Class Discussion
2. Students should be encouraged to discuss the impact of social media on international business and its implications for both consumers and companies.
3. Students should consider the pace of globalization as it pertains to social media and the pros and cons of the process.
4. Students should explore the different ways companies can use social media to support their international strategies and what companies must do to remain competitive in this rapidly changing environment.
5. Related Internet Sites
6. Facebook: <http://www.facebook.com/>
7. Twitter: <https://twitter.com/>
8. YouTube: <http://www.youtube.com>
9. Google: <https://www.google.com>

**Chapter Outline with Lecture Notes and Teaching Tips**

**I. Introduction**

* **Management** is the process of completing activities with and through other people.
* **International management** is the process of applying management concepts and techniques in a multinational environment and adapting management practices to different economic, political, and cultural contexts.
* International management is distinct from other forms of management in that knowledge and insights about global issues and specific cultures are a requisite for success.
* A multinational corporation **(MNC**) is a firm that has operations in more than one country, international sales, and a mix of nationalities among managers and owners.

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

***Teaching Tip:*** Each year, *Fortune* magazine publishes a list of the 500 largest global corporations. In 2013, the 10 largest global (or multinational) corporations were (1) Royal Dutch Shell, (2) Walmart, (3) Exxon Mobil, (4) Sinopec, (5) China National Petroleum, (6) BP, (7) State Grid, (8) Toyota Motor, (9) Volkswagen, and (10) Total.

**II. Globalization and Internationalization**

**A. Globalization, Antiglobalization, and Global Pressures for Change**

* **Globalization** can be defined as the process of social, political, economic, cultural, and technological integration among countries around the world.
* **Offshoring** is the process by which companies undertake some activities at offshore locations instead of in their countries of origin.
* **Outsourcing** is the subcontracting or contracting out of activities to external organizations that had previously been performed by the firm.
* Proponents believe that everyone benefits from globalization, as evidenced in lower prices, greater availability of goods, better jobs, and access to technology.
* The high number of jobs moving abroad as a result of the offshoring of business services jobs to lower-wage countries does not inherently create greater opportunities at home.
* Critics point out that growing trade deficits and slow wage growth are damaging economies and that globalization may be moving too fast for some emerging markets, which could result in economic collapse.
* Critics argue that when production moves to countries to take advantage of lower labor costs or less regulated environments, it creates a “race to the bottom” in which companies and countries place downward pressure on wages and working conditions.

**B. Global and Regional Integration**

* **World Trade Organization****(WTO)** is the global organization of countries that oversees rules and regulations for international trade and investment.
* In December 1999, trade ministers from around the world met in Seattle to launch a new round of global trade talks.
* In what later became known as the “Battle in Seattle,” protesters disrupted the meeting, and representatives of developing countries who felt their views were being left out of the discussion succeeded in ending the discussions early and postponing a new round of trade talks.
* In November 2001, the members of the WTO met again and successfully launched a new round of negotiations at Doha, Qatar, to be known as the “Development Round.”
* After a lack of consensus among WTO members regarding agricultural subsidies and the issues of competition and government procurement, progress slowed.
* At a meeting in Cancún in September 2003, a group of 20-plus developing nations, led by Brazil and India, united to press developed countries such as the United States, the European Union (EU), and Japan to reduce barriers to agricultural imports.

***Teaching Tip:*** The World Trade Organization (WTO) website (<http://www.wto.org>) provides a wide range of current information about the WTO.

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

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

***Teaching Tip:*** The NAFTA website (<http://www.naftanow.org/>) supplies a large amount of information on the agreement.

* Economic activity in Latin America continues to be volatile.
* Despite the continuing political and economic setbacks these countries periodically experience, economic and export growth continue in Brazil, Chile, and Mexico.
* The CAFTA agreement, signed August 5, 2006, between the United States and Central American countries presents new opportunities for bolstering trade, investment, services, and working conditions in the region.

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

* The **European Union****(EU)** is a political and economic community consisting of 28 member states.
* In 2003 it consisted of 15 nations: Austria, Belgium, Denmark, Finland, France, Germany, Great Britain, Greece, the Netherlands, Ireland, Italy, Luxembourg, Portugal, Spain, and Sweden.
* In May 2004, 10 additional countries joined the EU: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia.
* On January 1, 2007, Romania and Bulgaria acceded to the EU.
* On July 1, 2013, Croatia officially became the newest and 28th member of the EU.

***Teaching Tip:*** The EU maintains an excellent website at <http://www.europa.eu>/.

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

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

* The Association of Southeast Asian Nations (ASEAN), made up of Indonesia, Malaysia, the Philippines, Singapore, Brunei, Thailand, and, in recent years, Cambodia, Myanmar, and Vietnam, is advancing trade and economic integration and now poses challenges to China as a region of relatively low-cost production and export.
* The **Trans-Pacific Partnership** **(TPP)** currently includes Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.
* Central and Eastern Europe, Russia, and the other republics of the former Soviet Union are still trying to make stable transitions to market economies.

**C. Changing Global Demographics**

* In 2016, for the first time since the end of the Second World War, the global working-age population will decline. By 2050, the Wall Street Journal projects that the working age population will contract by nearly five percent worldwide.
* Due to improvements in the technology and health care sectors, people are now living longer lives in both developed and developing countries.
* Though these demographic changes are projected to occur globally, the most dramatic impact will be seen in the developed nations.
* The amount of spending on health care-related services will continue to increase rapidly, while the demand for goods such as cars and computers will decline.

**D. The Shifting Balance of Economic Power in the Global Economy**

* Economic integration and the rapid growth of emerging markets are creating a shifting international economic landscape.
* The developing and emerging countries of the world are now predicted to occupy increasingly dominant roles.

***Teaching Tip:*** The *New York Times* supplies a website with current world business articles: <http://www.nytimes.com/pages/business/worldbusiness/index.html>.

* The economic potential of Brazil, Russia, India, and China (the “BRIC” economies) is growing at an even faster pace such that they may constitute four of the top five most dominant economies by the year 2050, with China surpassing the United States in output by 2027.
* Using data from the World Bank, PricewaterhouseCoopers has made estimates about the future growth of emerging versus developed economies; the result of which appear in summary form in Tables 1-4 and 1-5.
* The N-11 (N stands for “next”) are a group of economies that may constitute the next wave of emerging markets growth.
* These countries which include Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea, and Vietnam represent a diverse global set.
* African countries could constitute the next wave of dynamic emerging markets.
* Despite the global recession of 2009, in which merchandise exports fell 23 percent to $12.15 trillion and commercial services exports declined 13 percent to $3.31 trillion in 2009, global trade and investment continues to grow at a healthy rate, outpacing domestic growth in most countries.
* **Foreign direct investment (FDI)** is the term used to indicate the amount invested in property, plant, and equipment in another country.
* As nations become more affluent, they begin looking for countries with economic growth potential where they can invest.

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

**III. Global Economic Systems**

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

**A. Market Economy**

* A *market economy* exists when private enterprise reserves the right to own property and monitor the production and distribution of goods and services while the state simply supports competition and efficient practices.

**B. Command Economy**

* A *command economy* is comparable to a monopoly in the sense that the organization, in this case the government, has explicit control over the price and supply of a good or service.

**C. Mixed Economy**

* A *mixed economy* is a combination of a market and a command economy. While some sectors of this system reflect private ownership and the freedom and flexibility of the law of demand, other sectors are subject to government planning.

**IV. Economic Performance and Issues of Major Regions**

**A. Established Economies**

**North America**

* North America constitutes one of the four largest trading blocs in the world. The combined purchasing power of the United States, Canada, and Mexico is more than $12 trillion.
* U. S. MNCs have holdings throughout the world.
* At the same time, foreign MNCs are finding the United States to be a lucrative market for expansion.
* Canada is the United States’ largest trading partner, a position it has held for many years.
* The United States also has considerable foreign direct investment in Canada, more than in any other country except the United Kingdom.
* By the early 1990s Mexico had recovered from its economic problems of the previous decade and had become the strongest economy in Latin America.
* In 1994, Mexico became part of NAFTA, and it appeared to be on the verge of becoming the major economic power in Latin America.
* Because of NAFTA, Mexican businesses are finding themselves able to take advantage of the U.S. market by producing goods that were previously purchased from Asia.
* **Maquiladora** is a factory, mostly located in Mexican border towns, that imports materials and equipment on a duty- and tariff-free basis for assembly or manufacturing and re-export.

**The EU**

* The ultimate objective of the EU is to eliminate all trade barriers among member countries.
	+ - This economic community eventually will have common custom duties as well as unified industrial and commercial policies regarding countries outside the union.
		- The challenge for the future of the EU is to absorb its eastern neighbors, the former communist-bloc countries.
		- Since 2009, the EU has faced one of the most severe challenges of its short tenure.
		- Several European governments, including Greece, Portugal, Spain, and Ireland, have had dangerously large deficits that resulted from both structural conditions and shorter-term economic pressures.

**Japan**

* During the 1970s and 1980s, Japan’s economic success had been without precedent.
* There has been a steady decline in Japan’s overseas investments since the 1990s due to a slowing Japanese economy, poor management decisions, and competition from emerging economies, such as China.
* **Ministry of International Trade and Industry (MITI)** is a Japanese government agency that identifies and ranks national commercial pursuits and guides the distribution of national resources to meet these goals.

***Teaching Tip:*** To learn more about MITI, go to <http://www.meti.go.jp/english/>.

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

**B. Emerging and Developing Economies**

**Central and Eastern Europe**

* Russia’s economy continues to grow as poverty declines and the middle class expands.
* Direct investment in Russia, along with its membership in the International Monetary Fund (IMF), helped to raise GDP and decrease inflation, offsetting the hyperinflation created from the initial attempt at transitioning to a market-based economy in the early 1990s.

***Teaching Tip:*** Current information about Russia can be obtained on a daily basis via a news site available at <http://russia-insider.com/en/ria_novosti_-_russian_news_agency>.

* Although Russia, the Czech Republic, Hungary, and Poland receive the most media coverage and are among the largest of the former communist countries, others also are struggling to right their economic ships.

**China**

* China’s GDP has remained strong, growing at 9.1 percent in 2009, 10.4 percent in 2010, 9.3 percent in 2011, and 8.0 percent in 2012, despite the global economic crisis.
* Concerns about undervaluation of China’s currency, the remnimbi (also known as the yuan), and continued policies that favor domestic companies over foreign ones, make China a complicated and high-risk venture.
* Trade relations between China and developed countries and regions, such as the United States and the EU, remain tense.

**Other Emerging Markets of Asia**

* In addition to Japan and China, there are a number of other important economies in the region, including South Korea, Hong Kong, Singapore, and Taiwan.
* In South Korea, the major conglomerates, called **chaebols**, include such internationally known firms as Samsung, Daewoo, Hyundai, and the LG Group.
* Bordering southeast China and now part of the People’s Republic of China (PRC), Hong Kong has been the headquarters for some of the most successful multinational operations is Asia.
* Singapore is a major success story. Its solid foundation leaves only the question of how to continue expanding in the face of increasing international competition.
* Taiwan has progressed from a labor-intensive economy to one that is dominated by more technologically sophisticated industries, including banking, electricity generation, petroleum refining, and computers.
* Besides South Korea, Singapore, and Taiwan, other countries of Southeast Asia are also becoming dynamic platforms for growth and development.
* Thailand, Malaysia, Indonesia, and now Vietnam have developed economically with a relatively large population base and inexpensive labor despite the lack of considerable natural resources.

**India**

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

**C. Developing Economies on the Verge**

**South America**

* Countries in South America have had difficult economic problems.
* Although most have tried to implement economic reforms reducing their debt, periodic economic instability and the emergence of populist leaders have had an impact on the attractiveness of countries in the region.
* Brazil’s economy has evolved into a flourishing system.
* Though Brazil’s GDP has slowed somewhat since 2011, its growth continues to outpace most developed nations.
* Chile’s market-based economic growth has fluctuated between 3 and 6 percent over the last decade.
* Chile attracts a lot of foreign direct investment, mainly dealing with gas, water, electricity, and mining.
* It continues to participate in globalization by engaging in further trade agreements.
* Argentina has one of the strongest economies overall with abundant natural resources, a highly literate population, an export-oriented agricultural sector, and a diversified industrial base; however it has suffered the recurring economic problems of inflation, external debt, capital flight, and budget deficits.
* Despite the ups and downs, a major development in South America is the growth of intercountry trade, spurred on by the progress toward free-market policies.

**Middle East and Central Asia**

* Israel, the Arab countries, Iran, Turkey, and the Central Asian countries of the former Soviet Union are a special group of emerging countries.
* Because of their oil, however, some of these countries are considered to be economically rich.
* Recently, this region has been in the world news because of the wars and terrorism concerns.
* Students of international management should have a working knowledge of these countries’ customs, culture, and management practices since most industrial nations rely, at least to some degree, on imported oil and since many people around the world work for international, and specifically Arab, employers.

**Africa**

* Even though they have considerable natural resources, many African nations remain very poor and underdeveloped, and international trade is only beginning to serve as a major source of income.
* One major problem of doing business in the African continent is the overwhelming diversity of approximately one-billion people, divided into 3,000 tribes, that speak 1,000 languages and dialects.
* Political instability is pervasive, and this instability generates substantial risks for foreign investors.

**The World of International Management―Revisited**

**Questions and Suggested Answers**

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

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

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

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

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

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

**Key Terms**

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

**European Union:** A political and economic community consisting of 28 member states

**Foreign Direct Investment (FDI):** Investment in property, plant, or equipment in another country

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

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

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

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

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

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

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

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

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

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

**Trans-Pacific Partnership (TPP):** A proposed trade agreement among 12 Pacific Rim countries, including Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.

**World Trade Organization (WTO):** The global organization of countries that oversees rules and regulations for international trade and investment

**Review and Discussion Questions**

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

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

1. How has NAFTA affected the economies of North America and how has the EU affected Europe? What importance do these economic pacts have for international managers in North America, Europe, and Asia?

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

1. Why are Russia and Eastern Europe of interest to international managers? Identify and describe some reasons for such interest and also risks associated with doing business in these regions.

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

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

**Answer:** Asia has been of interest to MNCs because of the tremendous growth in this region in the last decade. Although the growth has been uneven, the following countries continue to present numerous investment opportunities: Japan; Hong Kong; Taiwan; Singapore; South Korea; and emerging Southeastern Asian countries such as Malaysia, the Philippines, Singapore, Brunei, Thailand, Cambodia, Myanmar, Vietnam, and especially China. A large population base, relatively inexpensive labor, and natural resources have been the important reasons for investments in this region.

1. Why would MNCs be interested in South America, India, the Middle East and Central Asia, and Africa, the less developed and emerging countries of the world? Would MNCs be better off focusing their efforts on more industrialized regions? Explain.

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

1. MNCs from emerging markets (India, China, Brazil) are beginning to challenge the dominance of developed country MNCs. What are some advantages that firms from emerging markets bring to their global business? How might MNCs from North America, Europe, and Japan respond to these challenges?

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

**Internet Exercise: Global Competition in Fast Food**

**Websites:**

* http://[www.mcdonalds.com](http://www.mcdonalds.com)
* [www.jollibee.com.ph/](http://www.jollibee.com.ph/)
* <http://yum.com/>

**Suggestions for Using the Exercise**

1. This exercise can be an excellent vehicle to compare the approaches of three international food service companies. Each of the brands discussed in this search has a mission, vision, plan, or philosophy.
2. McDonald’s: McDonald’s is the leading global food service retailer with more than 34,000 local restaurants serving approximately 69 million people in 118 countries each day. More than 80 percent of McDonald’s restaurants worldwide are owned and operated by independent local men and women. McDonald’s customer-focused plan to win provides a common framework for global business yet allows for local adaptation. Through the execution of initiatives surrounding the five elements of the plan to win―people, products, place, price, and promotion―the company has enhanced the restaurant experience for customers worldwide and grown comparable sales and customer visits in each of the last eight years. This plan, combined with financial discipline, has delivered strong results for its shareholders.
3. Yum! Brands, Inc.: Yum! Brands, Inc., based in Louisville, Kentucky, has nearly 40,000 restaurants in more than 130 countries and territories. The vision and strategy of Yum! Brands have the following objectives:
* Build leading brands across China in every single category. Drive aggressive international expansion, and build strong brands everywhere.
* Dramatically improve U.S. brand positions, consistency, and returns.
* Drive the industry to gain long-term shareholder and franchisee value.
1. Jollibee: A dominant market leader in the Philippines, Jollibee has also embarked on an aggressive international expansion plan in the United States, Vietnam, Hong Kong, Saudi Arabia, Qatar, and Brunei, firmly establishing itself as a growing international QSR player. The values followed by Jollibee include customer focus, excellence, respect for the individual, teamwork, a spirit of family and fun, the humility to listen and learn, integrity, and frugality. Its mission includes serving food that tastes good and bringing the joy of eating to everyone.
2. This exercise also provides an excellent opportunity to talk about the power of global brand names. The McDonald’s name (and golden arches) is recognized around the world; likewise, Yum businesses (KFC, Pizza Hut, and Taco Bell) are ever-present. It is a challenge for a “new kid on the block” such as Jollibee to compete. This is where adaptation to local taste can make the difference.

Questions and Answers Following this Exercise

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

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

1. What advantages might a “local” brand like Jollibee have over the global companies? What advantages do the global MNCs have?

**Answer:** Students’ answers will vary. However, a “local” customer base may have or develop a loyalty to Jollibee based on pride or on food preference.

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

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

**In the International Spotlight: India**

**Questions and Suggested Answers**

1. In light of this situation, what would your recommendation to Walmart be?

**Answer:** Students’ answers will vary. Walmart can remain in the Indian market by directing its attention toward serving as a wholesale supplier to Indian stores. It can do so until the Indian government announces new policies that would appear to open foreign investment in retail.

1. Should it stick with the wholesale focus, or should it pursue another joint venture with an Indian partner?

**Answer:** Students’ answers will vary. Other retailers, such as Starbucks, have paired up with Indian companies; Starbucks has a 50–50 joint venture with Tata, one of India’s largest conglomerates. Walmart can also pursue a joint venture but should be aware of the Indian policies and limitations regarding ventures in India. It should avoid falling prey to allegations of corruption as it did in 2007 while partnering with Bharti Enterprises.

1. Alternatively, should it maintain a “wait and see” approach in hopes that the Indian government will finally reform its restrictions on foreign investment?

**Answer:** Students’ answers will vary. Walmart can wait until the Indian government reforms its restrictions on foreign investment, or it could direct its attention toward serving as a wholesale supplier to Indian stores.

**International Management in Action: Tracing the Roots of Modern Globalization**

**Summary**

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

**A Closer Look: Outsourcing and Offshoring**

**Summary**

Offshoring refers to the process by which companies undertake activities at offshore locations instead of in their countries of origin. Outsourcing is the subcontracting or contracting out of activities to external organizations that had previously been performed within the firm, and it is a wholly different phenomenon.

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

Source: Pete Engardio and Assif Shameen, “Let’s Offshore the Lawyers,” *BusinessWeek,* September 18, 2006, p. 42; and Tony Hallett and Andy McCue, “Why Deutsche Bank Spreads Its Outsourcing,” *BusinessWeek,* March 15, 2007.

**International Management in Action: Recognizing Cultural Differences**

**Summary**

1. Doing business overseas cannot happen without learning about and trying to understand the customs, cultures, and work habits of people in other countries. Equally effective management styles must be developed.
2. The example of Russia follows. Russia is moving from a central to a market economy, and management is changing along with that new direction. The United States and Russia interpret “partnerships” differently. Management in Russia is more authoritarian than that of the United States; the chain of command, responsibility, communication, and the decision-making process are all affected by this difference in management style. Looking back at history and incorporating the evolutionary knowledge can aid the understanding of emerging economies.
3. Websites:
* <http://www.usrbc.org>
* <http://www.careerwatch.com>

**International Management in Action: Brazilian Economic Reform**

**Summary**

1. Brazil has transformed itself from a relatively closed and frequently unstable economy to one of the global leading “BRIC” countries and the anchor of South American economic development.
2. The Plano Real (Real Plan, 1994) sought to peg the real to the U.S. dollar in order to bring inflation down. Brazilian goods became more expensive in relation to imports. However, foreign financial groups took an interest in Brazil. The country’s debt came down, and this helped reassure investors that Brazil would maintain tight fiscal and monetary policy, even with a floating currency.
3. Luis Inácio Lula da Silva was elected president in 2002 and reelected in 2006. The economy continued to grow, although there was a slowdown during the global financial crisis. Confidence in Brazil’s economy continued with the 2010 election and transition.
4. Brazil has expanded exports from agricultural products to include manufacturing and services. Other countries and many businesses are investing in Brazil’s economy.
5. Website: <http://www.wto.org/english/tratop_e/tpr_e/tp312_e.htm>