International Business

Ehud Menipaz & Amit Menipaz

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International **Business**

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International **Business**

Theory and Practice

Ehud **Menipaz** & Amit **Menipaz**

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To our family

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PREFACE

Welcome to the first edition of *International Business: Theory and Practice*. This book is a result of a journey into seminal and current theoretical paradigms and management practices in international business. An effort has been made to present the most current, accessible, and practically oriented book in international business, geared toward the student and the practicing executive alike.

The beginning of the 21st century was marked by global economic adjustments, and has been characterized by an intense interest in the theories of international business as well as the development and enhancement of practices in international and global business management. *International Business: Theory and Practice* brings theoretical thinking to bear on real-world practices by introducing the reader to key international business topics and providing ample examples. Focusing on international, national, and regional environments, and the businesses and organizations within these contexts, *International Business: Theory and Practice* considers all relevant issues, including corporate social responsibility, business ethics, global strategy, international supply chains, entrepreneurship, and digital technology.

To help the reader understand these issues and their relevance to business practices, the book includes insights from global managers and entrepreneurs. The text and the supporting material are written so that they may be used in an introductory course at either the undergraduate or graduate level. The text provides the instructor with the flexibility to complement the material with added readings and case studies to reflect the needs of the intended audience and keep the material current.

The Structure of the Book

The book presents a set of concepts, frameworks, and paradigms that are necessary tools for the student of international business or the executive who operates

in the international arena and is interested in learning more about it. The book is based on the premise that an executive may (and should) plan, organize, design, operate, and control a business enterprise with the purpose of succeeding in international business ventures. The concepts contained in the text are appropriate for both large multinational enterprises (MNEs) as well for small- and medium-size enterprises (SMEs).

Part One introduces the reader to the international business environment (Chapter 1), including the multinational enterprise and the important concepts of corporate citizenship, social responsibility, and ethics (Chapter 2).

Part Two focuses on the national and regional business environment, including the cultural context of international business (Chapter 3), the political and legal environments (Chapter 4), and economic systems and international trade (Chapter 5). An understanding of these environments and systems is most important as they define the drivers of international trade in goods and services. It has been scientifically proven that these environments impact on business results and many strategic decisions, such as international alliances, mergers, and acquisitions, must include careful consideration of these issues.

Part Three further explores the issue of international trade, capital investment, and regionalization, including foreign direct investment and the location of regional headquarters (Chapter 6), international trade and regional integration (Chapter 7), and the international financial system (Chapter 8). This latter chapter deals with the global monetary system, foreign exchange markets, and financial instruments.

The next two parts build on the concepts discussed earlier in the book and present a framework for international business strategy and international management.

Part Four presents the essentials of international business strategy, including internal and external environmental assessment, and structuring internationally sound business goals and objectives (Chapter 9). It also covers sustainability and growth strategies in international business, such as global alliances, joint ventures, and mergers and acquisitions (M&As) (Chapter 10).

Part Five deals with international management organizational functions, such as global technology management (Chapter 11), global human resources management (Chapter 12), international financial management (Chapter 13), global operations and supply chain management (Chapter 14), global marketing, sales, and after sale services and support (Chapter 15), and international accounting and taxation (Chapter 16).

It should be noted that the chapters are constructed so as to allow some overlap. The various concepts are presented through examples and business case studies. An effort is made to present decisions in the context of a particular country and industry. The book also recognizes and provides coverage of commercial ventures in growth industries, such as digital products and services, biotechnology, and nanotechnology. Since many businesses today strive for early internationalization, a further feature of the book is the introduction of concepts that are useful for the aspiring global entrepreneur and executive.

It is a basic premise of the book that the reader should be aware of the dynamic and changing environment of international business and, thus, be ready to identify,

early on, evolving trends and changes, and be familiar with ways and means to adjust MNEs to these changes.

It is further noted that the world is experiencing a global economic crisis creating innovative, significant, and exciting opportunities. These changes involve business management paradigms and practices on the one hand and, on the other hand, new paradigms for corporate governance, public oversight and scrutiny, organizational transparency, environmental sustainability and accountability, and voluntary professional standards. The book recognizes the world economic crisis and provides paradigms that may survive the crisis.

The ideas contained in the book represent the state of the art and are based on the most current material available. Our goal is to ensure that the executive or business owner who is familiar with the material contained in this book will be able to make informed decisions regarding international business opportunities for both domestic and international enterprises.

Students will benefit from *International Business: Theory and Practice* in several ways. First, the book presents an integrative view of the international business environment and international management functions. It leads the student from the global environmental essentials, through international corporate strategy to international management functions in a structured way. Second, the book is written from an international point of view from the outset and is based on theories and cases drawn from virtually all continents and trade regions. In bringing a truly global approach to bear, the authors have drawn upon scientific writings as well as professional reports and real-life case histories. Third, the theories and paradigms are explained in terms that are geared towards students taking the core academic courses in international business. The delivery is straightforward in order to enhance and simplify the learning process. Fourth, the book presents a current view of international business, in an exciting and challenging way, pointing out opportunities for internationalization in emerging industries, such as digital commerce, biotechnology, and "green" technologies. Fifth, each chapter contains a country focus, providing a comparative overview of national business characteristics.

Executives will benefit from *International Business: Theory and Practice* in a number of ways. First, the book lays out the foundations of international business, rigorously explaining terms and paradigms that are at the basis of international commerce. Second, the book points out new trends and shifting methodologies which are at the forefront of management thinking and reflect the changing management practices resulting from the world economic crisis. Third, the book relates to business cases drawn from a variety of industries and may serve as a benchmark as well as a guide to best practices for the international, or would-be-international, management executive. Fourth, the book maps out the economic and environmental essentials of various countries around the world, providing business executives with the initial information required to decide on the next market to be penetrated, the location for the next regional headquarters to be set up, or the location of the next manufacturing facility to be built. Of particular relevance are the comparative country profiles contained at the end of each chapter. These may assist the executive in identifying the next foreign market to enter or the next country in which to establish an operation.

Lecturers will benefit from *International Business: Theory and Practice* in a number of ways. First, the book provides the current paradigms and theories regarding international business, bringing the reader up to date on the issues that are deemed necessary by most academic institutions. Second, the book provides an overview of international business using ample examples of real international business cases and demonstrating the use of the methodologies described. Third, the book provides insight into topics promoted in curricula developed in business schools around the world, such as social responsibility, the role of technology in international business, and entrepreneurship. Fourth, the book has a companion website, including a lecture resources area, which is continuously kept current. The *lecturer resources area* is password-protected and only lecturers adopting the textbook will have access to the material within it. The lecturer resources area contains material that lecturers may use in order to support their teaching, such as an Instructor's Manual, PowerPoint presentations, and links to relevant academic journals and other websites. *The Instructor's Manual* includes: a general introduction on how to use the book, sample syllabi for courses and seminars, sample answers to the questions or exercises within the book, suggested solutions or approaches to the questions listed at the end of any case studies within the book, small group projects, lists of potential seminar topics for discussion, multiple choice and/or essay questions with sample answers, examination questions with sample answers, recommendations regarding videos, and other relevant information. *PowerPoint presentations* for easy reproduction of each chapter are available. The presentations are structured in such a way that they can guide the lecturer through a lesson. The PowerPoint presentations include bullet points highlighting the main issues, definitions of key terms, charts, and figures. Recommendations on *videos and case studies* are available, as well as updates on some of the material published in the book.

The *student resources* area of the website contains a variety of resources that students can use when preparing for an exam or when writing an essay. This area includes a brief *introduction to the book* and how it can best be used to maximize learning as well as key learning outcomes for each chapter. This section includes a *test bank* to encourage self-study, *online readings* through free electronic access to a selection of articles published in SAGE journals and books. It should be noted that all SAGE companion websites include a *standard study skills* section for students.

Acknowledgments

We are grateful for the support, suggestions, ideas, and reviews provided by many executives, academics, consultants, and students around the world throughout the development of the first edition of *International Business: Theory and Practice*. The resulting manuscript reflects the creative suggestions, innovative pedagogy, and identified needs of students, lecturers, and executives alike.

We are indebted to the dedicated editors and staff of SAGE Publications, who have been supportive and extremely helpful in bringing our manuscript to

book form. Special thanks are owed to Delia Martinez Alfonso, Senior Editor; Natalie Aguilera, Commissioning Editor; Kiren Shoman, Associate Director, Books Editorial; Assistant Editors Anne Summers and Clare Wells; Alana Clogan, Editorial Assistant; Vanessa Harwood, Production Editorial Manager; and Ben Sherwood, Marketing Manager.

We are deeply grateful for the support and encouragement of our family who had the patience to endure our commitment of time to this project at the expense of precious quality time with them.

In conclusion, we trust that *International Business: Theory and Practice* reflects the current issues that are of importance to students, lecturers, and practicing and aspiring international executives. It provides a solid introduction to the essential issues in international business and allows for further study of those issues. As in any text of this kind, it draws upon and presents theories, paradigms, and cases that have been developed over several decades by many thought leaders, academics, and executives. Every effort has been made to provide appropriate citations and references. If any omissions or errors are identified by the readers, we will be grateful to have them called to our attention so that they can be duly rectified.

Ehud Menipaz
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New York, NY
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ABOUT THE AUTHORS

Ehud Menipaz

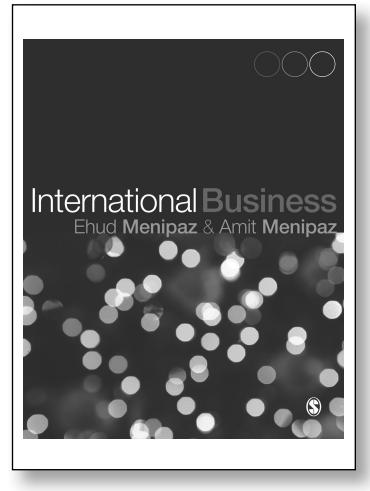
Currently a visiting scholar at the Leonard N. Stern School of Business, New York University, Ehud Menipaz is the Solomon & Abraham Krok Chaired Professor of Entrepreneurial Management and the Founding Chair of the Ira Center for Business, Technology & Society at Ben Gurion University, Israel. He is a former senior partner with Ernst & Young International, engaged with assignments in the private and public sectors. Ehud specializes in international business management and functional derivatives. He holds a BSc in Industrial Engineering and Management, an MSc in Operations Research, an MBA in Finance, and a PhD in Management. His articles have appeared in *The European Journal of Operations Research*, *International Journal of Production Research*, *International Institute of Electrical and Electronic Engineers Transactions*, *Journal of Productivity and Quality*, *International Journal of Computers and Simulation*, *Management Decisions*, *Journal of Global Marketing*, *International Journal of Business Performance Management*. His interest in operational systems has led to several manuscripts in that area, including *Essentials of Production and Operations Management,* published concurrently in the USA, England, Japan, New Zealand, and Singapore by Prentice Hall. He has addressed students, faculty and executives in the USA, Canada, the Far East, Europe, South America, and Africa. He has been involved in conceiving, and has been a member of the organizing committee and chairman of several international scientific conferences, including "The First Regional Conference on Forging Regional Cooperation in the Mediterranean Basin" and "The International Conference of Innovation and Logistics," all resulting in published proceedings. He serves as a referee and an associate editor for a number of international scientific journals, including the *International Journal of Corporate Governance* and he is a national team leader of the Global Entrepreneurship Monitor (GEM) research program. He is a member of the

Strategic Management Society, the Academy of Management, and the Association of International Business. Combining scientific work with community involvement, Ehud sponsors entrepreneurship education programs associated with the Junior Achievement Award worldwide and has served as a director and CEO of several organizations. He is married, has three children and four grandchildren, and enjoys piano playing, downhill skiing, and tennis.

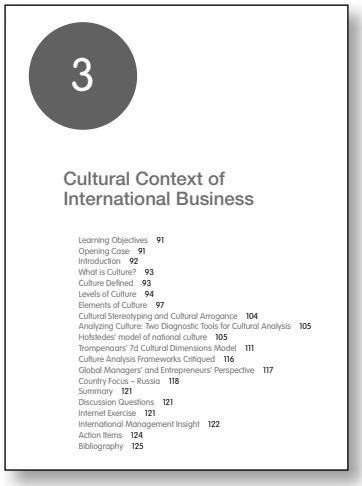
Amit Menipaz

Amit Menipaz has been involved in international business as an entrepreneur, management consultant, and a senior executive for multinational enterprises across North America, China, Europe, and the Middle East. He currently serves as Country Manager for eBay, a leader in global e-commerce. A graduate of the University of Toronto, Canada, in Industrial Engineering and Management, he holds an MBA from INSEAD, Fontainebleau, France. As an entrepreneur, he co-founded a web content management company in North America. As a management consultant he has worked for both Deloitte Touche and A.T. Kearney in North America and Western Europe. In this capacity he worked with multinational enterprises on benchmarking, reengineering, knowledge management, systems selection, and merger and acquisition planning across North America. He oversaw the launch of a number of hi-tech and telecommunication start-ups across Western Europe during the internet boom at the turn of the century. For six years Amit ran a partnership with Hutchison Whampoa of Hong Kong, leveraging Israeli technologies together with European designers and Chinese manufacturers to develop innovative consumer electronics and telecommunications products for markets in Europe and the USA. Having worked at both the headquarters and overseas subsidiaries of multinational enterprises, managing the opening and closing of regional and country headquarters, and launching both consumer and internet products into various geographic markets—Amit brings a unique blend of experience, practical insights, and contemporary examples that help link business theories with the hands-on practice of managing an international business day-to-day. Amit is married, has two children, and enjoys traveling, learning new languages, music, reading, tennis, skiing, and Latin dancing.

GUIDED TOUR



Welcome to the guided tour of *International Business: Theory and Practice*. This tour will take you through the main sections and special features in the text.



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Cultural Context of International Business

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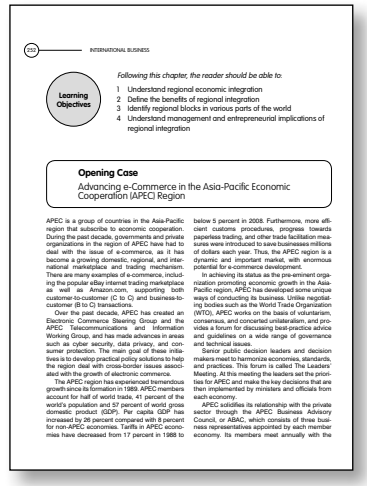


Learning Objectives

Following this chapter, the reader should be able to:

1 Understand regional economic integration
2 Define the benefits of regional integration
3 Identify regional blocks in various parts of the world
4 Understand management and entrepreneurial implications of regional integration

Opening Case

Advancing e-Commerce in the Asia-Pacific Economic Cooperation (APEC) Region

APEC is a group of countries in the Asia-Pacific region that subscribe to economic cooperation. During the past decade, governments and private organizations in the region of APEC have had to deal with the issue of e-commerce, as it has become a growing domestic, regional, and international marketplace and trading mechanism. There are many examples of e-commerce, including the popular eBay internet trading marketplace as well as Amazon.com, supporting both customer-to-customer (C to C) and business-to-customer (B to C) transactions.

Over the past decade, APEC has created an Electronic Commerce Steering Group and the APEC Telecommunications and Information Working Group, and has made advances in areas such as cyber security, data privacy, and consumer protection. The main goal of these initiatives is to develop practical policy solutions to help the region deal with cross-border issues associated with the growth of electronic commerce.

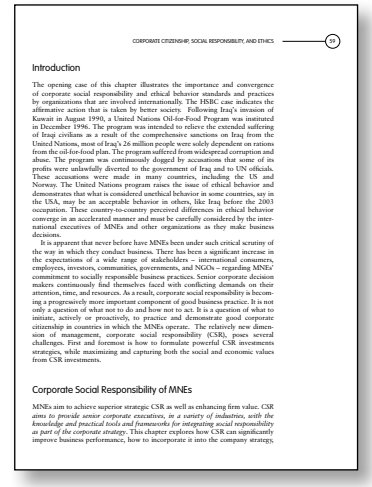
The APEC region has experienced tremendous growth since its formation in 1989. APEC members account for half of world trade, 41 percent of the world's population and 57 percent of world gross domestic product (GDP). Per capita GDP has increased by 26 percent compared with 8 percent for non-APEC economies. Tariffs in APEC economies have decreased from 17 percent in 1988 to below 5 percent in 2008. Furthermore, more efficient customs procedures, progress towards paperless trading, and other trade facilitation measures were introduced to save businesses millions of dollars each year. Thus, the APEC region is a dynamic and important market, with enormous potential for e-commerce development.

In achieving its status as the pre-eminent organization promoting economic growth in the Asia-Pacific region, APEC has developed some unique ways of conducting its business. Unlike negotiating bodies such as the World Trade Organization (WTO), APEC works on the basis of voluntarism, consensus, and concerted unilateralism, and provides a forum for discussing best-practice advice and guidelines on a wide range of governance and technical issues.

Senior public decision leaders and decision makers meet to harmonize economies, standards, and practices. This forum is called The Leaders' Meeting. At this meeting the leaders set the priorities for APEC and make the key decisions that are then implemented by ministers and officials from each economy.

APEC solidifies its relationship with the private sector through the APEC Business Advisory Council, or ABAC, which consists of three business representatives appointed by each member economy. Its members meet annually with the

Learning objectives: Readers are given an outline of what they should be able to do by the end of each chapter, and **Opening cases** present the topic for each chapter within a real-life context.



Introduction

The opening case of this chapter illustrates the importance and convergence of corporate social responsibility and ethical behavior standards and practices by organizations that are involved internationally. The HSBC case indicates the affirmative action that is taken by better society. Following Iraq's invasion of Kuwait in August 1990, a United Nations Oil-for-Food Program was instituted in December 1996. The program was intended to relieve the extended suffering of Iraqi civilians as a result of the comprehensive sanctions on Iraq from the United Nations, most of Iraq's 26 million people were solely dependent on rations from the oil-for-food plan. The program suffered from widespread corruption and abuse. The program was continuously dogged by accusations that some of its profits were unlawfully diverted to the government of Iraq and to UN officials. These accusations were made in many countries, including the US and Norway. The United Nations program raises the issue of ethical behavior and demonstrates that what is considered unethical behavior in some countries, say in the USA, may be an acceptable behavior in others, like Iraq before the 2003 occupation. These country-to-country perceived differences in ethical behavior converge in an accelerated manner and must be carefully considered by the international executives of MNEs and other organizations as they make business decisions.

It is apparent that never before have MNEs been under such critical scrutiny of the way in which they conduct business. There has been a significant increase in the expectations of a wide range of stakeholders – international consumers, employees, investors, communities, governments, and NGOs – regarding MNEs' commitment to socially responsible business practices. Senior corporate decision makers continuously find themselves faced with conflicting demands on their attention, time, and resources. As a result, corporate social responsibility is becoming a progressively more important component of good business practice. It is not only a question of what not to do and how not to act. It is a question of what to initiate, actively or proactively, to practice and demonstrate good corporate citizenship in countries in which the MNEs operate. The relatively new dimension of management, corporate social responsibility (CSR), poses several challenges. First and foremost is how to formulate powerful CSR investments strategies, while maximizing and capturing both the social and economic values from CSR investments.

Corporate Social Responsibility of MNEs

MNEs aim to achieve superior strategic CSR as well as enhancing firm value. CSR *aims to provide senior corporate executives, in a variety of industries, with the knowledge and practical tools and frameworks for integrating social responsibility as part of the corporate strategy*. This chapter explores how CSR can significantly improve business performance, how to incorporate it into the company strategy,

Introduction: The introduction provides the overall framework for each chapter.

GLOBAL BUSINESS IN THE 21st CENTURY 39

Globalization in action 2009: concerted efforts by G-20 major economies to avert a global economic crisis

In light of a major global economic crisis, the existence of a global organization of major economic powers, the G-20, seems to be able to weather the crisis effectively. The G-20, The Group of Twenty Finance Ministers, and Central Bank Governors, is a group of finance ministers and central bank governors from 20 economies: 19 of the world's largest national economies, plus the European Union (EU). Collectively, the G-20 economies comprise 85 percent of global gross national product, 80 percent of world trade and two-thirds of the world population.

The G-20 is a forum for cooperation and consultation on matters pertaining to the international financial system. It studies, reviews, and promotes discussion of key industrial and emerging market countries of policy issues pertaining to the promotion of international financial stability, and seeks to address issues that go beyond the responsibilities of any one organization.

The G-20 London Summit took place during the month of March 2009, at a time when the world confronted the worst economic crisis since the Second World War. The aims of the London Summit were to bring together leaders of the world's major economies and key international institutions to take the collective action necessary to stabilize the world economy and secure recovery and jobs.

Leaders faced an unprecedented range of challenges – of averting an even more severe downturn and restoring growth in the short term, while at the same time reshaping the financial system, preserving the world trading system, and laying the foundation for a sustainable recovery. Real action was agreed at the summit, with leaders agreeing to steps to:

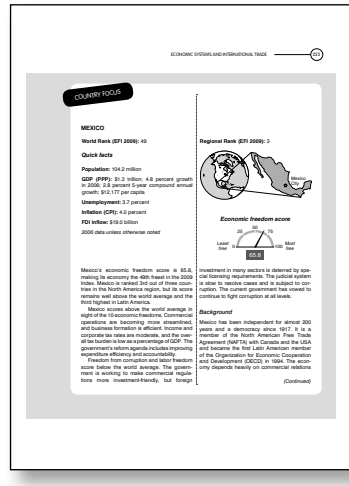
1 *Restore confidence, growth, and jobs:* Leaders reaffirmed their commitment to work together to restore growth and jobs, while preserving long-term fiscal sustainability. They agreed actions to accelerate the return to trend growth and committed to taking whatever action is necessary to secure that outcome, and called on the International Monetary Fund (IMF) to assess regularly the actions taken and the global actions required. They committed to make available an additional $1.1 trillion program of support to help the world economy through the crisis and to restore credit, growth, and jobs. Most of this will be provided through the international financial institutions.

2 *Strengthen financial supervision and regulation:* Leaders agreed to strengthen the financial system by putting in place a better and more credible system of surveillance and regulation to take account of macro economic risks and prevent excess leveraging, including, for the first time, regulation and oversight of large hedge funds and credit rating agencies. They also agreed on actions to tackle noncooperative jurisdictions and to adopt common principles for executive remuneration.

3 *Fund and reform the international financial institutions to overcome this crisis and prevent future ones:* Leaders agreed to make an additional $850 billion in resources available through international financial institutions, such as the IMF, the World Bank, and other multilateral development banks, including a $500 billion expansion of the IMF's resources, a Special Drawing Right (SDR) allocation of $250 billion, and at least $100 billion in additional lending from Multilateral Development Banks. The leaders also agreed to ensure to

(Continued)

Boxes: Boxes provide further examples of the key themes in international business in action.



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COUNTRY FOCUS

MEXICO

World Rank (EFI 2008): 49

Quick facts

Population: 104.2 million

GDP (PPP): $1.3 trillion; 4.8 percent growth in 2006; 2.8 percent 5-year compound annual growth; $12,177 per capita

Unemployment: 3.7 percent

Inflation (CPI): 4.0 percent

FDI inflow: $19.0 billion

2006 data unless otherwise noted

Regional Rank (EFI 2008): 3

Economic freedom score

Mexico's economic freedom score is 65.8, making its economy the 49th freest in the 2009 Index. Mexico is ranked 3rd out of three countries in the North America region, but its score remains well above the world average and the third highest in Latin America.

Mexico scores above the world average in eight of the 10 economic freedoms. Commercial operations are becoming more streamlined, and business formation is efficient. Income and corporate tax rates are moderate, and the overall tax burden is low as a percentage of GDP. The government's budget deficit is small, contributing to expenditure efficiency and accountability.

Freedom from corruption and labor freedom score below the world average. The government is working to make commercial regulations more investment-friendly, but foreign investment in many sectors is deterred by special licensing requirements. The judicial system is slow to resolve cases and is subject to corruption. The current government has vowed to continue to fight corruption at all levels.

Background

Mexico has been independent for almost 200 years and a democracy since 1917. It is a member of the North American Free Trade Agreement (NAFTA) with Canada and the USA and became the first Latin American member of the Organization for Economic Cooperation and Development (OECD) in 1994. Mexico's economy depends heavily on commercial relations

(Continued)

Country focus: The economies of different countries are looked at in depth, including trade freedom, government size, and property rights.

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with the USA and remittances from migrant workers in the USA. Under the center-right National Action Party (PAN), President Vicente Fox (2000–2006), a divided Congress adopted some reforms after 71 years of rule by the center-left Institutional Revolutionary Party. The PAN's Felipe Calderon narrowly defeated populist Manuel Lopez Obrador in 2006 and has promised further liberalization, particularly in the energy sector, and in regulatory reforms. He also faces serious challenges fighting organized crime networks that traffic in illegal drugs.

Business freedom – 80.3

The overall freedom to conduct a business is protected under Mexico's regulatory environment. Starting a business takes an average of 28 days, compared to the world average of 38 days. Obtaining a business license requires less than the world average of 18 procedures and 225 days. Bankruptcy proceedings are relatively easy.

Trade freedom – 80.2

Mexico's weighted average tariff rate was 2.4 percent in 2006. Import restrictions, such as excessive tariff quota administration, import taxes and fees, services market access barriers, import licensing and registration, restrictive standards and labeling rules, burdensome sanitary and phytosanitary regulations, nontrans, parent and inconsistent customs administration and valuation, various export promotion programs, customs corruption, and weak enforcement of intellectual property rights add to the cost of trade. Fifteen points were deducted from Mexico's trade freedom score to account for nontariff barriers.

Fiscal freedom – 82.4

Mexico has moderate tax rates. Both the top income tax rate and the top corporate tax rate were cut to 28 percent in January 2007. A 16.5 percent flat-rate business tax (known as the IETU) replaced the asset tax as of January 2008 and now operates as an alternative to the corporate income tax for some companies. Other taxes include a value-added tax (VAT) and a property tax. In the most recent year, overall tax revenue as a percentage of GDP was 9.7 percent.

Government size – 81.8

Total government expenditures, including consumption and transfer payments, are low. In the most recent year, government spending equaled 24.6 percent of GDP. Privatization has progressed, but the energy and electricity industries remain government-controlled.

Monetary freedom – 77.5

Inflation is moderate, averaging 3.9 percent between 2003 and 2007. Although most prices are determined in the market, the government maintains suggested retail prices for medicines and influences prices through state-owned enterprises and utilities, including electricity and energy. Ten points were deducted from Mexico's monetary freedom score to account for policies that distort domestic prices.

Investment freedom – 50

Foreign and domestic capitals are not always treated equally. Foreign investors are barred from important sectors, such as petroleum and electricity, and restricted in others like telecommunications. About 95 percent of foreign investment does not require official approval. Bureaucracy is a major impediment to investment. Implementation of the investment code is nontransparent. Residents and nonresidents may hold foreign exchange accounts. Most payments, transactions, and transfers are allowed. Some capital transactions are subject to government permission and controls. Foreign investment in real estate is somewhat restricted.

POLITICAL AND LEGAL ENVIRONMENTS OF INTERNATIONAL BUSINESS 99

SUMMARY

The political and legal environments have a profound effect on the operations and competitive positioning of MNEs. Laws within the home country in which the MNE is based, as well as within the targeted country. Thus, the international executive should be familiar not only with physical, economic, social, and cultural infrastructures but also with a targeted country's current and pending political priorities and legal infrastructure.

The multinational enterprise (MNE) is a main player in international business, and, thus, in the national and regional environments. The Organization for Economic Cooperation and Development (OECD) definition of an MNE is an enterprise that is engaged in foreign direct investment (FDI) and owns or controls value-adding activities in more than one country. The MNE has multiple facilities around the world, draws substantial revenue from overseas operations, operates subsidiaries that share a common strategic vision, and share a common pool of resources, as well as places foreign nationals in senior executive and board of directors' positions. Some MNEs have annual revenues that exceed the annual domestic value of economic activities of some countries.

MNEs represent a major economic and political power, generate employment, assume loans, raise share capital, and generate tax revenues for municipalities, regions, and countries. Strategic decisions made by MNEs, such as mergers, acquisitions, changing regional headquarters location, and expanding or eliminating facilities, affect national and regional economies significantly. However, MNEs are only one of several types of international enterprises that may be identified, including international enterprise, internationally oriented enterprise, multinationalic enterprise, global enterprise, transnational enterprise, developing and emerging economies, international enterprise, and small and midsize international enterprise.

The political system consists of structure, organizations, and processes used by nations and other localities to govern themselves. Political systems differ from one country and region to another. There are differences between wide participatory political systems, where most people are allowed to express an opinion and influence the political process, and narrow participatory political systems, where only a selected group is allowed to express an opinion and influence the political process. Internationally, there are three main political ideologies: anarchism, totalitarianism, and pluralism. A democracy is a political system where the leaders are elected directly by wide participation of the population and where most decisions are made by representatives of the general public. In a totalitarian political system, the government does not seek or expect the support of the people and maintains total control over most aspects of their lives.

Political risk is defined as the likelihood that political change in a country might occur and result in negative events, such as expropriation of assets, changes in tax policy, restrictions on the exchange of foreign currency, or other changes in the business environment. Political risks are likely to affect MNEs in a variety of ways, including reducing market sizes, affecting production capacities, restricting expatriation of profits, and introducing labor unrest. Two types of political risks are identified: first, a macro political risk, which affects companies of all kinds operating in a particular region or country; second, a micro political risk, which affects companies in a particular industry.

A legal system incorporates all laws, statutes, rules, institutions, and processes that govern the behavior of individuals and corporations, including MNEs. The legal system of any country is influenced by its cultural

(Continued)

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customs and beliefs, reflecting the current national spirit, and its economic priorities. A totalitarian regime may have a very limiting amount of liberties allowed legally for the enterprising business, facilitating state ownership as a rule. Democratic regimes tend to protect individual property rights and encourage intensive entrepreneurship and private ownership of businesses. There are two main legal environments which affect businesses that are operating internationally – a national legal environment and an international legal environment.

Common law, civic law, theocratic law, and socialist law are the four legal systems recognized worldwide. The *common law* system is based on a dynamic and continuing interpretation of the law based on earlier judgments, cases, or precedents. As new precedents are registered, laws are changed to accommodate situations not covered by past precedents. The *civil law* system is based on structured and detailed rules that are termed a legal code. Civil law primarily develops out of broad legal principles, interpretation of applicable doctrines, and local compilations of legal principles recognized as normative, rather than the application of facts and cases. *Theocratic law* is a legal system that is based on religious teachings and tradition. It is the system used by theocracy-type governments where leaders are by and large dominant religious figures. *Socialist law* is based on the civil law system with additions from Marxist-Leninist ideology. It is the form used to describe the legal system, used in communist countries. Civil law systems maintain the notion of private property, whereas socialist law systems deem property to be owned by the state or by agricultural cooperatives, and establish courts and laws for state-owned enterprises.

The international legal environment is harmonized and standardized in regions and countries around the world through various international initiatives by the United Nations (UN), the OECD, the World Trade Organization (WTO), and the Hague Conference on Private International Law (UNIDROIT). Other international legal issues include employment, the environment, intellectual property rights, quality, liability, and corporate social responsibility.

DISCUSSION QUESTIONS

1 What is the place of the multinational enterprise (MNE) in international business?
2 Explain the term "a political system." What are its components?
3 What are the differences between the three political systems: anarchy, democracy, and totalitarian?
4 What are the various ways to manage political risk?
5 Explain the various types of legal systems – common law system, civil law system, theological law system, and the socialist law system.
6 What is the objective of the harmonization of legal systems?

ACTION ITEMS

1 Identify two news articles in leading business magazines, say *Business Week* and *Financial Times*, and discuss the impact of a recent political change on the operation of a large international corporation. (Hint: you may refer to the opening case of this chapter for an example.)
2 Engage a corporate executive in a conversation regarding the knowledge of other nations' political, legal, and social systems. What is the executive's edge in conducting business in a host country?
3 Identify a particular host country for an international corporation's operational base. Describe the political environment and the legal environment in the host country and make a decision as to the attractiveness of this host country for a regional or national base of operation.

Chapter summary: The main concepts and issues in each chapter. Followed by **Discussion questions:** Questions are provided to encourage you to explore what you have learnt, *and* **Action items:** Further activities for students promote more discussion and independent learning.

GLOSSARY

Absolute advantage is the ability of a country or MNE to produce a particular good at a lower absolute cost than any other country or MNE.

Accounting is a process of communicating financial information by collecting, presenting, and analyzing financial data. It is used by management, investors, creditors, and other stakeholders to make appropriate business, operational, and investment decisions.

Accounting standards include the forms, conventions, and rules accountants follow in recording and summarizing transactions and in preparing financial statements, such as balance sheet and profit and loss statement.

Active or aggressive reciprocity occurs when a country applies retaliatory measures until the other country fulfills its obligations.

Antitrust regulations are designed to assure free market environment that provide a variety of products at a fair price by devising institutions and processes that prevent corporations from coordinating market sharing, fixing prices, and creating a monopoly over certain products or services.

Arbitrage is the purchase and sale of a currency, or other interest-paying security, in different international markets. It occurs whenever differences in price exist between markets for the exact same product, clever buyers leverage the differences to buy in one market in order to sell at higher margins in other markets.

Arm's length pricing is the manipulation of transfer prices for the benefit of maximizing the corporate profits of MNEs, which can also result in loss of tax revenue to a host country's economy.

ASEAN is a geo-political and economic organization whose aim it is to accelerate economic growth, social progress cultural development, and protect peace and stability in the region and amongst its member nations. It was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand. It has since expanded to include Brunei, Burma (Myanmar), Cambodia, Laos, and Vietnam.

Ask quote is the price the bank is willing to sell the foreign currency.

Glossary: A quick reference of concise definitions and key terms.

COMPANION WEBSITE

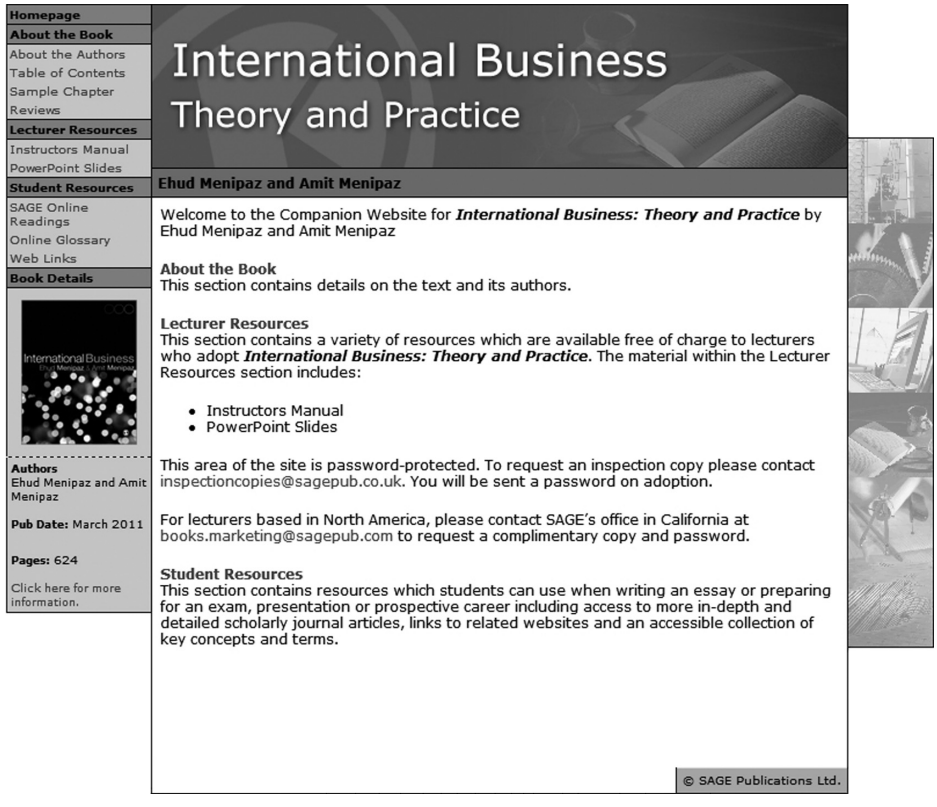
Be sure to visit the companion website at http://www.sagepub.co.uk/**menipaz** to find a range of teaching and learning materials for both lecturers and students, including the following:

For lecturers:

- **Instructor's manual**: Contains materials to support lecturer's seminar and class teaching, including teaching notes, sample answers to exercises within the textbook, and seminar topics for discussion.
- **PowerPoint slides**: PowerPoint slides highlighting the main issues in each chapter.

For students:

- **Full-text journal articles**: Full access to selected SAGE journal articles provides students with a deeper understanding of the topics in each chapter.
- **Glossary**: A glossary of key terms and definitions is available online.
- **Links to relevant websites**: Direct links to relevant websites for each chapter are provided.
- **Study Skills:** This bank of downloadable chapters from existing SAGE books is packed with ideas to aid effective study.



PART 1

Introduction to International Business Environment

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1

Global Business in the 21st Century

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Learning Objectives

Following this chapter, the reader should be able to:

1 Describe the globalization phenomenon and processes
2 Appreciate its significance to business executives
3 Identify the multinational enterprise and its role
4 Be able to assess and apply frameworks of globalization

Opening Case
The Telecommunication Industry: Success in Global Business

Most if not all the telecommunication companies have gone global. For some of these companies, global operations is a key for success. At the same time, organizing properly to uncover the global business potential is a must. Take for example Nokia Corporation (www.nokia.com). Nokia is a global telecommunications company that during the last 15 years went from a near-bankrupt conglomerate to a global leader in cell phones (mobile telephones), delivering almost 30 percent annual compound growth in revenues during the turn of the century while changing most of its product lines. By the beginning of the 21st century, Nokia had the highest margins in the cell phone industry, a negative debt–equity ratio, the most recognized nonUS brand in the world, Europe's highest market share, a presence in 140 countries, and unique corporate structures, processes and culture that gave it the feel of "a small company soul in a big corporate body." Along with growth in size and diversity, however, came growth in complexity: Nokia had to develop multiple businesses and technologies (all the while facing great technological uncertainties like the convergence of mobile telephony and the Internet and the growing mobile commerce applications), and had to manage a growing network of alliances and a number of acquisitions, mostly in the USA. Clearly, Nokia faced key managerial issues as it considered how to address the current challenges while maintaining unique corporate values and workplace practices that made it possible to execute in a most cost and operationally efficient manner while continuing to innovate.

The old landscape

Nokia is indeed part of the globalized telecommunication industry. This was not the case earlier on. During the last part of the 20th century, telecommunications national markets around the world were highly centralized. In most nations, there was a dominant telecommunications provider – AT&T in the United States, British Telecom in Britain, Deutsche Telekom in Germany, NTT in Japan, and Telebras in Brazil. The provider was often state-owned, and even when it wasn't, its operations were tightly regulated by the state. Cross-border competition between telecommunications providers was nonexistent. Typically, regulations prohibited foreign firms from entering a country's telecommunications market and competing head-to-head with the domestic carrier. Most of the traffic carried by telecommunications firms was voice traffic, almost all of it was carried over copper wires, and most telecommunications firms charged their customers a premium to make long-distance and international calls.

The transformation

By the turn of the century, most telecommunications markets around the world had already been deregulated. This allowed new competitors to emerge and compete with the dominant provider. State-owned monopolies were privatized, including British Telecom and Deutsche Telekom.

Several dominant telecommunications firms, state-owned or otherwise, were broken up into smaller companies. For example, Bell had gone through a breaking up into so-called "Baby Bells," smaller telecommunication providers. In addition, in 1998, Brazil's state-owned telecommunications monopoly, Telebras, was privatized and broken up into 12 smaller companies that were allowed to compete with each other.

The new landscape

New wireless technologies have facilitated the emergence of new competitors, such as Orange and Vodafone in Britain, which now compete head-to-head with British Telecom, the former state monopoly. The Internet caused a major increase in the volume of data traffic (e.g., Web surfing), which is now growing much more rapidly than that of voice traffic. Much of this data traffic is being transmitted over new digital networks that utilize fiber optics, Internet protocols, and digital switches to send data around the world at the speed of light. Telecommunications firms are investing billions in digital networks to handle this traffic. Furthermore, in 1997, the World Trade Organization initiated an agreement among almost 70 countries to open their telecommunications markets to foreign competition and to abide by common rules for fair competition in telecommunications.

The globalized landscape

Most of the world's biggest markets, including the United States, the European Union (EU), and Japan, are by now fully liberalized and open to foreign competition. A global market for telecommunications services is the current reality. Telecommunications companies are starting to penetrate each other's markets. Prices are falling, both in the international market, where prices have long been kept artificially high by a lack of competition, and in the wireless market, which is rapidly becoming price competitive with traditional wire-line telecommunications services.

As competition intensifies, national telecommunications companies are entering into marketing alliances and joint ventures with each other to offer multinational companies a single global telecommunications provider for all their international voice and data needs. For example, AT&T, and British Telecom merged their international operations into a jointly owned company that will have $10 billion in revenues. The venture focused on serving the global telecommunications needs of multinational corporations, enabling workers in Manhattan to communicate as easily with computer systems in New Delhi, say, as with colleagues in New Jersey. AT&T, and British Telecom estimate the market for providing international communications services to large and medium-sized business customers will expand to $180 billion in 2007. Other companies that are working together on a global basis include MCI-WorldCom, the number two long-distance carrier in the USA, and Telefonica of Spain, which is also Latin America's biggest telecommunications carrier. The Sprint Corporation, the number three long-distance carrier in the USA, is partly owned by Deutsche Telekom and France Telecom. This trio is positioning itself to compete with the WorldCom/Telefonica and AT&T/BT ventures to gain the business of multinational customers in the brave new world of global telecommunications.

International and Global Business: An Introduction

As the opening case on telecommunication indicates, the effects of internationalization and globalization are all around. These effects pervade our lives as individuals and professionals and materialize in numerous instances. To wit, let us recall a typical morning in many countries these days. We wake up in an IKEA-made bed (www.ikea.com), are clothed with a suit made in Hong Kong (www.samstailor.com), and use briefed upon waking up by the Cable News Network

(www.CNN.com) to news editions generated in Atlanta, Hong Kong or London. We visit our e-mail messages or sign on to a Skype voice and data service (www.skype.com), designed and launched in Europe and acquired by North American-based eBay (www.ebay.com), using a computer, assembled in Mexico (in order to reduce tariffs on importing to the USA), with Puerto Rico's Intel-manufactured chips (www.intel.com) and a Centrino chip designed in Israel and equipped with Microsoft software compiled in Israel (www.microsoft.com). Once at the breakfast table, we enjoy citrus juice imported from Spain or Mexico by Chiquita international fruit producer and marketer (www.chiquita.com) and coffee made by the regional Nestlé manufacturing facility (www.nestle.com), a Swiss-based company that spans the globe and touches almost all countries in the world. Table 1.1 lists countries, territories, and continents of the world and indicates the population. One should take account of the differences in population sizes and be cognizant of the fact that population growth rates may vary among countries and continents, contributing to the dynamics of international business. In Table 1.2 the size of economic activity and economic productivity, measured in gross domestic product (GDP) and GDP per capita, are recorded. Again, the variability and change in the GDP should be noted, as it may affect the attractiveness of certain markets. Note also the many countries in which the GDP per capita is below the world's average. Figure 1.1 demonstrates the growth of world exports, which exceeds the growth of GDP. This fact, plus the growth of international trade noted in Figure 1.2, demonstrate the magnitude and increasing importance of international business.

TABLE 1.1 Population of Countries, Territories, Continents, and Subcontinents as of 2010 and 2015 (projected in thousands)

Country/territory	*2010*	*2015*
Afghanistan	29,121	32,579
Albania	3,660	3,765
Algeria	34,586	36,640
American Samoa (US)	66	71
Andorra	85	86
Angola	13,068	14,443
Anguilla (UK)	15	16
Antigua and Barbuda	87	92
Argentina	41,343	43,432
Armenia	2,967	2,984
Aruba (The Netherlands)	105	112
Australia	21,516	22,751
Austria	8,214	8,224
Azerbaijan	8,304	8,681
Bahamas	310	325
Bahrain	738	783
Bangladesh	158,066	168,821
Barbados	286	291

(*Continued*)

TABLE 1.1 Cont.

Country/territory	*2010*	*2015*
Belarus	9,613	9,439
Belgium	10,423	10,454
Belize	315	347
Benin	9,056	10,449
Bermuda	68	70
Bhutan	700	742
Bolivia	9,947	10,801
Bosnia and Herzegovina	4,622	4,618
Botswana	2,029	2,183
Brazil	201,103	212,346
Brunei	395	430
Bulgaria	7,149	6,867
Burkina Faso	16,242	18,932
Myanmar	53,414	56,320
Burundi	9,863	11,574
Cambodia	14,753	16,148
Cameroon	19,294	21,387
Canada	33,760	35,100
Cape Verde	509	546
Cayman Islands (UK)	50	56
Central African Republic	4,845	5,392
Chad	10,543	11,631
Chile	16,746	17,435
China	1,330,141	1,361,513
Colombia	44,205	46,737
Comoros	773	883
Congo (Brazzaville)	4,126	4,755
Congo (Kinshasa)	70,916	82,657
Cook Islands (NZ)	11	10
Costa Rica	4,516	4,814
Côte d'Ivoire	21,059	23,295
Croatia	4,487	4,465
Cuba	11,477	11,582
Cyprus	1,103	1,189
Czech Republic	10,202	10,130
Denmark	5,516	5,582
Djibouti	741	828
Dominica	73	74
Dominican Republic	9,794	10,521
Ecuador	14,791	15,868
Egypt	80,472	88,487
El Salvador	6,052	6,141
Equatorial Guinea	651	741
Eritrea	5,793	6,528
Estonia	1,291	1,249

TABLE 1.1

Country/territory	*2010*	*2015*
Ethiopia	88,013	103,134
Faroe Islands (Denmark)	49	50
Fiji	958	1,024
Finland	5,255	5,271
France	64,768	66,301
French Polynesia	291	310
Gabon	1,545	1,705
Gambia	1,824	2,063
Georgia	4,601	4,525
Germany	82,283	81,946
Ghana	24,340	26,585
Gibraltar (UK)	29	29
Greece	10,750	10,776
Greenland (Denmark)	58	58
Grenada	108	111
Guam (US)	181	193
Guatemala	13,550	14,919
Guernsey (UK)	66	66
Guinea	10,324	11,780
Guinea-Bissau	1,565	1,726
Guyana	748	739
Haiti	9,203	10,083
Honduras	7,989	8,747
Hong Kong (China)	7,090	7,235
Hungary	9,880	9,747
Iceland	309	319
India	1,173,108	1,251,696
Indonesia	242,968	255,759
Iran	67,038	70,532
Iraq	29,672	33,310
Ireland	4,250	4,476
Isle of Man (UK)	77	79
Israel	7,354	7,935
Italy	58,091	57,689
Jamaica	2,847	2,950
Japan	126,804	124,719
Jersey (UK)	92	93
Jordan	6,407	6,623
Kazakhstan	15,460	15,761
Kenya	40,047	44,753
Kiribati	99	106
North Korea	22,757	23,149
South Korea	48,636	49,115
Kosovo	1,815	1,871

(*Continued*)

TABLE 1.1 Cont.

Country/territory	*2010*	*2015*
Kuwait	2,789	3,279
Kyrgyzstan	5,509	5,913
Laos	6,994	7,811
Latvia	2,218	2,152
Lebanon	4,125	4,151
Lesotho	1,920	1,948
Liberia	3,685	4,196
Libya	6,461	7,132
Liechtenstein	35	36
Lithuania	3,545	3,495
Luxembourg	498	527
Macau (China)	568	593
Macedonia	2,072	2,096
Madagascar	21,282	24,651
Malawi	15,448	17,715
Malaysia	26,160	28,433
Maldives	396	393
Mali	13,796	15,718
Malta	407	414
Marshall Islands	66	72
Mauritania	3,205	3,597
Mauritius	1,294	1,340
Mayotte (France)	231	270
Mexico	112,469	118,689
Federated States of Micronesia	107	105
Moldova	4,317	4,300
Monaco	31	31
Mongolia	3,087	3,318
Montenegro	667	647
Montserrat (UK)	5	5
Morocco	31,627	33,323
Mozambique	22,061	24,166
Namibia	2,128	2,212
Nauru	14	16
Nepal	28,952	31,551
Netherlands	16,783	17,079
Netherlands Antilles	229	236
New Caledonia (France)	230	242
New Zealand	4,252	4,438
Nicaragua	5,996	6,517
Niger	15,878	19,034
Nigeria	152,217	167,271
Northern Mariana Islands (US)	48	44
Norway	4,676	4,754
Oman	2,968	3,287

TABLE 1.1

Country/territory	*2010*	*2015*
Pakistan	177,277	190,752
Palau	21	21
Panama	3,411	3,657
Papua New Guinea	6,065	6,672
Paraguay	6,376	6,783
Peru	29,907	31,631
Philippines	99,900	109,616
Poland	38,464	38,302
Portugal	10,736	10,825
Puerto Rico (US)	3,978	4,025
Qatar	841	874
Romania	22,181	21,961
Russia	139,390	136,010
Rwanda	11,056	12,662
Saint Barthélemy (France)	7	7
Saint Helena (UK)	8	8
Saint Kitts and Nevis	50	52
Saint Lucia	161	164
Saint Martin (France)	30	32
Saint Pierre and Miquelon (France)	6	6
Saint Vincent and the Grenadines	104	103
Samoa	192	198
San Marino	31	33
São Tomé and Príncipe	176	194
Saudi Arabia	29,207	31,551
Senegal	14,086	16,044
Serbia	7,345	7,177
Seychelles	88	92
Sierra Leone	5,246	5,879
Singapore	4,701	4,881
Slovakia	5,470	5,496
Slovenia	2,003	1,983
Solomon Islands	610	680
Somalia	10,112	11,607
South Africa	49,109	48,286
Spain	40,549	40,482
Sri Lanka	21,514	22,383
Sudan	41,980	46,813
Suriname	487	513
Swaziland	1,354	1,436
Sweden	9,074	9,153
Switzerland	7,623	7,698
Syria	22,198	22,879
Taiwan	23,025	23,212
Tajikistan	7,487	8,192

(*Continued*)

TABLE 1.1 Cont.

Country/territory	*2010*	*2015*
Tanzania	41,893	46,123
Thailand	66,405	68,210
Timor-Leste	1,155	1,272
Togo	6,200	7,091
Tonga	123	131
Trinidad and Tobago	1,229	1,222
Tunisia	10,589	11,096
Turkey	77,804	82,523
Turkmenistan	4,941	5,231
Turks and Caicos Islands (UK)	24	26
Tuvalu	10	11
Uganda	33,399	39,941
Ukraine	45,416	44,009
United Arab Emirates	4,976	5,780
United Kingdom	61,285	62,175
United States	310,233	325,540
Uruguay	3,510	3,585
Uzbekistan	27,866	29,200
Vanuatu	222	236
Venezuela	27,223	29,275
Vietnam	89,571	94,349
British Virgin Islands	25	27
United States Virgin Islands	110	109
Wallis and Futuna	15	16
Western Sahara	492	571
Yemen	23,495	26,667
Zambia	12,057	13,017
Zimbabwe	11,652	14,230
World	**6,830,586**	**7,200,009**
Continents and Subcontinents		
Africa	1,013,053	1,130,866
The Americas	935,116	985,971
North America	456,526	479,393
South America	397,720	420,479
Central America	122.699	131,221
Greater Antilles	37,299	39,161
Lesser Antilles	1,742	1,796
Asia	4,119,627	4,321,504
Europe	727,792	724,427
Western Europe	401,985	404,648
Eastern Europe	325,807	319,779
Oceania	34,998	37,241
Soviet Union (Former)	282,925	281,141

Source: Adapted from *Current CIA World Fact Book.*

TABLE 1.2a Countries' Gross Domestic Product (GDP)

Rank	*Country*	*GDP (millions of US$)*
	World	**58,070,000**
	European Union	16,180,000
1	United States	14,430,000
2	Japan	5,108,000
3	People's Republic of China	4,814,000
4	Germany	3,273,000
5	France	2,666,000
6	United Kingdom	2,198,000
7	Italy	2,090,000
8	Brazil	1,499,000
9	Spain	1,466,000
10	Canada	1,335,000
11	Russia	1,232,000
12	India	1,095,000
13	Mexico	1,017,000
14	Australia	930,000
15	South Korea	809,700
16	Netherlands	799,000
17	Turkey	608,400
18	Indonesia	514,900
19	Switzerland	484,100
20	Belgium	461,500
21	Poland	423,000
22	Sweden	397,700
23	Saudi Arabia	384,000
24	Austria	374,400
25	Norway	369,000
26	Republic of China (Taiwan)	361,500
27	Venezuela	353,500
28	Greece	338,300
29	Iran	331,800
30	Denmark	308,300
31	Argentina	301,300
32	South Africa	277,400
33	Thailand	266,400
34	Finland	242,300
35	Colombia	228,600
36	United Arab Emirates	228,600
37	Ireland	226,800
38	Portugal	219,800
39	Israel	215,700
—	Hong Kong	208,800
40	Malaysia	207,400
41	Czech Republic	189,700

(*Continued*)

TABLE 1.2a Cont.

Rank	*Country*	*GDP (millions of USD$)*
42	Egypt	188,000
43	Pakistan	166,500
44	Nigeria	165,400
45	Singapore	163,100
46	Romania	160,700
47	Philippines	158,700
48	Chile	150,400
49	Algeria	134,800
50	Peru	127,400
51	Hungary	124,200
52	Ukraine	115,700
53	Kuwait	114,900
54	New Zealand	109,600
55	Kazakhstan	107,000
56	Qatar	92,540
57	Bangladesh	92,120
58	Vietnam	91,760
59	Morocco	90,780
60	Slovakia	88,300
61	Iraq	70,100
62	Angola	69,710
63	Croatia	61,720
64	Libya	60,610
65	Ecuador	55,610
66	Cuba	55,430
67	Syria	54,350
68	Sudan	54,290
69	Oman	52,340
70	Slovenia	49,550
71	Belarus	49,040
72	Luxembourg	46,510
73	Bulgaria	44,780
74	Dominican Republic	44,720
75	Azerbaijan	42,510
76	Serbia	42,390[5]
77	Sri Lanka	41,320
78	Tunisia	39,570
79	Guatemala	36,470
80	Lithuania	35,960
81	Ethiopia	33,920
82	Lebanon	32,660
83	Uruguay	31,610
84	Turkmenistan	30,730
85	Uzbekistan	30,320
86	Kenya	30,210

TABLE 1.2a

Rank	*Country*	*GDP (millions of USD$)*
87	Costa Rica	29,290
88	North Korea	28,200
89	Burma	26,520
90	Yemen	26,240
91	Panama	24,750
92	Latvia	24,200
93	Cyprus	23,220
94	Trinidad and Tobago	23,000
95	Côte d'Ivoire	22,910
96	Jordan	22,560
97	El Salvador	22,170
98	Tanzania	22,160
99	Cameroon	21,820
—	Macau	21,700
100	Bahrain	19,360
101	Estonia	18,050
102	Bolivia	17,550
103	Bosnia and Herzegovina	16,960
104	Uganda	15,660
105	Ghana	14,760
106	Brunei	14,700
107	Honduras	14,580
108	Paraguay	13,610
109	Afghanistan	13,320
110	Senegal	12,610
111	Nepal	12,470
112	Zambia	12,290
113	Jamaica	11,920
114	Iceland	11,780
115	Albania	11,730
116	Equatorial Guinea	11,180
117	Democratic Republic of the Congo	11,100
118	Georgia	10,980
119	Gabon	10,940
120	Cambodia	10,900
121	Botswana	10,810
122	Mozambique	9,654
123	Mauritius	9,156
124	Namibia	9,039
125	Madagascar	8,974
126	Macedonia	8,825
127	Mali	8,757
128	Armenia	8,683
129	Republic of the Congo	8,632
130	Papua New Guinea	8,200

(*Continued*)

TABLE 1.2a Cont.

Rank	*Country*	*GDP (millions of USD$)*
131	Burkina Faso	7,780
132	Malta	7,714
133	The Bahamas	7,403
134	Chad	6,974
135	Haiti	6,908
—	West Bank and Gaza	6,641
136	Benin	6,401
137	Nicaragua	6,298
—	French Polynesia	6,100
138	Laos	5,721
139	Moldova	5,328[8]
140	Niger	5,323
—	Jersey	5,100
141	Rwanda	5,011
142	Liechtenstein	4,993
143	Malawi	4,909
144	Kyrgyzstan	4,681
145	Tajikistan	4,577
146	Montenegro	4,444
147	Guinea	4,436
148	Mongolia	4,212
149	Barbados	3,595
150	Zimbabwe	3,556[6]
—	New Caledonia	3,300
151	Mauritania	3,241
—	Kosovo	3,237
152	Suriname	3,147
153	Fiji	3,048
154	Swaziland	2,929
—	Guam	2,773
155	Togo	2,771
—	Guernsey	2,742
156	Somalia	2,731
—	Isle of Man	2,719
—	Faroe Islands	2,400
—	Aruba	2,258
—	Cayman Islands	2,250
157	Sierra Leone	2,064
—	Greenland	2,000
158	Central African Republic	1,983
159	Cape Verde	1,755
160	Eritrea	1,694
161	Lesotho	1,624
162	Bhutan	1,493
163	Burundi	1,410
164	Belize	1,407

TABLE 1.2a

Rank	*Country*	*GDP (millions of USD$)*
165	Maldives	1,300
166	Guyana	1,196
167	Antigua and Barbuda	1,180
—	British Virgin Islands	1,095
168	Djibouti	1,089
—	Gibraltar	1,066
169	San Marino	1,048
170	Saint Lucia	991
171	Liberia	868
172	The Gambia	726
173	Grenada	683
174	Solomon Islands	668
175	Seychelles	656
—	Northern Mariana Islands	633.4
176	Saint Vincent and the Grenadines	625
177	East Timor	599
178	Samoa	567
179	Vanuatu	554
180	Saint Kitts and Nevis	547
181	Comoros	525
—	American Samoa	462.2
182	Guinea-Bissau	438
183	Dominica	376
184	Tonga	259
185	Federated States of Micronesia	238.1
—	Turks and Caicos Islands	216
186	São Tomé and Príncipe	189
—	Cook Islands	183.2
187	Palau	164
188	Marshall Islands	161.7
189	Kiribati	114
—	Anguilla	108.9
—	Falkland Islands	105.1
—	Montserrat	29
190	Tuvalu	14.94
—	Niue	10.01
—	Tokelau	1.5

Source: Adapted from *Current CIA World Fact Book*.

TABLE 1.2b Countries' Gross Domestic Product (GDP) Per Capita

Rank	*Country*	*US$*	*Year estimated*
1	Liechtenstein	122,100	2007
2	Qatar	121,700	2009
3	Luxembourg	78,000	2009
—	Bermuda	69,900	2004
4	Norway	58,600	2009
—	Jersey	57,000	2005
5	Kuwait	54,100	2009.
6	Singapore	50,300	2009
7	Brunei	50,100	2009
—	Faroe Islands	48,200	2008
8	United States	46,400	2009
9	Andorra	44,900	2008
—	Guernsey	44,600	2005
—	Cayman Islands	43,800	2004
—	Hong Kong	42,700	2009
10	Ireland	42,200	2009
11	United Arab Emirates	42,000	2009
12	San Marino	41,900	2007
13	Switzerland	41,700	2009
14	Iceland	39,600	2009
15	Austria	39,400	2009
16	Netherlands	39,200	2009
17	Australia	38,800	2009
—	Gibraltar	38,500	2006
—	Virgin Islands, British	38,500	2004
18	Bahrain	38,400	2009
19	Canada	38,400	2009
20	Sweden	36,800	2009
21	Equatorial Guinea	36,600	2009
22	Belgium	36,600	2009
23	Denmark	36,000	2009
—	Greenland	35,400	2007
—	Falkland Islands	35,400	2002
24	United Kingdom	35,200	2009
—	Isle of Man	35,000	2005
25	Finland	34,900	2009
26	Germany	34,100	2009
27	Spain	33,700	2009
—	Macau	33,000	2009
28	France	32,800	2009
29	Japan	32,600	2009
—	European Union	32,600	2009
30	Greece	32,100	2009

TABLE 1.2b

Rank	*Country*	*US$*	*Year estimated*
31	Italy	30,300	2009
32	Monaco	30,000	2006
33	Bahamas, The	29,800	2009
34	Taiwan (Republic of China)	29,800	2009
35	Israel	28,400	2009
36	South Korea,	28,000	2009
37	Slovenia	27,900	2009
38	New Zealand	27,300	2009
39	Czech Republic	25,100	2009
40	Oman	23,900	2009
41	Malta	23,800	2009
42	Trinidad and Tobago	23,100	2009
43	Portugal	21,800	2009
—	Aruba	21,800	2004
44	Slovakia	21,200	2009
45	Cyprus	21,200	2009
46	Saudi Arabia	20,400	2009
47	Seychelles	19,400	2009
48	Estonia	18,700	2009
49	Hungary	18,600	2009
50	Barbados	18,500	2009
51	Antigua and Barbuda	18,100	2009
52	Saint Vincent and the Grenadines	18,100	2009
—	French Polynesia	18,000	2004
53	Poland	17,900	2009
54	Croatia	17,600	2009
—	Puerto Rico	17,200	2009
—	Netherlands Antilles	16,000	2004
55	Lithuania	15,400	2009
56	Libya	15,200	2009
57	Saint Kitts and Nevis	15,200	2009
58	Russia	15,100	2009
—	Guam	15,000	2005
—	New Caledonia	15,000	2003
59	Malaysia	14,800	2009
60	Chile	14,700	2009
61	Latvia	14,500	2009
—	Virgin Islands (US)	14,500	2004
62	Gabon	13,900	2009
63	Argentina	13,800	2009
64	Mexico	13,500	2009
65	Lebanon	13,100	2009
66	Botswana	13,100	2009

(*Continued*)

TABLE 1.2b Cont.

Rank	*Country*	*US$*	*Year estimated*
67	Venezuela	13,100	2009
68	Iran	12,900	2009
69	Uruguay	12,700	2009
70	Bulgaria	12,600	2009
—	Northern Mariana Islands	12,500	2000
71	Mauritius	12,400	2009
—	Anguilla	12,200	2008
72	Panama	11,900	2009
73	Kazakhstan	11,800	2009
74	Belarus	11,600	2009
75	Romania	11,500	2009
—	Turks and Caicos Islands	11,500	2002
76	Turkey	11,200	2009
77	Saint Lucia	10,900	2009
78	Costa Rica	10,900	2009
79	Grenada	10,800	2009
—	**World**	**10,500**	**2009**
80	Azerbaijan	10,400	2009
81	Serbia	10,400	2009
82	Brazil	10,200	2009
83	Dominica	10,200	2009
84	South Africa	10,100	2009
85	Montenegro	9,800	2009
86	Cuba	9,700	2009
87	Colombia	9,200	2009
—	Cook Islands	9,100	2005
88	Suriname	9,000	2009
89	Republic of Macedonia	9,000	2009
90	Angola	8,900	2009
91	Peru	8,600	2009
92	Dominican Republic	8,300	2009
93	Jamaica	8,200	2009
94	Palau	8,100	2008
95	Thailand	8,100	2009
96	Belize	8,100	2009
97	Tunisia	8,000	2009
—	American Samoa	8,000	2007
98	Ecuador	7,400	2009
99	El Salvador	7,100	2009
100	Algeria	7,000	2009
—	Saint Pierre and Miquelon	7,000	2001
101	Turkmenistan	6,900	2009
102	People's Republic of China	6,600	2009

TABLE 1.2b

Rank	*Country*	*US$*	*Year estimated*
103	Namibia	6,400	2009
104	Ukraine	6,400	2009
105	Albania	6,300	2009
106	Bosnia and Herzegovina	6,300	2009
107	Kiribati	6,100	2009
108	Egypt	6,000	2009
109	Armenia	5,900	2009
—	Niue	5,800	2003
110	Samoa	5,400	2009
111	Bhutan	5,400	2009
112	Jordan	5,300	2009
113	Guatemala	5,200	2009
114	Nauru	5,000	2005
—	Mayotte	4,900	2005
115	Vanuatu	4,800	2009
116	Bolivia	4,600	2009
117	Morocco	4,600	2009
118	Tonga	4,600	2009
119	Syria	4,600	2009
120	Sri Lanka	4,500	2009
121	Swaziland	4,400	2009
122	Georgia	4,400	2009
123	Honduras	4,200	2009
124	Maldives	4,200	2009
125	Paraguay	4,100	2009
126	Republic of the Congo,	4,100	2009
127	Indonesia	4,000	2009
128	Fiji	3,900	2009
129	Guyana	3,800	2009
—	Wallis and Futuna	3,800	2004
130	Iraq	3,600	2009
131	Cape Verde	3,400	2009
—	Montserrat	3,400	2002
132	Philippines	3,300	2009
133	Mongolia	3,200	2009
134	India	3,100	2009
135	Vietnam	2,900	2009
—	West Bank and Gaza	2,900	2008
136	Djibouti	2,800	2009
137	Nicaragua	2,800	2009
138	Uzbekistan	2,800	2009
139	Pakistan	2,600	2009
140	Solomon Islands	2,600	2009

(*Continued*)

TABLE 1.2b Cont.

Rank	*Country*	*US$*	*Year estimated*
141	Kosovo	2,500	2007
142	Marshall Islands	2,500	2008
143	Yemen	2,500	2009
—	Saint Helena, Ascension and Tristan da Cunha	2,500	1998
—	Western Sahara	2,500	2007
144	Papua New Guinea	2,400	2009
145	Nigeria	2,400	2009
146	Timor-Leste	2,400	2009
147	Cameroon	2,300	2009
148	Sudan	2,300	2009
149	Moldova	2,300	2009
150	Federated States of Micronesia	2,200	2008
151	Kyrgyzstan	2,100	2009
152	Laos	2,100	2009
153	Mauritania	2,100	2009
154	North Korea	1,900	2009
155	Cambodia	1,900	2009
156	Tajikistan	1,800	2009
157	São Tomé and Príncipe	1,700	2009
158	Lesotho	1,700	2009
159	Côte d'Ivoire	1,700	2009
160	Chad	1,600	2009
161	Bangladesh	1,600	2009
162	Kenya	1,600	2009
163	Tuvalu	1,600	2002
164	Senegal	1,600	2009
165	Benin	1,500	2009
166	Ghana	1,500	2009
167	Zambia	1,500	2009
168	The Gambia	1,400	2009
169	Tanzania	1,400	2009
170	Haiti	1,300	2009
171	Uganda	1,300	2009
172	Mali	1,200	2009
173	Burkina Faso	1,200	2009
174	Nepal	1,200	2009
175	Burma	1,100	2009
176	Comoros	1,000	2009
177	Madagascar	1,000	2009
178	Guinea	1,000	2009
—	Tokelau	1,000	1993
179	Ethiopia	900	2009
180	Malawi	900	2009

TABLE 1.2b

Rank	*Country*	*US$*	*Year estimated*
181	Mozambique	900	2009
182	Sierra Leone	900	2009
183	Togo	900	2009
184	Rwanda	900	2009
185	Afghanistan	800	2009
186	Central African Republic	700	2009
187	Eritrea	700	2009
188	Niger	700	2009
189	Guinea-Bissau	600	2009
190	Somalia	600	2009
191	Liberia	500	2009
192	Burundi	300	2009
193	Congo, Democratic Republic of the	300	2009
194	Zimbabwe	<100	2009

Source: Adapted from *Current CIA World Fact book.*

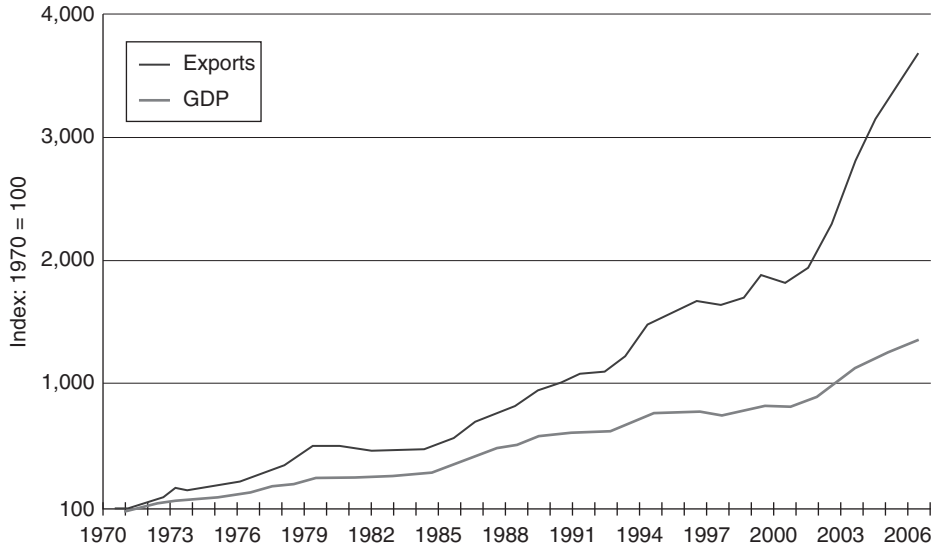

FIGURE 1.1 Comparing the growth rates of world's GDP and world's exports (Adapted from Current CIA World Fact Book)

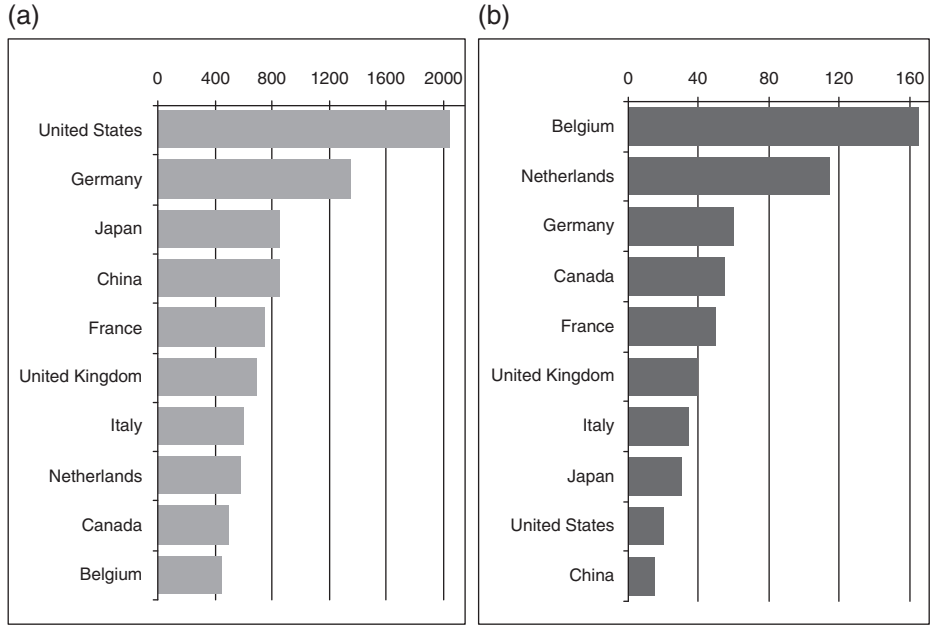

FIGURE 1.2 Leading countries in international merchandise trade. (a) Total annual value of products trade (exports + imports) in billions of US dollars. World Trade Organization (www.wto.org). (b) Total annual value of products trade (exports + imports) as a percentage of nation's GDP

International Business

International business is defined as all business activities, including the creation and transfer of resources, goods, services, know-how, skills, and information, which transcend national boundaries. The resources may be raw materials, energy, technological know-how and patents, capital, and organizational skills. Goods include manufactured parts, sub-assemblies, and assemblies. Services may include accounting, financial, legal, consulting, import and export, health care, and transportation. Know-how may include product and process technological innovations, copyrights, trademarks, and brands. Skills may include organizational and managerial skills. Information includes databases as well as information networks.

One may look at the economic activity of an organization and describe it as a set of consecutive business activities, each adding value to the product or service created. These activities are described in terms of the value added by each one of the activities. As such, all products and services that are brought into or shipped away from a certain country involve value-generating activities, such as design, development, production, delivery, and after-sale service and support activities. It is the proportion of the value-added activities that are performed across country lines that fall under the definition of international business. Take, for example, IKEA (IKEA.com), the producer of household furniture and fixtures. IKEA may purchase wood, kilned and dried in Norway. It then produces furniture parts and

assemblies in Sweden, which may have been designed in Denmark. Following shipping to the USA, it is put on display in the stores, to be purchased and assembled by customers. Each of these activities adds value to the final piece of furniture by IKEA and constitutes part of international trade when it crosses international boundaries. The total values of goods and services involved in these activities and business transactions worldwide are upwards from $16 trillion (oecd.org), well over the sales volume of some of the largest corporations and larger than some countries' gross national product (GNP). The prevalence of the value of internationally shipped and transferred services is demonstrated in Table 1.3, which lists the services that are internationalized quickly.

As more services and goods are transferred and traded around the world, commercial, currency, country, and cross-cultural risks grow, as shown in Figure 1.3. The 2008 global financial crisis made clear the implicit currency and financial risk of international business.

TABLE 1.3 Leading Companies in International Services Trade

Industry	*Representative activities*	*Representative companies*
Architectural, construction, and engineering	Construction, electric power utilities, design engineering services for airports, hospitals, dams	ABB, Bechtel Group, Halliburton, Kajima, Philip Holzman, Skanska AB
Banking, finance, and insurance	Banks, insurance, risk evaluation, management	Citigroup, CIGNA, Barclays, HSBC, Ernst & Young
Education, training, and publishing	Management training, technical training, English language training	Berlitz, Kumon Math & Reading Centers, NOVA, Pearson, Elsevier
Entertainment	Movies, recorded music, Internet-based entertainment	Time Warner, Sony, Virgin, MGM
Information services	E-commerce, e-mail, funds transfer, data interchange, data processing, network services, professional computer services	Infosys, EDI, Hitachi, Qualcomm, Cisco
Professional business services	Accounting, advertising, legal, management consulting	Leo Burnett, EYLaw, McKinsey, AT. Kearney, Booz Allen Hamilton, Cap Gemini
Transportation	Aviation, ocean shipping, railroads, trucking, airports	Maersk, Sante Fe, Port Authority of New Jersey, SNCF (French railroads)
Travel and tourism	Transportation, lodging, food and beverage, recreation, travel on aircraft, ocean carriers, and railways	Carlson Wagonlit, Marriott, British Airways

Source: World Trade Organization (www.wto.org).

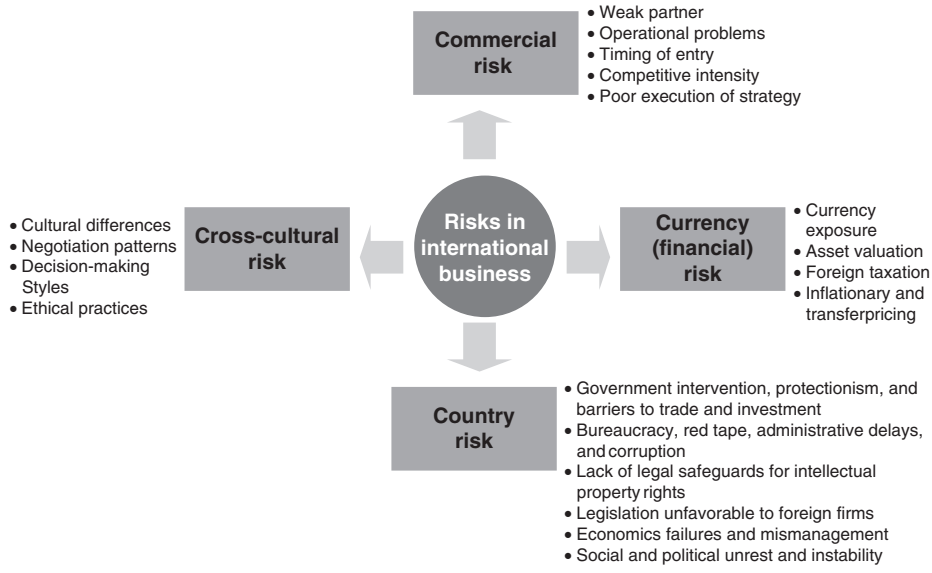

FIGURE 1.3 The four risks of international business

The entities involved in international business may be individuals, nongovernmental organizations (NGOs), government organizations, and international bodies, such as the United Nations, the World Trade organization (WTO), the World Bank, or the International Monetary Fund (IMF). However, the main entity involved in international business is the multinational enterprise (MNE). The definitions of an MNE vary. Several representative terms are used to describe multinational organizations. A multi-domestic firm is an enterprise with multiple international subsidiaries that are relatively independent from headquarters. The global firm consists of closely integrated international subsidiaries controlled and coordinated from central headquarters. The transnational firm consists of subsidiaries that may fulfill strategic and central roles, typically reserved for headquarters in global firms. The MNE is defined by the Organization for Economic Cooperation and Development (OECD) as an enterprise that engages in foreign direct investment (FDI) and owns or controls value-adding activities in more than one country. In many cases, the MNE has "multiple" facilities around the globe, owns a majority stake in plants in North America, Europe, and the Pacific Rim, derives a "substantial" portion of revenues from foreign operations, operates subsidiaries that share a common strategic vision, draws from a common pool of resources, and places foreign nationals or expatriates at the board level and/or in senior management posts. Sometimes, the MNE is known as a multinational corporation (MNC) or a global corporation (GC).

Most MNEs are based in the USA, Japan, Germany, Britain, and France, as noted in Table 1.4.

The corporations that fall under the MNE, MNC, and GC definition are indeed the main participants in the international business. They are engaged in

TABLE 1.4 Geographic Location and Revenues of Multinational Enterprises (MNEs)

Country	*Number of MNEs*	*Revenues of MNEs (in Billions of US dollars)*
US	170	6,645
Japan	70	2,334
Germany	35	1,648
France	38	1,612
United Kingdom	38	1,528
Netherlands	14	773
China	20	570
Switzerland	12	481
Italy	10	427
South Korea	12	404
Canada	14	285
Spain	9	264
Australia	8	175
Russia	5	158
Mexico	5	147
Belgium	4	133
India	6	122
Sweden	6	118
Brazil	4	115

international transactions: namely, transactions that involve more than one country. The economic activity of these organizations make up the bulk of international trade, and the funds invested in them very often are funds available through international investment.

As suggested, the MNEs are the main drivers and beneficiaries of international business. Many of the large global corporations and professional service firms are defined as MNEs. For example, Intel employs over 140,000 employees in hundreds of facilities in tens of countries around the globe. It controls and owns facilities in a variety of countries; each is part of Intel's value-added chain. Ernst & Young, a global accounting and professional firm, employs about 120,000 people in more than 100 countries, operating as an international network of wholly owned and associated professional firms. Both Intel and Ernst & Young enjoy international presence that leads to global brand recognition in major markets, such as the USA and the EU, may recruit highly skilled employees, from India and France, raise capital in efficient capital markets, such as the USA, Germany, and the UK, and create manufacturing and service facilities in low labor-rate countries such as Vietnam and Indonesia. In many instances, these organizations transfer capital, information, services, and products from one country to another and, thus, create the global business ecosystem.

There are other types of international organizations that should be identified. The early multinational enterprise (EME) is an enterprise that at the very start-up

phase decides to go international and enjoy the benefits, as well as rise up to the challenges, of having international operations. Numerous so-called high technology enterprises fall into this category. Take for example VKB (vkb-tech.com). VKB was founded in 2000 with the mission of creating a standard for high-performance, low-cost virtual interface solutions across a wide range of products in the communications, computing, and entertainment markets. It has developed proprietary electro-optic technology and has applied for patent protection (both in the USA as well as numerous other markets it expected to do business in around the world), and very early on was seeking to develop international business relationships to capitalize on the commercial opportunity presented by the current and planned products. These relationships include the servicing of highly-targeted OEM prospects in Europe, the Middle East, North America, and Asia and identifying strategic financial and operational partners. Another distinct type of MNEs are small and midsize enterprises that are engaged in international business activities without any facilities that are owned overseas they are called small and midsize international enterprises (SMIEs).

Domestic and international business

Businesses that have started as domestic businesses may grow to become international by intent: for example, Procter & Gamble, McDonalds, and Starbucks were founded in the USA and operated as domestic businesses, but now may be defined as MNEs, conducting their business internationally. In the same manner, the French corporation of Danone started as a domestic bottle and glass manufacture in 1966, and changed first into a pan-European entity and then into a fully fledged MNE by the beginning of the 21st century, with operations in Europe, the USA, Africa, Latin America, and Asia.

Sometimes the internationalization of firms happens early in its life and at times firms seem to operate with no home base at all. Some international entrepreneurs operate by running virtual start-up sites, bringing together a network of business partners, managerial skills, and technological know-how, and using outsourcing bases. These virtual operating businesses may have headquarters in a certain country, but most or all of their activities occur outside its headquarters' country and elsewhere in the world. As an example, one well-known online poker company that recently did an initial public offering (IPO) of its shares is based on a Caribbean island for tax and legal reasons but its customers/players are mostly from the USA and Western Europe.

Domestic business and international business work in different environments and have different operating practices. Unlike domestic business, international business is performed in foreign countries, each with its own national and business culture, and its own economic conditions and legal environment. Political risks as well as economic risks apply in operating an international business. Executives need to be familiar with currency and monetary policies, which are different in every country. Inflation rates, currency exchange fluctuations, and changes in laws on repatriation of profits may affect the profitability of businesses with facilities located overseas, which also requires knowledge and understanding on the part of

the executive. As an example, if a US-based corporation conducts business in Europe, fluctuations in exchange rates affect business results. If the US dollar goes down relative to the Euro – the European Union currency – then products being shipped from the USA to Europe command higher profit margins (assuming that production costs stay the same). Consequently, the internationally oriented manager should put more effort in promoting sales in Europe during this period to take advantage of the higher profit. Operating practices are also different for international businesses, as national cultural differences as well as business culture differences are present. Differences in culture become an issue and may affect communication, control mechanisms, productivity, incentive scheme bases, management practices, and quality procedure. For example, as Nestlé took over a major ownership stake of Osem Foods International in Israel, Nestlé's worldwide operational and reporting systems had to be carefully introduced, taking into account the local reporting practices based on national and business cultures. In a similar manner, when the Japanese-based Kao Corporation took over Didak, the Canadian memory device manufacturer, care had to be taken in introducing Japanese management practices into the manufacturing facilities in Kanata in the province of Ontario, Canada.

The drivers to expand internationally

Businesses vie to operate internationally because of four reasons: first, expanding markets; second, improving economic gains; third, positioning themselves strategically to face future threats or exploit future opportunities; and fourth, addressing randomly "discovered opportunities."

Expanding market share is a main driver for international operations. Take, for example, the Danone Group, the French-based producer of fresh dairy products, beverages, biscuit, and cereal products, and infant foods. Whereas it started as a domestic producer, today, nearly 31 percent of Danone sales are on emerging markets. This brings Danone close to its marketing target, which is to have 40 percent of business on emerging markets and 60 percent in developed countries – a balanced presence that means the Danone Group benefits from both the high potential of developing economies and the steady demand of more mature markets. In recent years, Danone has built up strong positions on emerging markets to take the number-one place in each of its three core businesses.

As to the economic driver to go international, Danone's successful international expansion rewards a strategy focusing on a limited number of countries, selected for their growth potential, where Danone has the size to achieve significant economies of scale. These economies of scale help provide the same products and the same services with lower costs, enabling a larger profit margins or allowing flexibility in setting prices at a level appropriate for local conditions in the target country or region.

At times, companies may go international because of strategic positioning needs. In the case of Danone, going international was a strategic decision. Danone decided to provide products within the reach of most consumers in target countries, with high-profile brands, and using an effective, wide-ranging distribution system for

sales close to consumers. Danone decided on profitable growth in emerging markets, stressing affordability, awareness, and availability. Strategically, in Western Europe, Danone planned for a continued, steady growth, building on strengths that include well-established positions in each of its core businesses. In each of Danones' business lines it vies to be a world leader, which gives it a clear competitive advantage in terms of marketing expertise, industrial efficiency, breadth of product ranges, and targeted R&D. In each case, world leadership is built on strong number one positions in local markets, enabling Danone to forge close ties to consumers through an unrivalled familiarity with local tastes, balanced long-term relationships with major retailers, and a recognized capacity for effective innovation. Danone's worldwide strategic core values are a strong health and well-being positioning, at the heart of concerns of consumers and new consumption opportunities (times or places), combined with the dynamism of the growth of emerging countries.

Many MNEs seem to be expanding into China for sound strategic reasons: marketing, economic, and strategic. China presents the potential for a huge market, as well as a relatively inexpensive place for manufacturing resources, including labor. At the same time, MNEs seem to establish themselves in China simply in order to be there before their competitor. Consumer goods, chemical derivatives producers, electronic and electric supplies, toy manufacturers, and other manufacturers and distributors are all present or considering how to start up a base of operation (BOO) or a regional headquarters (RHQ) in China. In fact, a booming economy coupled with a maturity in Chinese consumer tastes and spending power is leading to a seemingly insatiable appetite for luxury goods in China, translating into enormous potential for global luxury retailers and consumer products manufacturers. Strategically, as more regions define themselves as economic entities, creating rules and regulations that reduce customs and tariffs on cross-border trade within a region, companies set up shop within these regions in order to exploit the opportunities ahead. For that reason, North American, Asian, and Latin American companies in a variety of industries have created a base of operations, manufacturing plants and regional headquarters within EU country members, in order to do business freely. As of 2010, there are 27 member states in the EU (Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, The Netherlands, United Kingdom). There are also some candidate countries to be admitted into the EU, including Croatia, Iceland, and Turkey. This leaves only 11 European countries that are not yet members or candidate members to be included in the EU. All the more reason, strategically to start operations within the EU.

Sometimes, a chance event makes the company go international. For example, a key corporate executive may travel on vacation and may decide that the destination might be a good place to do business. Alternatively, a local friend points to a local opportunity that should not be missed. These events may explain why and how numerous small and midsize enterprises, with less than 100 employees, go international.

A Quick Review

1. International business is defined as all business activities, including the creation and transfer of resources, goods, services, know-how, skills, and information, which transcend national boundaries.
2. MNEs are the main drivers and beneficiaries of international business.
3. Domestic firms expand internationally because of four reasons: expanding markets, improving economic gains, strategic positioning, and randomly "discovered opportunities."

The Globalization Phenomena

Side by side with the accelerated increase in the sheer size of international business and trade in the 21st century, globalization as a process and as a state of affairs has become a focus of attention for executives and managers as well as for business management educators and scientists. Globalization may be defined as the increasing of worldwide integration of markets for goods, services, and capital concurrent with the increased role for MNEs in the world economy and an increased intervention into domestic and regional policies and affairs by international institutions such as the IMF, the WTO, the World Bank, and the United Nations. The question is what globalization means for the business executives and others involved in the world economy.

Over the last three decades political, economic, and cultural trends have been marked by the use of the term "globalization" as one of the most fashionable buzzwords of contemporary business, political, and academic debate. In many cases, globalization has been used as a synonym for one of the following phenomena:

- The pursuit of classical "free market" policies in the world economy (otherwise known as a "liberal economy").
- The growing dominance of Western or American forms of political, economic, and cultural life.
- The proliferation of new information technologies (the "Internet Revolution").
- The notion that the world community is facing the creation of one single unified community in which major sources of conflict have vanished ("global integration").

Social scientists seem to agree that globalization means a fundamental change in the understanding of space and time by human beings. As geographical distances seem to be reduced by new communication infrastructures, globalization promises far-reaching implications for all.

These far-reaching implications are exemplified by the following experience of an Ethiopian goat farmer. Discovering the potential in the use of selling through the Internet, the farmer offers – over the Internet – to provide goats to Ethiopian families located nearby. The goats are purchased and paid for by Ethiopian immigrants residing in New York City and London through the Internet using credit cards. The Ethiopian farmer sells the merchandise internationally and earns US dollars or Euros, even though he has never left the village. Globalization causes time and distances as well as national boundaries to be compressed and vanish, as evidenced by this example. Another example, yet, are call centers that are based in Scotland or India supporting a customer in Hong Kong who needs help with his printer. The customer is reaching the support desk by dialing a local number, without knowing where the call has been routed to.

The chronology of globalization

The term globalization has only become commonplace in the past three decades. However, as indicated in Table 1.5, it has evolved during the past two centuries.

Nineteenth and twentieth-century philosophy, literature, and social research include references to the changing experiences of distance and time that are transformed by the introduction of high-speed forms of transportation, such as air travel and communication such as the Internet and cell phones. Distance, in geographic terms, has lost relevance, as noted in Table 1.6. This, in turn, significantly increases possibilities for human interaction across existing geographical and political borders.

During the turn of the 20th century, it has been argued that economic and technological trends of that time implied the emergence of a "new world" and that the invention of the steam engine, electricity, and the telephone offered major challenges to relatively static and homogeneous forms of local community life that had long represented the main arena for most human activity. At about the same time economic activity increasingly transcended the borders of local communities while the steamship, railroad, automobile, and air travel considerably intensified rates of geographical mobility. Some argued that the compression of distance posed fundamental questions for democracy. It has been observed that increasingly dense networks of social ties across national borders rendered local forms of self-government ineffective. New high-speed technologies attributed a shifting and unstable character to social life, as demonstrated by the increased rates of change and turnover in the economy. This lack of stability raised questions regarding democracy and governance in constantly moving and changing communities, countries, and regions.

Globalization and society

As of the beginning of the 21st century, the determinants of globalization become clear. First, globalization is associated with deterritorialization, since a growing variety of social and economic activities take place irrespective of the geographical location of participants due to advances in telecommunication, digital computers,

TABLE 1.5 Phases of Globalization Since the Early 1800s

Phase of globalization	*Approximate period*	*Triggers*	*Key characteristics*
First phase	19th century	Introduction of railroads and ocean transportation	Growth of manufacturing: increase in cross-border trade of commodities and products
Second phase	1900 to 1930	Use of electricity; the development of transportation and communication infrastructure	Emergence of multinational enterprises (MNEs)
Third phase	1945 to 1980	Post World War II reconstruction of Europe; formation of General Agreement on Tariff and Trade (GATT)	Reduction of barriers to trade; an increase in the number and size of MNEs; the development of global capital markets; an increase in cross-border flow of money
Fourth phase	1980s to 2000	Growth of speed and vehicles of telecommunication; increased efficiencies of manufacturing; the effective provision of consulting and other services; the privatization of state-owned enterprises; the dominance of emerging markets	Growth in cross-border trade of products, services and capital; the rise of small and medium enterprises (SMEs) and international entrepreneurship; the formation of trade regions
Fifth phase	2000 onwards	Realization of a global, interconnected world; the immense power of global enterprises	Increased focus on sustainability and social responsibility of MNEs; decreasing role of national governments; emergence of voluntary international organizations that monitor international business and trade

TABLE 1.6 The Demise of Distance

In this time period…	*Fastest transportation was via...*	*At a speed of...*
1500–1840s	■ Human-powered ships and horse-drawn carriages	10 miles/h
1850–1900	■ Steamships	36 miles/h
	■ Steam locomotive trains	65 miles/h
Early 1900s–today	■ Motor vehicles	75 miles/h
	■ Propeller airplanes	300–400 miles/h
	■ Jet aircraft	500–700 miles/h

Source: Adapted from Dicken (1992). *Global Shift.* New York: Guilford, p. 104.

and video-conferencing. Second, globalization is associated with social interconnectedness across existing geographical and political boundaries. This interconnectedness is important as it affects not only distant events but also impacts local and regional events. As an example, the United Nations might be making decisions based on facts and figures collected globally, which then affect events in a particular community, country, or region. Third, globalization relates to the speed or velocity of activities. The networking and expanding of activities across national borders is based on fast flows and movements of human resources, information, capital, goods and services. Fourth, while globalization may describe a state of affairs at any one time, it should be considered also as a process whereby the rate of change in the degree of deterritorialization, the measure of interconnectedness, and the velocity rate of activities is constantly on the rise, leading to the current degree of globalization. For example, the advent of mobile commerce – the execution of commercial transactions over the internet using cell phones – increased the rate and efficiency of commercial transaction processes. All four of the above determinants affect both the rate of change and the degree of globalization.

The challenges of globalization

The obvious wide-ranging impact of globalization on social, economic, and business affairs calls for public debate and thought leadership by executives and researchers alike. This book addresses the first imperative of globalization which is that business executives and public decision makers in the West should pay closer attention to the cultures and traditions of peoples in overseas and developing countries. Western social and political scientists have traditionally assumed the existence of territorially bound communities, whose borders can be clearly delineated from those of other communities. Based on this assumption, one may conclude by extension that relations between national and sovereign states are not governed by any law. Since the achievement of justice or democracy assumes an effective political sovereign, and since it may not exist at the global level, then justice and democracy may not be unattainable at the global level.

The very existence of the globalization phenomenon raises a number of challenging questions regarding world order. It is questionable whether nation-states are self-sufficient forms of communities that cater to all needs of human beings. Intense deterritorialization and the intensification of social, economic, and business relations across borders renders even the most powerful and privileged political, national, and economic units with limited control and make them part of a network of social relations that transcends national borders completely. As an example, deregulated and global financial markets, telecommunication, and transportation industries imply a profound quantitative increase in and intensification of new industries and social networks. As a result the distinction between what is foreign and what is domestic becomes unclear, and the traditional tendency to think of the domestic arena as a privileged site for the realization of normative

ideals and principles becomes obsolete. This means that core ideals of justice and democracy should be addressed on a global level and that globally chartered bodies should be created and empowered to provide for same. Furthermore, it seems that in a globalizing world, the lack of democracy or justice at the global level impacts the pursuit of justice or democracy at the national or regional level and vice versa. To wit, growing inequality which results from economic globalization is related to growing domestic inequality in the Western democracies. Similarly, the ongoing destruction of the ozone layer by countries like the USA, Japan, and Australia impacts most other countries and calls for transnational cooperation and regulation to control ozone layer destruction. Acting irresponsibly at a global level regarding the ozone layer means that people of all nations, regardless of the national degree of pollution, are future victims of a polluted environment.

In G-8 international meetings (forums of the group of eight industrialized nations), as well as in high-powered world economic forums like the Davos, Switzerland meeting, world leaders debate and consider the implications of the globalizing world. Supporters of globalization stress the moral obligations towards the residents of third world countries with whom the developed countries share little in the way of language, custom, or culture. At the same meetings, supporters of globalization argue for the universality and necessity of democratic values, justice, and social and economic equality. The supporters of globalization defend significant legal and political reforms as a necessity to address the inequities of a world in which millions of people die of starvation each year. In contrast, opponents of globalization dispute the importance, urgency and necessity to do same and are of the opinion that the world community has not achieved a sufficiently articulated sense of a common fate such that far-reaching attempts to achieve greater global justice could prove successful.

Related to the arguments for and against globalization is the issue of the creation and empowerment of world bodies such as the WTO, the IMF, the World Bank, the United Nations, and the International Court of Law in the Hague. In addition, one should consider the prospects of democratic institutions at the global level. Some argue that globalization requires the empowerment of democratic institutions to the transnational level. Nation-state-based democracy is not equipped to deal with present-day globalization such as ozone depletion or growing economic inequality. In addition, a growing transnational form of activity by MNEs and NGOs calls out for transnational modes of democratic decision-making. A case in point is the European Union, which was conceived as a supranational democracy. If the EU is to help succeed in supporting the principle of sovereignty in a borderless world, it needs to strengthen its elected representative institutions and guarantee the political, civil, social, and economic rights of all Europeans. Recently, both France and the Netherlands rejected far-reaching proposals to strengthen the EU constitution, supporting the contrarian views. The contrarian underscores the utopian character of such proposals, arguing that democratic politics is based on deep feelings of trust, commitment, and belonging that remain uncommon at the global level. Since commonalities of belief, history, and custom compose necessary preconditions of any viable democracy, and since these

commonalities are missing beyond the nation-state, global, or cosmopolitan democracy is doomed to fail.

Globalization and business

While world leaders and scientists argue the merits and pitfalls of globalization, its manifestations are found all around us, underlying the understanding that the business ecosystem today consists of global markets, global resources, global production, global supply chains, and global management skills. Table 1.7 details the factors contributing to and the implications of the globalization of business.

The consumer may buy food and consumer products of any kind with global brand names such as Coca Cola drinks, McDonald hamburgers, Huggies baby diapers, Starbucks coffee, Levy jeans, MTV music channel, and United Parcel Service (UPS). No matter which country you are a citizen of, your friends and colleagues are able to identify the global brands and attest to their quality. The value of all goods and services exported and imported around the world is on the rise and affects even the relatively strong local enterprises. These local enterprises should soon find a way to join strategic international partners, if only to defend their domestic market share.

TABLE 1.7 The Factors and Implications of Market Globalization

Factors contributing to business globalization	*Impact of business globalization*	*Social implications of business globalization*	*Corporate implications of business globalization*
• Reduction of barriers to trade • Increase of international capital transfer and investment • Transition to market-based economies • Privatization of state-owned enterprises in former Soviet Union countries • Adoption of free trade in China • Industrialization, economic development, and modernization • Technology advancements • Integration of world financial markets	• The formation of regional economic and trade blocs • Interdependence of national economies • Growth of foreign direct and portfolio investments • The emergence of global supply chains of multinational corporations • Convergence of worldwide consumer expectations and preferences	• Loss of national identity and sovereignty • Increase in outsourcing, causing loss of jobs • Increase of the gaps between rich and poor • Increased impact on sustainability and the environment • Increase influence of globalization on local culture and heritage	• New business opportunities • Emerging implications of global supply chains (alternative sources of supply, etc.) • New corporate competitive environment – global and interconnected • Higher exposure to economic, political, and business risks • More discerning consumer communities • More sourcing and outsourcing opportunities

Implications of globalization

In the eyes of the consumer, globalization means lower prices because of increased competition, better selection, and improved service. It also means that the origin of products and location of many MNEs' headquarters become unknown and irrelevant to the consumer. How many Europeans are aware of the fact that the Procter & Gamble Corporation is based in Cincinnati, Ohio, or that the global news network CNN is headquartered in Atlanta, Georgia, along with the headquarters of the Coca Cola Company. In this manner, how many users of the software firewall company Check Point are familiar with its origins in Israel? Globalization also means the diffusion of new services which have been introduced by MNEs. Take for example the proliferation of HSBC (Hong Kong and Shanghai Banking Corporation) local branches with connectivity to branches around North America and the world. This proliferation means that if one takes a loan from an HSBC branch in the Boston area, the dollars are actually originated from deposits made in England or Singapore. The connectivity and globalization of financial markets contributed to if not caused the 2008 world financial crisis. In the same manner if you are the owner of an American car what do you know about the many foreign, based part manufacturers that end up in the car?

In the eyes of the producer or provider of goods and services, globalization means that the facilities involved may be based anywhere in the world and the location may be selected based on least cost and highest quality of workmanship available. The term used to describe the network of suppliers dispersed across continents is a global supply chain. Most industries, such as the car industry, the consumer electronics products industry and the biotechnology industry, use global supply chains.

In the eyes of investment funds managers, as well as corporate executives, globalization means that capital required for investment and operations may be raised in a number of stock markets that compete for their business and, thus, reduce the registration, bureaucracy, and reporting requirements on the one hand and allow corporations and funds to acquire ownership and hold portfolio investments in countries overseas on the other.

As indicated in Tables 1.8–1.10 and Figure 1.4, worldwide value chain activities of corporations are prevalent and manifest themselves in all sectors of the economy. As opposed to the almost endless opportunities made available by globalization to the consumer, producer and corporate executives, the case for workers is somewhat less clear. Some argue that labor is globalization's missing link. The flow of workers across borders is heavily controlled, leaving the global market for labor far more distorted than those for capital and raw materials. The world price of capital may be set in the USA, and that of crude oil set in Saudi Arabia, but there is no such thing as a world price of labor. Wages can differ by a factor of 10 or more, depending only on the passport of the wage-earner. Relaxing the movement of labor even a little may generate large efficiency gains. Harvard University researches calculate that letting poor workers into rich countries, in modest numbers (equivalent to 3 percent of the hosts' labor force) for a limited period, could

TABLE 1.8 The Internationalization of the MNEs Value Chain Activities

MNEs value chain activities	*Research & development*	*Procurement (sourcing)*	*Manufacturing*	*Marketing*	*Distribution*	*After sale service and support*
MNEs examples regarding value chain activities	e-Bay, the Internet merchandise and re-seller service provider, executes its development work in Israel, California, and India. Monsanto, the biotechnology and agriculture MNE, has R&D locations in the USA and leading corporate centers elsewhere, constantly searching the world over for new products	Alcatel-Lucent, the French telecommunication equipment maker is outsourcing its information technology globally. Dell, the PC supplier, as well as other consumer goods and services, performs order processing in India	Whirlpool Corp, the white goods manufacturer and owner of Maytag and Amana, has plants in the USA, Mexico, and China	HSBC, the global financial giant, operates branches in most urban centers to be close to the customers, including London, New York, Paris, Tel Aviv, and Hong Kong	Florsheim, the maker of footwear, is using an international network of corporate-owned and franchised stores to reach its customers in Australia, USA, Canada, South America, and Europe	Schneider Electric is an MNE based in Europe and specializes in energy management with operations in more than 100 countries, including after sale service and support centers

TABLE 1.9 Involvement of Intermediaries and Institutions in Various International Value Chain Activities

Value chain activities	*Institutions*	*Intermediaries*
International market research	• Marketing consultants • Market research firms • Legal/business advisors	
Research & development (R&D)	• Academic institutions/ universities • Research & development facilities	• Scientific and academic conferences
Purchasing: sourcing and outsourcing	• Financial institutions • Logistics and transportation service provider • Insurance and custom brokers	• Trading companies • Brokers • Import/export agents
Manufacturing and operations	• National standards institutes • Industry voluntary standards institutes • Financial institutions	• Maintenance services providers • Manufacturing service suppliers
International marketing	• Consultant • Market research firm	• Import/export agents • Marketing agents and distribution facilities
International distribution	• Logistics, warehousing, transportation service providers • Freight forwarder • Insurance company • Customs broker	• Export management companies • Trading companies • Sales representatives • Distributors • Brokers • Importers • Retailers
After sale service and support	• After sale service and support company • Consumer groups advocates	• Retail outlets • Service consultants

reap benefits to the developing world worth $200 billion a year. With numbers like that one has to question why so much energy is spent freeing trade and capital, and so little expended freeing labor. The United Nations has recently called for more temporary migration from poor countries to rich ones, even though guest-worker programs rarely work in the long run. The Gastarbeiter program in Germany – which invited Turks, Yugoslavs and others needed at the time to fill the factory jobs created by the country's post-war economic miracle – failed. Many of Germany's "guests" never left, and their families soon arrived. The bracero program in America – which, from 1942 to 1964, recruited Mexican field hands to pick cotton and sugar beets in Texas and California – fared no better. The entry of hundreds of thousands of farm workers provided camouflage for a substantial flow of undocumented labor.

TABLE 1.10 Rank of Market Values of Multinational Enterprises (By Industry Sector Size)

Sector	*2005 market value (US$ billions)*	*Percentage of world total*	*Representative firms*
Financials	5,832	24.3	Capital One, Danske Bank, Royal Bank of Scotland
Consumer discretionary	2,667	11.1	Coach, Adidas, Salomon, Matsushita Electric
Information technology	2,635	11.0	Microsoft, Oracle, Hoya, Taiwan Semiconductor Manufacturing
Industrials	2,431	10.1	Landstar Systems, Shenzhen Expressway, Haldex
Energy	2,316	9.7	Mobil, Total, China Oilfield Services
Health care	2,274	9.5	GlaxoSmithKline, Novartis, Baxter International
Consumer staples	2,134	8.9	Procter & Gamble, Unilever, China Mengniu Dairy, Honda
Telecom services	1,394	5.8	AT & T, China Mobile, Royal KPN
Materials	1,316	5.5	Dow Chemical, Alcan, Vitro SA
Utilities	956	4.0	Duke Energy, Empresa Nacional de Electricidad SA, Hong Kong, and China Gas, Ltd.
Total	**23,955**	**100.0**	

Source: Business Week Global 1200, www.businessweek.com.

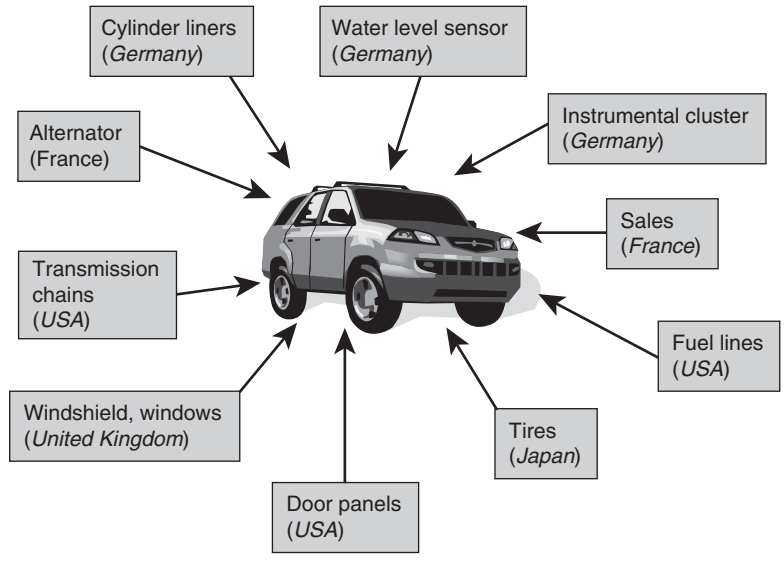

FIGURE 1.4 Countries where suppliers of components for the Chevrolet Tahoe are located

Globalization in action 2009: concerted efforts by G-20 major economies to avert a global economic crisis

In light of a major global economic crisis, the existence of a global organization of major economic powers, the G-20, seems to be able to weather the crisis effectively. The G-20, The Group of Twenty Finance Ministers, and Central Bank Governors, is a group of finance ministers and central bank governors from 20 economies: 19 of the world's largest national economies, plus the European Union (EU). Collectively, the G-20 economies comprise 85 percent of global gross national product, 80 percent of world trade and two-thirds of the world population.

The G-20 is a forum for cooperation and consultation on matters pertaining to the international financial system. It studies, reviews, and promotes discussion among key industrial and emerging market countries of policy issues pertaining to the promotion of international financial stability, and seeks to address issues that go beyond the responsibilities of any one organization.

The G-20 London Summit took place during the month of March 2009, at a time when the world confronted the worst economic crisis since the Second World War. The aims of the London Summit were to bring together leaders of the world's major economies and key international institutions to take the collective action necessary to stabilize the world economy and secure recovery and jobs.

Leaders faced an unprecedented range of challenges – of averting an even more severe downturn and restoring growth in the short term, while at the same time reshaping the financial system, preserving the world trading system, and laying the foundation for a sustainable recovery. Real action was agreed at the summit, with leaders agreeing on steps to:

1 *Restore confidence, growth, and jobs*: Leaders reaffirmed their commitment to work together to restore growth and jobs, while preserving long-term fiscal sustainability. They agreed actions to accelerate the return to trend growth and committed to taking whatever action is necessary to secure that outcome, and called on the International Monetary Fund (IMF) to assess regularly the actions taken and the global actions required. They committed to make available an additional $1.1 trillion program of support to help the world economy through the crisis and to restore credit, growth, and jobs. Most of this will be provided through the international financial institutions.

2 *Strengthen financial supervision and regulation*: Leaders agreed to strengthen the financial system by putting in place a better and more credible system of surveillance and regulation to take account of macro economic risks and prevent excess leveraging, including, for the first time, regulation and oversight of large hedge funds and credit rating agencies. They also agreed on actions to tackle noncooperative jurisdictions and to adopt common principles for executive remuneration.

3 *Fund and reform the international financial institutions to overcome this crisis and prevent future ones*: Leaders agreed to make an additional $850 billion in resources available through international financial institutions, such as the IMF, the World Bank, and other multilateral development banks, including a $500 billion expansion of the IMF's resources, a Special Drawing Right (SDR) allocation of $250 billion, and at least $100 billion in additional lending from Multilateral Development Banks. The leaders also agreed to ensure to

(*Continued*)

they have the facilities needed to meet the needs of emerging markets and developing countries and speed up reform of international financial institutions to ensure national representation is in line with the changing balance of the world economy.

4 *Promote global trade and investment and reject protectionism, to assure prosperity*: Leaders committed not to resort to protectionism, direct or indirect, and put in place a transparent monitoring mechanism; and to take measures which promote trade, including a commitment to make available $250 billion to halt the slow-down in trade finance, which facilitates up to 90 percent of world trade.

5 *Build an inclusive, green, and sustainable recovery*: Leaders reaffirmed their commitment to meeting the Millennium Development Goals and to delivering on development aid pledges; made $50 billion available to low-income countries, including through the proceeds of agreed IMF gold sales; agreed that the IMF would further support low-income countries; and called on the United Nations (UN) to establish an effective mechanism to monitor the impact of the crisis on the poorest and most vulnerable regions and countries.

A Quick Review

1 Globalization may be defined as the increase in worldwide integration of markets for goods, services, and capital concurrent with the increased role for multinational enterprises (MNEs) in the world economy and an increased intervention into domestic and regional policies and affairs by international institutions such as the International Monetary Fund (IMF), the World Trade Organization (WTO), the World Bank, and the United Nations.

2 For the consumer, globalization means lower prices, better selection, improved service, and blurred origin of goods and services. For the producer, globalization presents the opportunity to create a global supply chain. Globalization allows MNEs to raise capital on better terms. However, the flow of workers across borders is still highly controlled locally, limiting the opportunity for economic efficiency.

Globalization measurement

A useful tool to measure the degree of globalization was devised and is continuously reported by A.T. Kearney, an international professional firm. A globalization index (Globalization Index) tracks and assesses changes in key components of global integration, such as trade and investment flows, movement of people across borders, volumes of international telephone traffic, Internet usage, and participation in international organizations. In fact this index tracks globalization intensity by measurements relating to four main categories:

- ***economic integration***, combining data on trade and foreign direct investment (FDI) inflows and outflows;

- ***personal contact***, tracking international travel and tourism, international telephone traffic, and cross-border remittances and personal transfers (including worker remittances, compensation to employees, and other person-to-person and nongovernmental transfers);
- ***technological connectivity***, counting the number of Internet users, Internet hosts, and secure servers through which encrypted transactions are carried out;
- ***political engagement***, including each country's memberships in a variety of representative international organizations, personnel and financial contribuions to UN peacekeeping missions, ratification of selected multilateral treaties and amounts of governmental transfer payments and receipts.

During 2005, the 62 countries that are ranked account for 96 percent of the world's GDP and 85 percent of the world's population. Major regions of the world, including developed and developing countries, are covered to provide a comprehensive and comparative view of global integration. The data for the full sample of 62 countries is collected from international organizations that include the World Bank, International Monetary Fund, the United Nations, and International Telecommunications Union.

The degree of globalization changes from country to country and is changing from year to year. To be exact, many countries are becoming more and more "global," while other countries, because of local political and social changes, are actually going backwards with regards to globalization. In Figure 1.5 the globalization index of various countries is noted.

During the period between 2002 and 2005, there were changes in countries' rankings. In 2005, the USA got into the top five group for the first time in the annual ranking of the world's most globalized nations, rising to fourth place from its previous 12th. Singapore and Ireland are ahead on the strength of their increased political engagement and foreign trade ties. Despite weaker connections with the rest of the world in the political and economic realms, the USA rose due to its technological strength. The USA ranked first in both the number of Internet users and secure servers. Russia dropped eight spots between 2002 and 2005 to 52nd of the 62 nations in the index as its oil-dependent economy saw a continued decline in trade as a share of GDP. Iran, finished last, which has been the case for past five years.

Measuring the impact of globalization

Measuring the degree of globalization shows a positive relationship between public spending on education and globalization, especially in developing countries (see Figure 1.6). Governments put a lot of effort into rethinking the spending on education. For example, what President Fox of Mexico initiated during the turn of this century. While resources alone do not guarantee a more educated population, assigning more resources to education creates possibilities of more schools and teachers.

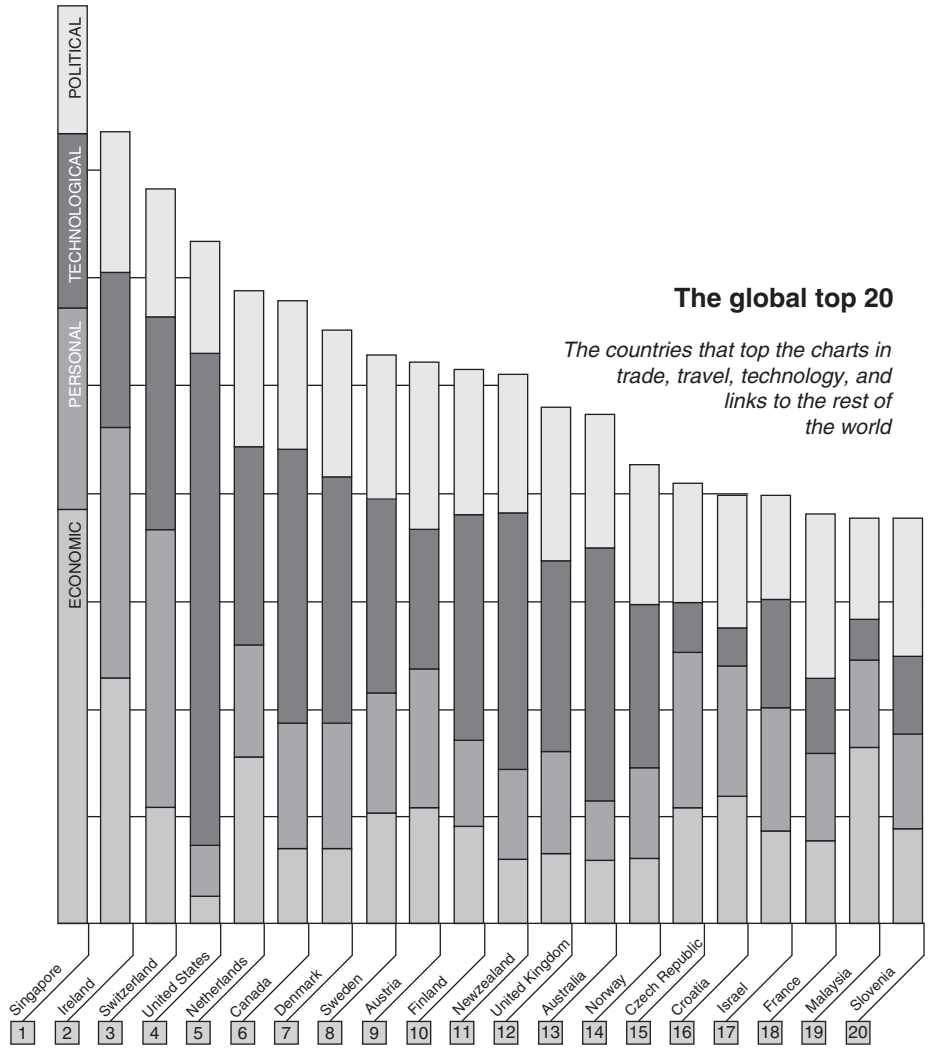

FIGURE 1.5 Measuring globalization (Adapted from A.T. Kearney, Measuring globalization at http://www.atkearney.com/shared_res/pdf/2004G-index.pdf)

Another interesting observation is that there is a positive relationship between globalization and political freedom, political rights and civil liberties and a negative relationship with perceived levels of corruption (Figure 1.7).

In light of recent terrorists attacks and the arguments for and against fighting terrorism and the effect of fighting terrorism on aggravating terrorism, it is interesting to find out how terrorism is fed on globalization. Some have theorized

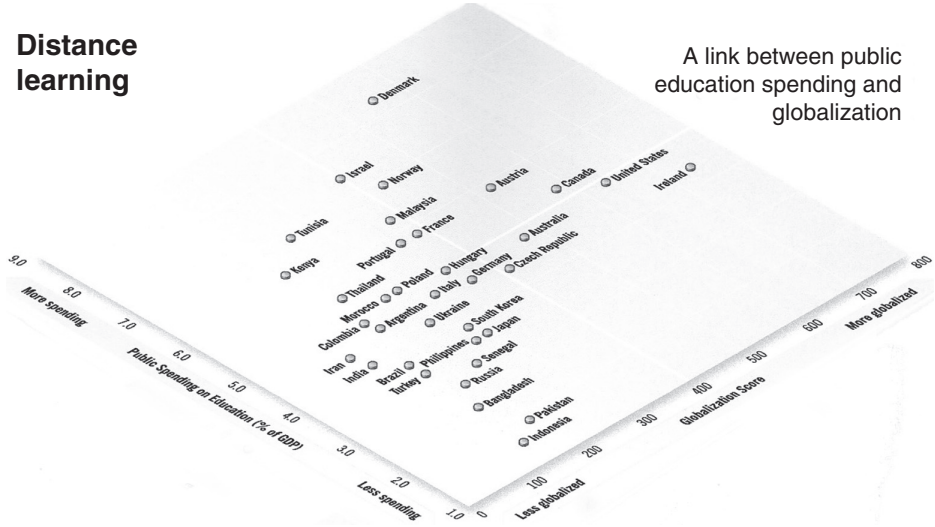

FIGURE 1.6 Globalization and education (Adapted from A.T. Kearney, Measuring globalization)

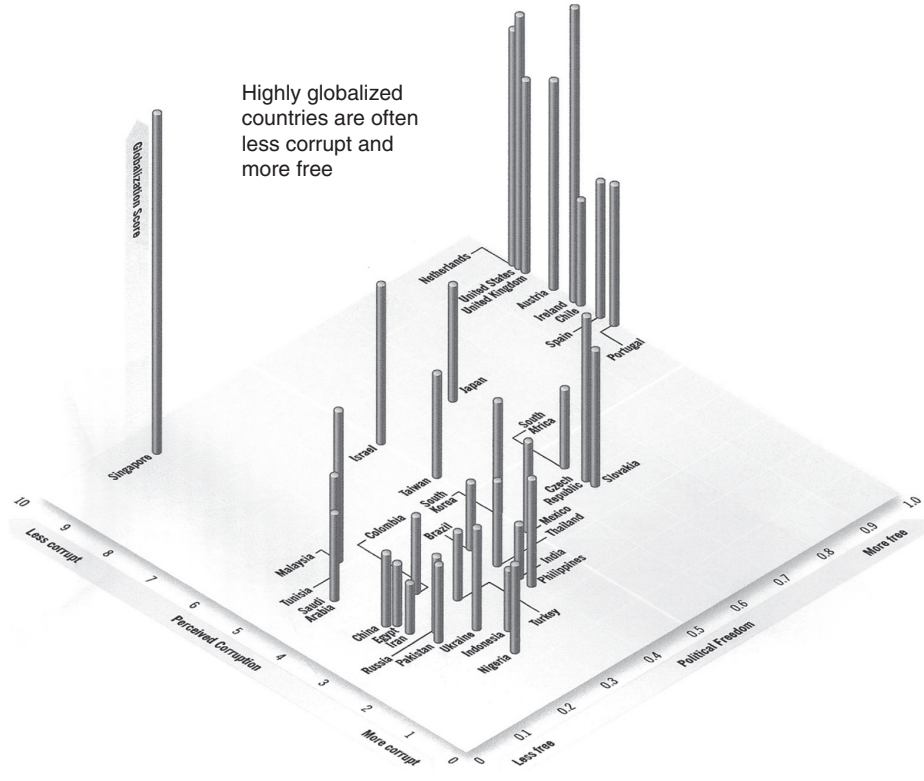

FIGURE 1.7 Globalization and democracy (Adapted from A.T. Kearney, Measuring globalization)

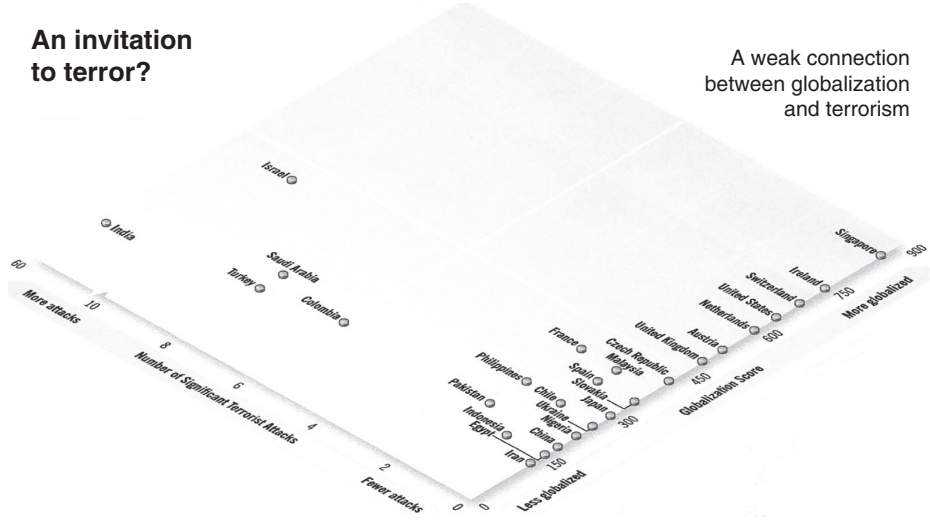

FIGURE 1.8 Globalization and terror (Adapted from A.T. Kearney, Measuring globalization)

that the more global a country is, the more susceptible it is to terror attacks. Open physical borders of countries and with close contact with the outside world may allow terrorists to enter and operate freely. Furthermore, angered with the unequal distribution of globalization's benefits, terrorists may target more globalized societies. It is also argued that the more technologically advanced countries are more susceptible to terror, as was the case with the September 11 attacks where the terrorists used e-mail, Internet, and cell phones in planning the attacks. This is not the case. In fact, there is little correlation between a country's level of global integration and the number of significant international terrorist attacks (see Figure 1.8). In fact, globalized countries may be more capable of combating terrorism, since they join international security and intelligence networks. India, for example, decided to ratify the International Convention for the Suppression of the Financing of Terrorism in 2003. The city of New York has established its own so-called Central Intelligence Agency (CIA) with offices in Israel, Iraq, and Jordan, among other places.

Globalization: on balance

It seems that globalization is here to stay, affecting the international business environment as it affects each one of us. Thus, it is best to acknowledge its contribution to human kind and find the best ways to extend its benefits to the largest number of people, regions, and countries. As the share of developing countries in world trade and population increases, they become not only the largest producers

but also the largest consumers of goods and services. In this case, globalization acts as a catalyst, increasing international investment and trade and enables the transfer of technologies into developing countries.

Labor rates of workers in foreign subsidiaries of MNEs in developing countries are better than average local rates, along with appropriate benefits such as health, education, and transportation allowances. Furthermore, globalization presents opportunities for higher mobility to foreign nationals. In addition, globalization allows for the voluntary adoption of Western accounting and operational reporting standards and practices. Adhering to these standards and practices makes it possible for domestic businesses based in developing countries to offer their stock in various world stock exchanges. As an example, Infosys, the Indian-based computer giant, has offered its stock in New York's NASDAQ, following the voluntary adoption of Generally Accepted Auditing Standards (GAAS) and Generally Accepted Accounting Practices (GAAP).

Concurrent with increased globalization, the power of MNEs grows more marked. This perceived power increase is being met by expectations that MNEs will take a more active and responsible role in social issues and act in an environmentally responsible manner. As an example, as the United Nations celebrates its 60 years of existence, calls are being made for MNEs to be more involved in helping to promote peace and human rights around the world. These expectations are not unreasonable. As a matter of fact, some MNEs have annual sales Figures that are larger than some countries, attesting to their power and possible influence on world affairs. However, the power and influence of MNEs should not be overstated, since small and medium-size enterprises in many economies still contribute more than 50 percent of GDP.

A worldwide benchmarking and competitive analysis of various business-related phenomena is also part of globalization. For example, one should note the important measure of the Index of Economic Freedom (IEF) published by The Heritage Foundation, as marked in Figure 1.9.

Other significant measures are The Ease of Doing Business measure published by the World Bank and the International Financial Corporation, as in Table 1.11, and the Global Entrepreneurship Index, generated by the Global Entrepreneurship Monitor (GEM) Consortium, which compares and contrast the intensity of entrepreneurship and innovation worldwide, as indicated in Table 1.12.

Lastly, as globalization takes hold in various countries and its influence becomes more marked, it seems that there is a growing need for a globalization infrastructure. This infrastructure includes a network of bilateral and multilateral trade agreements, associations and memberships in international bodies such as the IMF, the World Bank, the WTO; some may even suggest an associate membership role in various bodies of the United Nations. As this book explores the area of international business, one should be aware that globalization should be balanced against strong and viable domestic factors as executives make various business decisions. As globalization involves greater interaction between different national and business cultures, it is imperative that executives be aware of decisions that best exploit opportunities in the international arena.

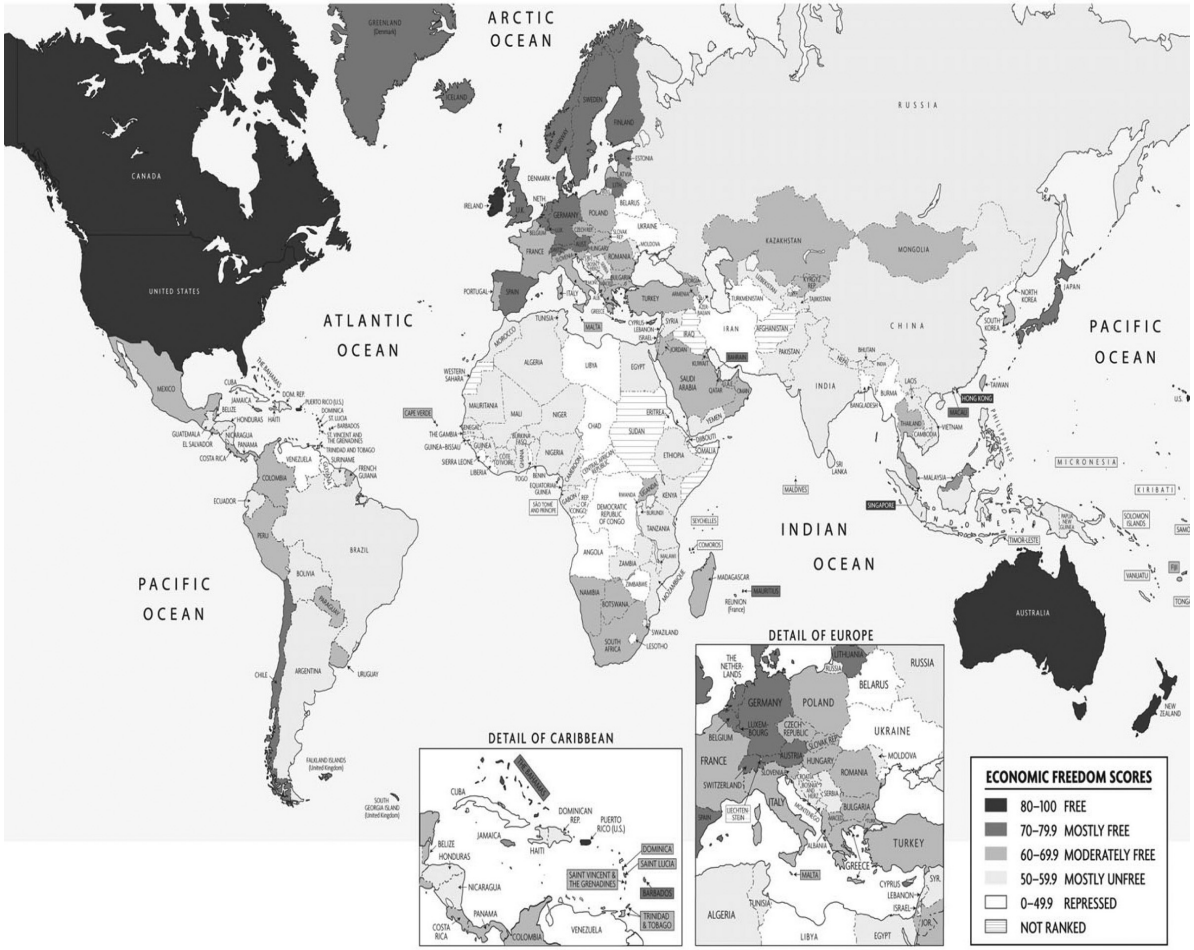

FIGURE 1.9 Distribution of economic freedom (Adapted from Miller T. Holmes, K. R. (2009) Index of economic freedom. Washington DC, The Heritage Foundation and Dow Jones & Company, Inc., 2009)

TABLE 1.11 Top 30 Countries on the Ease of Doing Business

1. Singapore	11. Iceland	21. Switzerland
2. New Zealand	12. Japan	22. Estonia
3. United States	13. Thailand	23. Korea
4. Hong Kong, China	14. Finland	24. Mauritius
5. Denmark	15. Georgia	25. Germany
6. United Kingdom	16. Saudi Arabia	26. Netherlands
7. Ireland	17. Sweden	27. Austria
8. Canada	18. Bahrain	28. Lithuania
9. Australia	19. Belgium	29. Latvia
10. Norway	20. Malaysia	30. Israel

Source: World Bank and the International Finance Corporation (2009). *Doing Business 2009.* Washington, DC: the World Bank.

TABLE 1.12 The Rank of the Countries in Terms of the Global Entrepreneurship Index

Rank	*Country*	*Gross domestic product adjustment for purchasing power (GDPPP)*	*Rank*	*Country*	*Gross domestic product adjustment for purchasing power (GDPPP)*
1.	New Zealand	25320	23.	France	31458
2.	Iceland	39603	24.	Czech Republic	22077
3.	Denmark	36903	25.	Spain	29951
4.	United States	44384	26.	United Arab Emirates	35661
5.	Australia	33947	27.	Portugal	21555
6.	Sweden	33799	28.	Italy	30777
7.	Ireland	46587	29.	Malaysia	13251
8.	Norway	45206	30.	Germany	31855
9.	Canada	35776	31.	Peru	6617
10.	Finland	34654	32.	Jordan	4287
11.	Switzerland	35106	33.	Latvia	15781
12.	Israel	30578	34.	Japan	33014
13.	Hong Kong	38227	35.	Croatia	14040
14.	Netherlands	34059	36.	Colombia	8631
15.	Chile	13494	37.	Poland	13615
16.	Slovenia	24172	38.	China	8242
17.	Belgium	34580	39.	Uruguay	11028
18.	Singapore	31652	40.	South Africa	14159
19.	United Kingdom	34075	41.	Argentina	15437
20.	Korea	25574	42.	Hungary	19451
21.	Puerto Rico	20223	43.	Dominican Republic	8760
22.	Austria	36445	44.	Turkey	9307
45.	Egypt	5388	55.	Philippines	5207
46.	Macedonia	8822	56.	Bolivia	4453
47.	Thailand	9435	57.	Venezuela	7315
48.	Greece	26483	58.	Brazil	9176
49.	Kazakhstan	9841	59.	Bosnia and Herzegovina	7048

(*Continued*)

TABLE 1.12 Cont.

Rank	*Country*	*Gross domestic product adjustment for purchasing power (GDPPP)*	*Rank*	*Country*	*Gross domestic product adjustment for purchasing power (GDPPP)*
50.	Romania	10206	60.	Mexico	10963
51.	Jamaica	4503	61.	Ecuador	7456
52.	India	3789	62.	Uganda	1648
53.	Serbia	5351	63.	Iran	3456
54.	Russia	12595			

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Global Focus – The Growth of SMEs

Small and medium-size enterprises have gone global using an aggressive approach in producing and marketing both traditional and high-technology products. As an example, Diesel Company of Italy extended globally from a humble beginning in 1978.

Diesel

For the global youth culture, Diesel's fashions are highly preferred to other brands. Founded in Italy in 1978, Diesel started out as an SME, and eventually grew to achieve annual sales of more than US$1 billion, 85 percent of which comes from abroad. Diesel produces unusual but popular men's and women's casual wear. Competing with Donna Karan and Tommy Hilfiger, Diesel wear is futuristic. Its jeans come in exotic shades and styles. Diesel management sees the world as a single, borderless macro-culture, and Diesel staff includes an assortment of personalities from all parts of the globe who create an unpredictable, dynamic vitality, and energy. The firm focuses on design and marketing, leaving the production of jeans to subcontractors.

Diesel is Europe's hottest blue jeans brand, and has expanded its distribution to over 80 countries through department stores and specialty retailers, as well as some 200 Diesel-owned stores from Paris to Miami to Tokyo. At over $100 a pair, Diesel jeans are expensive for many, but controversial advertising has propelled the company to huge international success. The company's advertising has featured sumo wrestlers kissing, a row of chimpanzees giving the fascist salute, and inflatable naked dolls in a board meeting with a hugely overweight CEO. Its ads poke fun at death, obesity, murder, and do-gooders. Some people in the USA see the prankish campaigns as politically incorrect. For instance, under pressure from activists, Diesel withdrew ads that applauded smoking and gun ownership with slogans such as "145 cigarettes a day will give you that sexy voice and win new friends." Another ad featured nuns in blue jeans below the copy: "Pure, virginal 100 percent cotton. Soft and yet miraculously strong."

If Starbucks can charge several dollars for coffee, then Diesel executives believe they can persuade consumers to pay $108 for its jeans. Diesel was one of the first companies to have

a major Internet presence (www.diesel.com). Selling jeans via an online virtual store, Diesel's web advertising is hip, with a powerful, market-friendly message that drives its popularity to youth worldwide. The firm introduces some 1,500 new designs every 6 months, and employs a multicultural team of young designers who travel the globe for inspiration and weave their impressions into the next collection.

Diesel is a classic success story in international business by a smaller firm. Its strategy is instructive for other marketers of jeans such as Kitson, Lucky Brand, Mavi Jeans, and 7 For All Mankind.

Sources: Diesel's online website at www.diesel.com; Edmondson, Gail (2003). Diesel is smoking but can its provocative ads keep sales growth hot?, *Business Week,* February 10, p. 64; Hoover's online website for Whirlpool Corporation, www.hoovers.com; Helliker, Kevin (1998). "Teen retailing: the underground taste makers – is Diesel apparel a bit too trendy for its own good?", *Wall Street Journal,* December 9, p. B 1; OECD (1997). *Globalization and Small and Medium Enterprises (SMEs).* Paris: OECD; Sansoni, Sylvia (1996). "Full steam ahead for Diesel; will its pricey jeans and outrageous ads succeed in the *U.S.?" Business Week,* April 29, pp. 58–60.

COUNTRY FOCUS

CHINA

World Rank (EFI 2009): 132

Regional Rank (EFI 2009): 28

Quick facts

Population: 1.3 billion

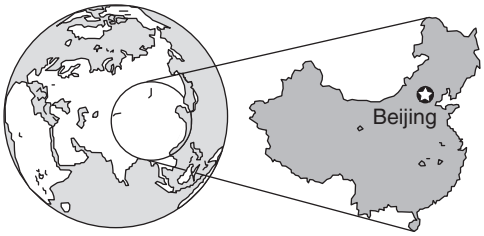
GDP (PPP): $6.1 trillion; 11.1 percent growth in 2006; 10.1 percent 5-year compound annual growth; $4.644 per capita

Unemployment: 4.0 percent

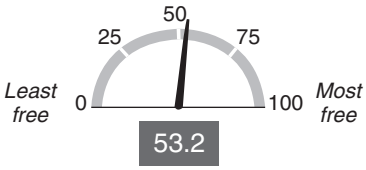
Inflation (CPI): 4.8 percent

FDI inflow: $69.5 billion

2006 data unless otherwise noted



Economic freedom score



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