GLOBAL EDITION

INTERNATIONAL MANAGEMENT

Managing Across Borders and Cultures

Text and Cases

TENTH EDITION

Helen Deresky | Stewart R. Miller

International Management

Managing Across Borders and Cultures

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To my husband, John, for his love and support, and to my family members,
who always inspire me:
John J. and his wife Alyssa: John Rock, Helena, Max
Mark and his wife Sherry: Jacob, Sarah, Rachel
Lara and her husband Thomas: Thomas (TJ), Luke.
Helen

To my wife, Tracy, and son, Matthew,
for their constant encouragement and unending love.
Stewart

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Preface

International Management: Managing Across Borders and Cultures explores how recent developments and trends within a hypercompetitive, digitally driven global economy present managers with challenging situations. Companies seeking to operate overseas are confronted with varied and dynamic environments in which they must accurately navigate the political, legal, technological, competitive, and cultural factors that shape their strategies and operations. The fate of overseas operations depends greatly on the international manager's cultural skills and sensitivity as well as on their ability to carry out the company's strategy within the context of the host country's business practices.

NEW TO THIS EDITION

This edition has 11 chapters, with a particular focus on global strategic positioning, entry strategies and alliances, effective cross-cultural understanding and management, and developing and retaining an effective global management cadre. It has been revised to reflect current research, events, and global developments and includes examples of companies around the world from the popular business press such as *Financial Times, Wall Street Journal, Fortune International,* and *Bloomberg Businessweek.* The following section summarizes specific features and changes:

- **Integrative case:** A new comprehensive case in the Integrative section "IKEA's Challenges in Russia"
- **Comprehensive cases:** All the comprehensive cases are new.
    - Part 1, Case No. 1. Eliminating Modern Slavery from Supply Chains: Can Nestlé Lead the Way?
    - Part 1, Case No. 2. 'Enrich, Not Exploit': Can the New CSR Strategy Help Body Shop Retain Its Glory?
    - Part 2, Case No. 3. Cross-Cultural Challenges for a Singaporean Expatriate in Zurich
    - Part 2, Case No. 4. Anuj Pathak Returns to India
    - Part 3, Case No. 5. Amazon.com in China: Can Elaine Chang Crack the Chinese Market?
    - Part 3, Case No. 6. Souq.com and the Battle for the Future of E-Commerce in the MENA Region
    - Part 3, Case No. 7. Coming to America: A Successful Japanese Acquisition in Global Business
    - Part 4, Case No. 8. Daimler China: Facing a Media Firestorm
    - Part 4, Case No. 9. Cirque du Soleil's Global Human Resource Management Practices
- **Chapter-end case studies:** There are nine new chapter-end case studies. These help the students to refocus on the salient, important, and key contents of the chapter in a real-world scenario.
    - Chapter 1. The European Union versus Indonesia: An Uncomfortable Trade War
    - Chapter 2. Facebook Faces Fresh Probe after Photo Leak
    - Chapter 4. Italy's D&G in China: Fashion Show Canceled in Shanghai Following Scandal
    - Chapter 5. Economic Diplomacy: Normalizing Relations between the UAE and Israel
    - Chapter 6. The Netherlands Surprises EU Rivals in the Race for Brexit Spoils

  - Chapter 7. German Brands PUMA and adidas Compete to Win Sportswear Footfall in India
  - Chapter 8. Alliances Are More Crucial Than Ever for Automakers' Survival, but Can They Work Together?
  - Chapter 10. Singapore Relocation Secured with an Ice Cream and a Low Tax Rate
  - Chapter 11. How to Bring Cross-Cultural Teams Together

- **Chapter-opening profiles:** There are nine new opening profiles, which draw the student's attention to the chapter contents with a short example, such as "The Impact of Social Media on Global Business," and "SHEIN: Conquering Global Fashion through Social Media."
- All of the "**Comparative Management in Focus**" sections have been revised and updated. For example, "Global Companies Take Advantage of Growth Opportunities in Africa" now examines all of Africa rather than just South Africa.
- All of the "**Management in Action**" boxes have been replaced or updated. For example, "'Impact Beyond Numbers'—GoodWeave's Global Solution to Child Labor," "A Guide to (Mis)communication," and "Spotify's Plan to Beat Apple."
- Coverage on geopolitical developments, such as Brexit and the tariff war with China, and their effects on strategy has been added throughout the tenth edition. Such discussions highlight the dynamic nature of the global manager's job.

CHAPTER-BY-CHAPTER UPDATES

Part 1: Understanding the Business Landscape Facing Global Managers

CHAPTER 1 EVALUATING THE GLOBAL BUSINESS ENVIRONMENT	• New Opening Profile: Businesses Battle Brexit Bureaucracy • New Management in Action (MIA): Google to Set Up German Team to Tackle Privacy and Safety Issues • New Under the Lens (UTL): South-East Asia Wakes Up to Power of Corporate Competition • Updated Comparative Management in Focus (CMF): China Loses Its Allure • New End Case: The European Union versus Indonesia: An Uncomfortable Trade War • Added and updated material on regional economic groups • New section, "Developing Skills to Enhance Your Career"
CHAPTER 2 CORPORATE SOCIAL RESPONSIBILITY, ETHICS, AND SUSTAINABILITY	• New Opening Profile: Samsung Finally Apologises to Its Workers around the World Struck Down by Disease • New UTL: SAP Alerts US to South Africa Kickback Allegations • Revised CMF: Doing Business in China— Censorship, Human Rights and the Challenge for Multinationals • New UTL: Volkswagen under the Spotlight • New UTL: Specialty Products, Support, and Shared Value Are Key to Success: India • New MIA: 'Impact Beyond Numbers'—GoodWeave's Global Solutions to Child Labor • New End Case: Facebook Faces Fresh Probe after Photo Leak • New section on ethics in uses of technology—censorship and privacy

Part 2: Managing across Cultures

CHAPTER 3 HOW CULTURAL FACTORS AFFECT MANAGEMENT	• New Opening Profile: TikTok: Paving the Way for Short Video–Making Apps in India • New UTL: Seoul Fights Back against Workaholic Culture: Labour Law • New MIA: A Cultural Revolution Is Changing India, One Open-Plan Office at a Time: Office Life Modernisation

- New section, "Consequence or Cause?"
- Expanded coverage of culture's effects on management
- Inclusion of the Culture Classification Model (task versus relationship orientation)
- Updated coverage of the connection between the Internet and culture

CHAPTER 4 CROSS-CULTURAL COMMUNICATION

- New Opening Profile: The Impact of Social Media on Global Business
- New UTL: Native English Speakers Must Learn How They Come Across
- New MIA: A Guide to (Mis)communication
- New End Case: Italy's D&G in China: Fashion Show Canceled in Shanghai Following Scandal
- New sections on trust in the digital age and second language use

CHAPTER 5 DECISION-MAKING AND NEGOTIATING ACROSS CULTURES

- New Opening Profile: Hitachi Looks for Deal with ABB on Power Grids Business
- New UTL: Ryanair Secures UK Licence in Preparation for No-Deal Brexit
- New MIA: Spotify's Plan to Beat Apple: Sign the Rest of the World
- New End Case: Economic Diplomacy: Normalizing Relations between the UAE and Israel
- New section on negotiating styles and dealing with translators

Part 3: Strategic Planning and Implementation for Cross-Border Operations

CHAPTER 6 DEVELOPING STRATEGY

- New Opening Profile: SHEIN: Conquering Global Fashion through Social Media
- New MIA: Why Dyson Is Shifting Its HQ to Singapore
- Updated CMF: Global Companies Take Advantage of Growth Opportunities in Africa
- Updated and Revised MIA: Strategic Planning for Emerging Markets
- New UTL: Revolut's Russian Founder Stirs Up Lithuania's Fintech Debate
- New End Case: The Netherlands Surprises EU Rivals in the Race for Brexit Spoils
- Revised section on transnational strategies
- New section on the Strategy Diamond to help with formulating strategies
- New sections of liability of foreignness and foreign direct investment decisions under uncertainty
- Expanded section on e-business and born globals
- Expanded, revised feature on strategic planning for emerging markets
- Updated data and charts on global Internet usage and global services
- New features and updated examples focusing, among others, on Singapore, Africa, Lithuania, and China as well as features on how the uncertainty from Brexit affects the strategic decision of multinational companies

CHAPTER 7 IMPLEMENTING STRATEGY

- New Opening Profile: Deal with Ericsson Signals a Shift in Malaysia's 5G Strategic Alliances
- Updated CMF: Joint Ventures in the Russian Federation
- Revised and Updated UTL: Breaking Down Barriers for Small or Medium-Sized Enterprises (SMEs)
- New UTL: Ford to Use Blockchain in Pilot to Trace Cobalt Mined in Congo

- Updated MIA: Infosys's Path from Emerging Start-up to Emerging MNC
- New End Case: German Brands PUMA and adidas Compete to Win Sportswear Footfall in India
- New sections regarding implementing strategies for equity and non-equity strategic alliances and wholly owned subsidiaries
- Updated and expanded discussion of motivations and benefits of global and cross-border alliances
- New section on trends regarding labor and supply chain sourcing, which provide further updates on issues facing managers

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CHAPTER 8 ORGANIZING FOR GLOBAL OPERATIONS

- New Opening Profile: UNIQLO's Business Model and Organizational Strategy for Global Expansion
- New UTL: Volkswagen Makes Sweeping Changes to Management and Structure
- New UTL: Unilever Backs Down on Plan to Move Headquarters from UK
- New UTL: Yum China Battles McDonald's in China
- New End Case: Alliances Are More Crucial Than Ever for Automakers' Survival, but Can They Work Together?
- New sections on dual headquarters and business groups
- New section, "Teams as a Global–Local Structure"
- New sections on organizational structure in the digital economy and digital organizational readiness

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Part 4: Managing Global Human Resources

CHAPTER 9 INTERNATIONAL HUMAN RESOURCE MANAGEMENT

- Updated Opening Profile: Staffing Company Operations
- Updated UTL: Tata's Staffing Challenges in the United States
- New UTL: Expatriate Employees Struggle to Readjust to Old Lives
- Updated MIA: Starbucks' Java Style Helps to Recruit, Train, and Retain Local Managers in China
- Updated research information and focuses on the "war for talent" around the world, in particular the competition for talent in emerging markets
- Updated information on the role of IHRM in global strategies, staffing for global operations, and training host-country nationals

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CHAPTER 10 DEVELOPING GLOBAL MANAGERS AND TEAMS

- Updated Opening Profile: The Expat Life
- New UTL: Should I Stay or Should I Go? Overseas Jobs Demand the Extra Mile
- New MIA: The Emergence of a Virtual Multinational Enterprise
- New UTL: German Manufacturer to Close Two UK Plants
- Updated CMF: Labor Relations in Germany
- New End Case: Singapore Relocation Secured with an Ice Cream and a Low Tax Rate
- Expanded and updated sections, "Global Management Teams," "Expatriate Career Management," and "The Role of Women in International Management"
- Updated information on the role of organized labor around the world and its impact on strategy and human resources management.
- New feature on best practices for virtual multinational companies
- New survey results regarding expatriate retention and the roles of their families
- New feature examining the role of expatriates' careers in knowledge transfer to the firm

CHAPTER 11 MOTIVATING AND LEADING	• New Opening Profile: Emirates' Tim Clark: Leading through Thick and Thin • New UTL: Bad Bosses Are Making the UK's Productivity Puzzle Worse • New UTL: Japanese Boards Move to Open Up to Overseas Executives • New Under the Lens: French Companies Lead the Way on Gender Diversity • Updated MIA: Leadership in a Digital World • New End Case: How to Bring Cross-Cultural Teams Together • Updated and expanded sections on reward systems, culture, and job motivation as well as the global leader's role and environment • Updated section on leadership in a digital world

SOLVING TEACHING AND LEARNING CHALLENGES

Most students who take the International Management course do not yet have the international exposure and the understanding of the cultural differences in which a business must operate. This text guides students in what actions to take and how to develop the requisite skills to formulate and implement international strategies, to conduct effective cross-national interactions, and to manage daily operations in and with foreign subsidiaries as well as with global allies and partners. This text takes the perspective of managers around the world so that students can learn how to work effectively in cross-national teams and how to combine best practices for the local environment in which the firm is operating.

To ensure students understand the change in decision making due to cultural shifts, this text uses the following features to keep the attention of students by challenging them to think critically about the practical applications of the text.

Cases and the term project:

ICMR
IBS Center for Management Research
www.icmrindia.org

Case 5 Amazon.com in China: Can Elaine Chang Crack the Chinese Market?

This case was written by ***Koti Vinod Babu,*** *under the direction of* ***Debapratim Purkayastha,*** *IBS Hyderabad. It was compiled from published sources, and is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.*

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> *"China is a very important market for Amazon. We're committed to growing our business here."*

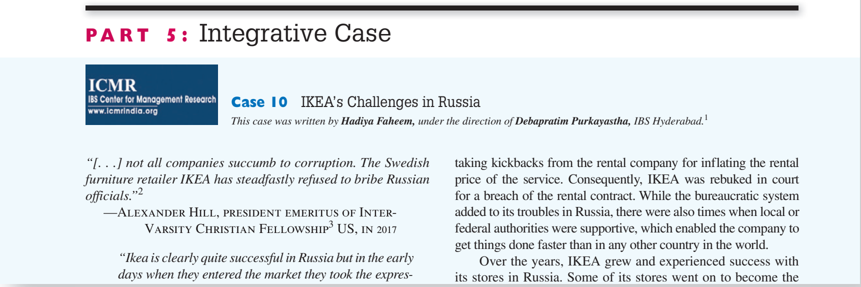
About Amazon

Amazon was founded in June 1994 by Jeff Bezos (Bezos). In June 1995, he launched his online bookstore, Amazon.com. It soon increased its product portfolio and became a force to reckon with in retailing. Analysts felt that by offering low prices, a wide selection, and a great customer experience, Amazon was able to drive traffic (customers) and increase

Part end cases help students to recognize, to provide analysis, and make and implement decisions in complex situations experienced by real companies.

Chapter end cases help students to recognize and apply the chapter concepts in a specific situation.

The new **comprehensive case** in the Integrative section—"IKEA's Challenges in Russia"—is especially informative and challenging because it covers a range of topics from the entire book.



PART 5: Integrative Case

ICMR
IBS Center for Management Research
www.icmrindia.org

Case 10 IKEA's Challenges in Russia

This case was written by ***Hadiya Faheem,*** *under the direction of* ***Debapratim Purkayastha,*** *IBS Hyderabad.*[1]

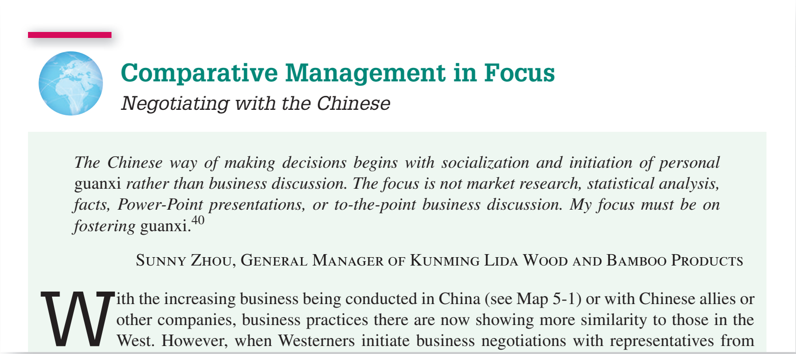
> *"[. . .] not all companies succumb to corruption. The Swedish furniture retailer IKEA has steadfastly refused to bribe Russian officials."*[2]
>
> —ALEXANDER HILL, PRESIDENT EMERITUS OF INTER-VARSITY CHRISTIAN FELLOWSHIP[3] US, IN 2017

> *"Ikea is clearly quite successful in Russia but in the early days when they entered the market they took the expres-*

taking kickbacks from the rental company for inflating the rental price of the service. Consequently, IKEA was rebuked in court for a breach of the rental contract. While the bureaucratic system added to its troubles in Russia, there were also times when local or federal authorities were supportive, which enabled the company to get things done faster than in any other country in the world.

Over the years, IKEA grew and experienced success with its stores in Russia. Some of its stores went on to become the

The popular **Integrative Term Project** has been retained, providing the opportunity for students to pull together the concepts and management decisions and actions covered in the book. This end-term project challenges students to create teams that take on the role of top management in a situation that requires applying the entire content of the course.



Comparative Management in Focus

Negotiating with the Chinese

The Chinese way of making decisions begins with socialization and initiation of personal guanxi *rather than business discussion. The focus is not market research, statistical analysis, facts, Power-Point presentations, or to-the-point business discussion. My focus must be on fostering* guanxi.[40]

Sunny Zhou, General Manager of Kunming Lida Wood and Bamboo Products

With the increasing business being conducted in China (see Map 5-1) or with Chinese allies or other companies, business practices there are now showing more similarity to those in the West. However, when Westerners initiate business negotiations with representatives from

Comparative Management in Focus–Allows the students to apply chapter concepts to a specific country or region to gain further insight into comparative management. These provide in-depth comparative applications of chapter topics in a broad range of specific countries or regions, thus helping the students to understand cultural differences—what applies in one culture may need a different approach elsewhere.

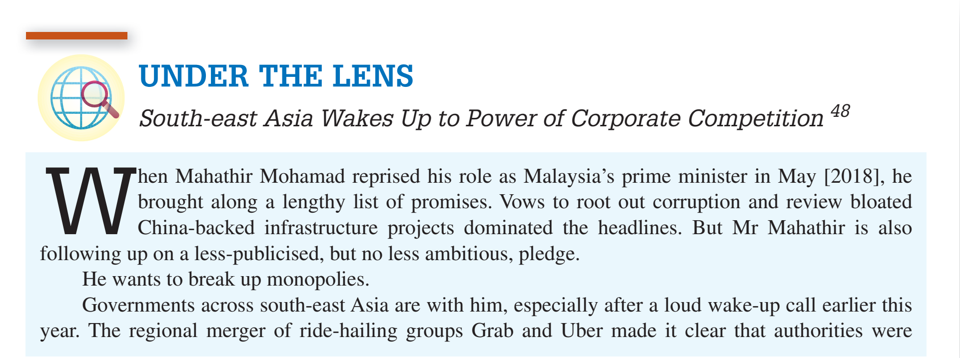
MANAGEMENT IN ACTION

Spotify's Plan to Beat Apple: Sign the Rest of the World[76]

Few could be happier about the synergy between music streaming and Latin America than Spotify — whose stock price, and arguably its future, depend on repeating the same trick in new markets.

Spotify needs to keep adding subscribers to make Wall Street happy as it battles Apple, one of the richest companies in the world, to dominate how people listen to music. There is a finite amount of affluent 20-somethings in western cities to pay Spotify $10 a month for its services. However, after growing at a torrid clip in Europe and the US, investors are betting that Spotify can sign up hundreds of millions of people in what the Swedish company bluntly calls the "Rest of the World".

Management in Action–Helps the students understand through real examples of managing regarding the concepts in the chapter. These examples, often gleaned from the press, demonstrate to students what managers actually do to address the kinds of situations and challenges in the chapter.



UNDER THE LENS

South-east Asia Wakes Up to Power of Corporate Competition [48]

When Mahathir Mohamad reprised his role as Malaysia's prime minister in May [2018], he brought along a lengthy list of promises. Vows to root out corruption and review bloated China-backed infrastructure projects dominated the headlines. But Mr Mahathir is also following up on a less-publicised, but no less ambitious, pledge.

He wants to break up monopolies.

Governments across south-east Asia are with him, especially after a loud wake-up call earlier this year. The regional merger of ride-hailing groups Grab and Uber made it clear that authorities were

Under the Lens–Helps students to gain further insight into an important topic in the chapter by focusing on a specific subject in a specific situation. This feature can then "tune in" the student to real situations that demonstrate the chapter challenges. One of the Under the Lens is *"Should I Stay, or Should I Go? Overseas Jobs Demand the Extra Mile"* from Chapter 10.

DEVELOPING SKILLS TO ENHANCE YOUR CAREER

For students to succeed in a rapidly changing job market, they should be aware of their career options and how to go about developing a variety of skills. Chapter 1 includes a new section on *Developing Skills to Enhance your Career*. It focuses on five critical employability skills: (1) communication, (2) critical thinking, (3) collaboration, (4) knowledge application/analysis, and (5) business ethics/social responsibility. Specifically, it highlights how the material in this textbook helps to develop skills in each of these areas to prepare students for success in their professional endeavors. Each chapter offers many opportunities to acquire and refine skills that can lead to professional success in the digital economy. For example, the Opening Profiles, Management in Action sections, Under the Lens sections, and Comparative Management in Focus sections provide an opportunity to engage the students with real-world situations and challenges facing multinational firms and their leadership teams. Experiential learning exercises offer the opportunity to learn by doing—often a hands-on assignment involving a group. The case studies entail real-life situations of people and firms—some of which involve best practices while others reveal negative consequences. The case studies provide students with valuable opportunities to engage in critical thinking, apply key frameworks, develop recommendations, and even use breakout sessions in which students can refine their ideas and analytical skills in a team setting. Moreover, we include some cases that emphasize the digital economy (e.g., blockchain) while addressing a social responsibility issue (e.g., work conditions). All five employability skills are essential—whether you seek an international management position or a functional role.

Employability Skills Matrix

	Critical thinking	Communication	Collaboration	Knowledge Application and Analysis	Social Responsibility
Opening Profiles	✔	✔		✔	
Management in Action	✔	✔		✔	✔
Under the Lens	✔	✔		✔	✔
Comparative Management in Focus	✔			✔	✔
Application exercises	✔	✔	✔	✔	
Experiential exercises	✔	✔	✔	✔	
Case studies	✔	✔	✔	✔	✔

INSTRUCTOR RESOURCES

For more information and resources, visit http://www.pearsonglobaleditions.com/.

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—Helen Deresky &
Stewart R. Miller

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PART

1 Understanding the Business Landscape Facing Global Managers

PART OUTLINE

CHAPTER 1

Evaluating the Global Business Environment

CHAPTER 2

Corporate Social Responsibility, Ethics, and Sustainability

CHAPTER

1 Evaluating the Global Business Environment

OBJECTIVES

1-1. To understand the global business environment and how it affects the strategic and operational decisions that managers must make

1-2. To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face

1-3. To recognize the role of the legal environment in international business

1-4. To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe

1-5. To explore essential skills for developing your career as a manager in a multinational company

Opening Profile: Businesses Battle Brexit Bureaucracy[1]

Simon Spurrell's company is among a small but significant group of Britain's small and medium-sized businesses which have suffered a decline in or loss of business since post-Brexit rules took effect in January 2021. In June 2021, just six months after the introduction of these rules, Spurrell's firm the Cheshire Cheese Company halted bulk sales to the European Union in the face of spiraling shipping costs. Fees to ship consignments that once came in at around £300, soared to more than £1300. It was, says Spurrell, simply no longer viable for the Macclesfield-based cheesemaker to trade with Europe.

The experience of the Cheshire Cheese Company is not unique. According to one survey by the United Kingdom's Institute of Directors (IoD), 17 percent of UK companies have halted trade with the European Union since the departure from the EU single market and customs union. While the UK government hailed the Brexit deal as a huge success, many firms dispute this. While the agreement confirmed zero tariff, zero quota trading between the United Kingdom and the European Union, businesses say the reality of the new trading environment is not as simple or straightforward. Indeed, a large number of firms have complained that the new arrangements involve too many expensive and time-consuming checks, customs processes, and bureaucracy. Many smaller businesses argue that they do not have the resources, both in terms of finances and manpower, to navigate the new regime when exporting and importing with the bloc.

Some organizations, such as Evolve Beauty, an eco-friendly beauty firm, have sought to reduce costs by setting up operations in the European Union so that they can continue to serve their existing markets. While it might be a useful strategy for the medium and long term, this does mean costs go up initially as jobs are transferred between the United Kingdom and the European Union and new infrastructure is set up. Even with this increased investment, Laura Rudoe, who runs Evolve Beauty, says some key markets are now closed to the business.

The post-Brexit challenges have caused some companies to begin laying off staff. Somerset-based company Something Different, which distributes clothes and gifts to small retailers and visitor centers around Europe, used to send out 2,500 parcels a day to EU customers at its peak. By June 2021 that number had fallen to 100 to 150 a day, forcing managing director Alfred van Pelt to lay off nine of his twenty-strong workforce. There does not appear to be an easy solution to navigate the downturn in trade. The value of Something Different's parcels can be low—less than £30 each—and with shipping costs of £8 plus £17.50 required to cover the cost of import declarations, customers are understandably reluctant to shoulder the additional costs.

Many UK businesses fear that the trading environment could soon become even tougher. The mitigations the Boris Johnson government put in place to ease the Brexit transition were to come to an end at the close of 2021. Import controls will be introduced at the borders between Britain and the European Union. The IoD survey found that two thirds of companies forecast the new controls would have an adverse impact on trade.

Some commentators claim that the true impact of Brexit is being masked by the fall-out from the COVID-19 pandemic. Analysis by the Centre for Economic Performance (CEP) at the London School of Economics[2] highlighted growing business confidence and a notable increase in economic activity in early 2021. The businesses questioned were optimistic about the trading environment improving since the start of the pandemic; however, they were still deeply concerned about the fall-out from Brexit. The big difficulty is that it is tough to separate out the economic impacts of COVID-19 and the various lockdowns, given the huge amount of stimulus provided by the Bank of England and the UK government in the form of the furlough scheme and VAT, rent, and rate deferrals. While such initiatives were essential for the survival of many businesses, they also delayed a true picture of the outlook post Brexit from emerging. Although the UK economy was outperforming many of its international competitors during the pandemic, in part thanks to the speed of its vaccine roll-out program and its uptake by the UK population, as of the end of 2021, it remains to be seen how long this advantage will stand in the following year(s). What economic experts will be watching carefully is how much Brexit slows down any trading rebound, particularly in comparison with similar sized economies such as France.

The opening section briefly describes the experiences of many small and medium-sized businesses following the Brexit agreement. Brexit has brought about massive changes to business. New customs regulations have increased the administrative burden and caused shipping delays. Goods are often stuck in ports, awaiting paperwork. Contract amendments have been necessary as have additional intellectual property right clauses. Many companies lack the resources to function properly in the post-Brexit environment. It is argued that the true picture is yet to emerge, since the figures have been affected by various government measures taken to mitigate the economic fallout from COVID-19. Clearly, those involved in international and global business have to adjust their strategies and management styles to the global disruption brought on by the digital economy as well as other global developments.

As well as the disruption driven by the digital economy, typical challenges that managers face involve politics, cultural differences, global competition, terrorism, technology, sustainability, and economic uncertainties. For example, changes to the European Union (Brexit) and the free trade agreement between Mexico, Canada, and the United States have led many multinational companies to reassess their strategies and investment decisions in Europe and the Americas as of the writing of this text.

In addition, the opportunities and risks of the global marketplace increasingly bring with them the societal obligations of operating in a global community. Many companies face increased scrutiny from investors and nongovernment organizations (NGOs) to provide a thorough account of the environmental and social implications of their supply chains. For instance, the London Metal Exchange has supported a consortium of metals traders and financial institutions to build a blockchain-based system to track the trade of physical metal. Through digital technology—a blockchain-based system—"you know where your metal is, you have proof of your metal, but nobody can see what your metal is and where your metal is," according to Matt Chamberlain, chief executive of the London Metals Exchange. Managers in those companies are struggling to find ways to balance their social responsibilities, their reputations, and their competitive strategies.

To compete aggressively, firms must make considerable investments overseas—not only capital investment but also investment in well-trained managers with the skills essential to working effectively in a multicultural environment. In any foreign environment, managers need to handle a set of dynamic and fast-changing variables, including the pervasive variable of culture that affects every facet of daily life. Added to that behavioral "software" are the challenges of the digital economy, which are rapidly changing the dynamics of competition and operations.

International management (IM), then, is the process of developing strategies, designing and operating systems, and working with people around the world to ensure sustained competitive advantage. Corporate leaders need to instill a global mindset with their employees while navigating the diverse competitive landscapes as well as the uncertainty associated with the digital economy. Even more, international managers need to consider how to recruit, train, and develop the new generation of talent from around the world. These management challenges are shaped by the prevailing conditions and ongoing developments in the world, as outlined in the following sections and subsequent chapters.

1-1. To understand the global business environment and how it affects the strategic and operational decisions that managers must make

THE GLOBAL BUSINESS ENVIRONMENT

Following is a summary of some of the global situations and trends that managers need to monitor and incorporate in their strategic and operational planning. We discuss the status of globalization and the debates about its effects on countries, on corporations, on human capital, and on the relationship with **information technology (IT)**. We look briefly at some of the areas in the world in which you might find yourself doing business, with a particular focus on China (see World Map 1, after the chapter, for reference throughout this book).

Globalization

The types of events described in the opening profile illustrate the interdependence of the business, politics, trade, finances, and technological environment around the world. That interdependence has come to be known as **globalization**—global competition characterized by networks of international linkages comprising economic, financial, political, and social markets that in turn bind countries, institutions, and people in an interdependent global economy. These linkages have resulted in the free movement of goods, people, money, and information across borders. Economic integration results from the lessening of trade barriers and the increased flow of goods and services, capital, labor, and technology around the world. The invisible hand of global competition has been propelled by the phenomenon of an increasingly borderless world, by technological advancements, and by the rise of emerging markets such as China and India—a process that Thomas Friedman called "leveling the playing field" among countries—or the "flattening of the world."[3] That was then, but this is now—and some are now arguing that the world is no longer so flat, such that the pace of globalization has slowed and, in some instances, has declined. This retreat is resulting from political crises, cybertheft, protectionism, and increasing trade barriers.[4] As Bremmer notes in the *Harvard Business Review*, the governments of many developing nations have become increasingly nationalistic in protecting their own industries rather than open them to foreign companies, in particular multinational corporations (MNCs).[5]

On a strategic level, Ghemawat argues that the business world is in a state of "semi-globalization"—that various metrics show that only 10 to 25 percent of economic activity is truly global. He bases this conviction on his analysis that "most types of economic activity that can be conducted either within or across borders are still quite localized by country."[6] Ghemawat posits that we are in an "unevenly globalized world" and that business opportunities and threats depend on the individual perspective of country, company, and industry.[7] He observes that, as emerging market countries have gained in wealth and power and increasingly call their own shots, a reverse trend of globalization is taking place—evolving fragmentation—which he says is having, ironically, a ripple effect of globalization.[8]

Global Trends

Nevertheless, globalization is still here; it is a matter of degree and direction in the future. The rapid development of globalization over the past decades is attributable to many factors, including the burgeoning use of technology and its accompanying uses in **international business**; political developments that enable cross-border trade agreements; and global competition for the growing numbers of consumers around the world. From studies by Bisson et al. and others, we can also identify six key global trends that provide both challenges and opportunities for companies to incorporate into their **strategic planning**:[9]

- The changing balance of growth toward emerging markets compared with developed ones, along with the growing number of middle-class consumers in those areas
- The need for increased productivity and consumption in developed countries to stimulate their economies
- The increasing global interconnectivity—technologically and otherwise, as previously discussed—and in particular the phenomenon of an "electronically flattened earth" that gives rise to increased opportunity and fast-developing competition
- The increasing gap between demand and supply of natural resources, in particular to supply developing economies, along with the push for environmental protection
- The challenge facing governments to develop policies for economic growth and financial stability[10]
- The growing number of emerging-market companies embracing digital technologies

Globalization and Emerging Markets

There are growing concerns about rising political and **economic risks** in developed economies. Despite wariness, MNC leaders remain relatively positive on the global economy. Moreover, FDI levels fell again in 2018. According to research by the A. T. Kearney Company on the **foreign direct investment (FDI)** intentions and preferences of the leaders of 300 top companies in various industry sectors spanning six continents, companies view foreign direct investment (FDI) as crucial to profitability and sustainable competitive advantage. Indeed, 77 percent of MNC leaders indicated that FDI will grow in importance in the years ahead.[11] These corporate leaders also viewed FDI as a means to achieve localization, which implies shifting managers, production, operations, and/or marketing to local markets. The Kearney report reveals some paradoxes as corporate leaders affirm that they will be increasing foreign investment, yet the actual levels of FDI do not reflect that affirmation.

Exhibit 1-1 shows the 2017–2019 results of the A. T. Kearney Foreign Direct Investment Confidence Index. The exhibit shows the top 25 countries in which those executives have confidence for their investment opportunities. Kearney's results show that the United States continues to be in the lead since 2017 and up from 4th in 2012. China has slipped from 3rd in 2017 to 7th in 2019. Germany, Canada, and the United Kingdom ranked 2nd, 3rd, and 4th respectively. India has dropped from 8th in 2017 to 16th in 2019. There are two other notable declines in ranking: Mexico dropped from 17th to 25th while Brazil dropped from 16th to unranked during the 3-year period.[12] Overall, the results show renewed confidence in the economic recovery in the United States and Europe and that emerging economies are improving their rankings, but not enough to be in the top 25 (see Map 1-1).

Although the United States remains dominant in many new-age industries such as nanotechnology and biotechnology, emerging markets continue to grow their countries' economies, and, in turn, will provide growth markets for the products and services of developed economies. It is clear also that the phenomenon of rapidly developing economies continues.

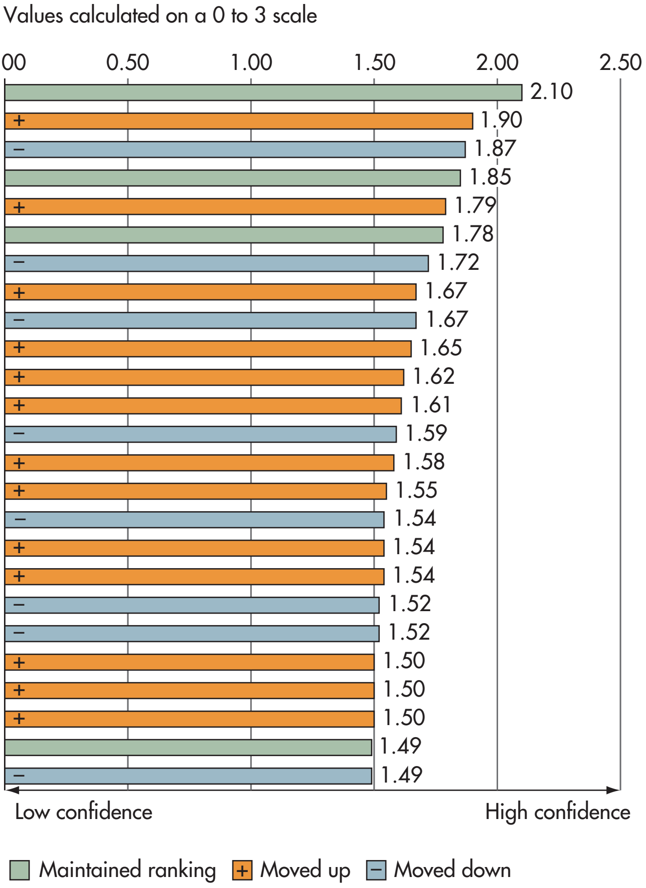
The Boston Consulting Group's (BCG) 2018 list of Global Challengers shows evidence of the growing number of companies from emerging markets: companies that are growing faster than comparable companies are. Although there are relatively fewer from China and India than in previous years, there are more from smaller countries, including five from Thailand, four from Turkey, and three from Chile, which are at all-time highs.[13] Examples of the now more mature emerging giants are, from China, Huawei Technologies, Lenovo Group, and Baosteel;

EXHIBIT 1-1 **2019 Foreign Direct Investment Confidence Index Top 25 Targets for FDI**

The main types of FDI are acquisition of a subsidiary or production facility, joint ventures, licensing, and investing in new facilities or expansion of existing facilities.

Ranking

2016	2017	2018	**2019**		
1	1	1	**1**	United States	2.10
4	2	3	**2**	Germany	1.90
3	5	2	**3**	Canada	1.87
5	4	4	**4**	United Kingdom	1.85
8	7	7	**5**	France	1.79
6	6	6	**6**	Japan	1.78
2	3	5	**7**	China	1.72
15	13	10	**8**	Italy	1.67
7	9	8	**9**	Australia	1.67
10	10	12	**10**	Singapore	1.65
14	11	15	**11**	Spain	1.62
13	14	13	**12**	Netherlands	1.61
11	12	9	**13**	Switzerland	1.59
20	–	20	**14**	Denmark	1.58
19	15	16	**15**	Sweden	1.55
9	8	11	**16**	India	1.54
16	18	19	**17**	South Korea	1.54
18	20	21	**18**	Belgium	1.54
–	21	14	**19**	New Zealand	1.52
21	19	18	**20**	Ireland	1.52
22	22	23	**21**	Austria	1.50
–	–	–	**22**	Taiwan	1.50
–	–	–	**23**	Finland	1.50
23	–	24	**24**	Norway	1.49
17	17	17	**25**	Mexico	1.49



Source: 2019 FDI Confidence Index, © A. T. Kearney, 2019. All rights reserved. Reprinted with permission.

from India, Infosys Technologies, Tata Group, and Bharti Airtel; from Brazil, Embraer and Votorantim Group; from Mexico, Group Bimbo; from Russia, Gazprom; and from Indonesia, Bumi Resources—to name a few.

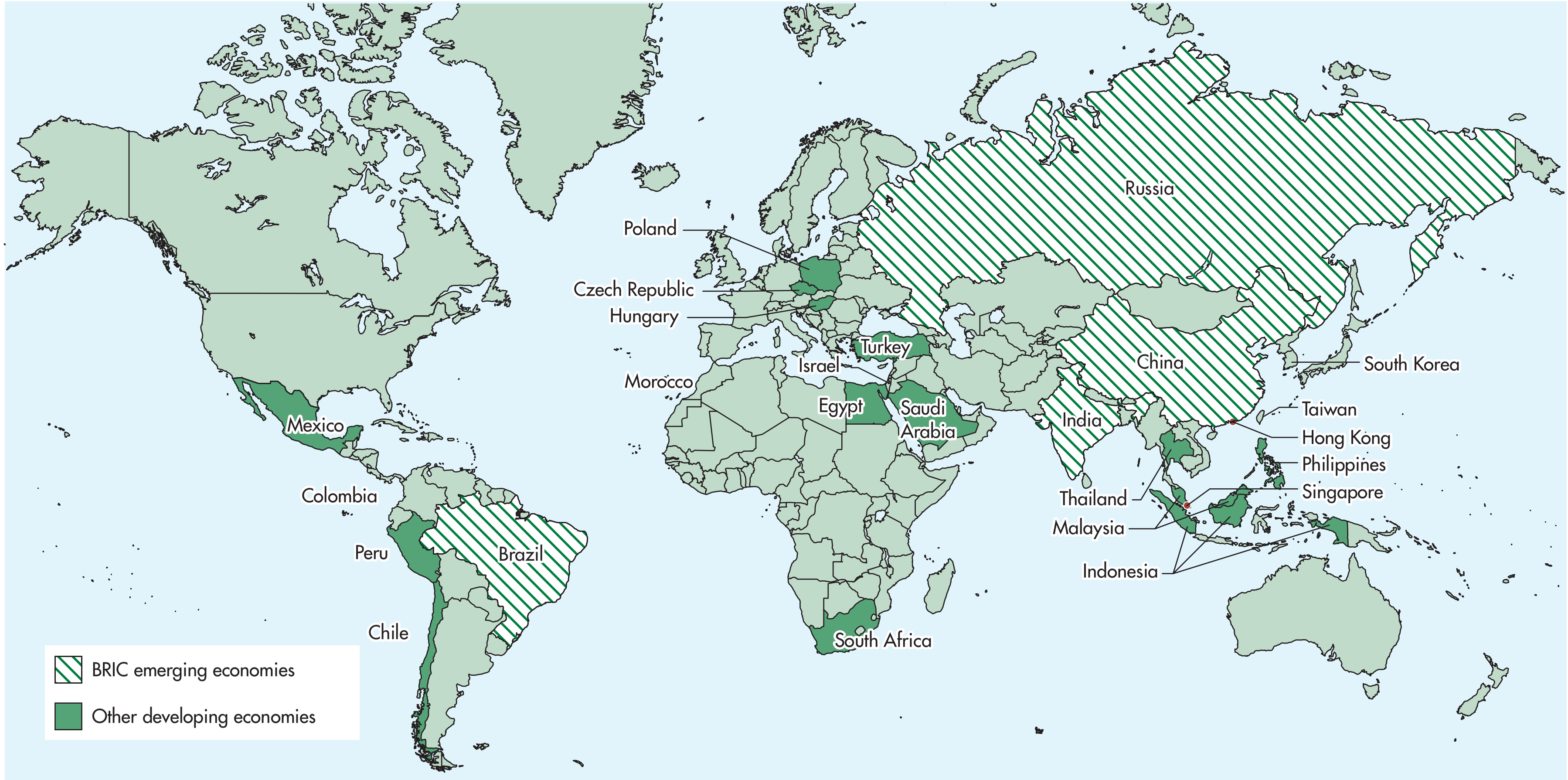
Further evidence that *globalization* is the increase in the number of emerging-market companies acquiring established large businesses and brands from the so-called developed countries. Clearly, companies in emerging markets are providing many tangible business opportunities for investment and alliances around the world and establishing themselves as competitors to reckon with. One example of a company enjoying rapid global growth through technology is China-based Tencent, which tends to acquire minority stakes in companies whose products can link to its WeChat and WeChat Pay platforms. Tencent offers those companies the opportunity to reach over one billion users.

> *It's almost impossible to succeed in China retail without Alibaba or Tencent.*
>
> JAMES ROOT, HONG KONG-BASED PARTNER AT BAIN & CO.[14]

Backlash against Globalization

As we consider the many facets of globalization and how they intertwine, we observe how economic power and shifting opinions and ideals about politics and religion, for example, result in an increasing backlash against globalization and a rekindling of nationalism. Capitalism and open markets, most notably by Western companies, have propelled globalization. Now, digitally

MAP 1-1 **Emerging Economies**



oriented multinational companies from China, India in particular, represent the new drivers of economic growth around the globe.[15]

The rising nationalist tendencies are evident as emerging and developing nations—wielding their economic power in attempted takeovers and inroads around the world—encounter protectionism. There is hostility toward takeovers such as Indian company Flipkart by U.S. retailer, Walmart.

Although the debate about the effects of globalization continues, it is clear that economic globalization will be advanced by corporations looking to maximize their profits with global efficiencies, by politicians and leaders wishing to advance their countries' economies, and by technological and transportation advances that make firms' production and supply networks more efficient. However, pressure by parties against those trends, as well as the resurgence in nationalism and protectionism, may serve to pull back those advances to a more regional scope in some areas or limit them to bilateral pacts.[16]

In addition, although competition to provide the best and cheapest products to consumers exerts pressure on corporations to maximize efficiencies around the world, there is also increasing pressure and publicity for them to consider the social responsibility of their activities (discussed further in Chapter 2).

Effects of Institutions on Global Trade[17]

Two major groups of institutions (supranational and national) play differing roles in globalization. Supranational institutions such as the **World Trade Organization (WTO)** and the International Labor Organization (ILO) promote the convergence of how international activities should be conducted. For example, the WTO promotes the lowering of tariffs and a common set of trade rules among its member countries. Similarly, the ILO promotes common standards of how workers should be treated. Although many supranational institutions frequently promote rules or laws favorable to foreign firms (e.g., requiring intellectual property rights protections in China), others have been criticized for infringing on national sovereignty (e.g., challenges to certain environmental laws in the United States).

National institutions, in contrast, play a role in creating favorable conditions for domestic firms and may make it more difficult for foreign firms to compete in those countries. For example, the stringent drug testing rules the U.S. Food and Drug Administration (FDA) requires and the anti-dumping rules the U.S. Department of Commerce's International Trade Administration (ITA) enforces act as entry barriers for foreign firms (see Chapter 6 for a more detailed discussion of these entry barriers).

Some supranational institutions represent the interests of a smaller group of countries. For example, the European Commission acts in the interest of EU members as a whole rather than in the interest of individual member countries. The European Commission is the executive arm of the EU and is responsible for implementing the decisions of the European Parliament and the European Council. Of relevance to international business, the European Commission speaks for the EU at the World Trade Organization and is responsible for negotiating trade agreements on behalf of the EU.[18]

Effects of Globalization on Corporations

In returning to our discussion at the corporate level, we can see that almost all firms around the world are affected to some extent by globalization and, in turn, cause globalization by their activities abroad. Firms that have investment, operations, or marketing activities in several countries are called **multinational corporations (MNCs)** or **multinational enterprises (MNEs)**. Firms from any country now compete with companies at home and abroad, and domestic competitors are competing on price by outsourcing or offshoring resources and services anywhere in the world. Often it is difficult to tell which competing products or services are of domestic or foreign origin. Examples abound—for example, do you drive an American car?

> *Look at your vehicle identification number (VIN): If it starts with 1 it is made in America; 2, Canada; 3, Mexico; 4, anywhere else in the world. The only cars allowed to park in a United Auto Workers (UAW) plant are those with VIN numbers beginning with 1 and 2.*[19]

Honda vehicles, for example, are manufactured in many markets outside of Japan: Argentina, Australia, Bangladesh, Brazil, Canada, China, France, India, Indonesia, Italy, Malaysia, Mexico, Pakistan, Peru, Philippines, Taiwan, Thailand, the United Kingdom, the United States, and Vietnam.[20]

Some companies have made multiple investments in particular countries. For example, Japan's Toyota has been investing in North America for 20 years in plants, suppliers, and dealerships as well as in design, testing, and research centers. As of 2019, it makes nine vehicles in the United States. For example, its Sienna model is assembled in Indiana. The Camry and Lexus models are made in Kentucky, while the Tundra is made in Texas.

It would seem that competition has no borders, with many global companies producing and selling a substantial portion of their global brands and services abroad than domestically. In 2018, Cisco Systems received 48.3 percent of its revenues from overseas. General Electric, however, derives 66.5 percent of its US$121 billion from overseas markets. Nestlé has 98.6 percent of its sales outside of its home market, with 42 percent of its sales coming from emerging markets. Coca-Cola has 64 percent foreign sales, while Procter & Gamble has 59 percent. [21]

The Tata Group, a conglomerate originating in India, generates over 60 percent of its revenues from its operations in over 100 international markets. In Europe, Tata has 19 companies across the continent with over 60,000 employees. In North America, it operates 13 companies with over 35,000 employees. In the Asia-Pacific region, Tata operates 16 companies consisting of over 7,000 employees. In particular, Tata has over 3,000 employees in both Singapore and China. Tata has a sizable presence in the Middle East with more than 20 companies and 10,000 employees.[22]

Investment by global companies around the world means that this aspect of globalization benefits developing economies—through the transfer of financial, technological, and managerial resources as well as through the development of local allies that later become self-sufficient and have other operations. Global companies are becoming less tied to specific locations, and their operations and allies are spread around the world as they source and coordinate resources and activities in the most suitable areas and as technology facilitates faster and more flexible interactions and greater efficiencies.

It is essential, therefore, for managers to look beyond their domestic market. If they do not, they will be even further behind the majority of managers who have already recognized that they must have a global vision for their firms, beginning with preparing themselves with the skills and tools of managing in a global environment. Companies that desire to remain globally competitive and expand their operations to other countries must develop a cadre of top management with experience operating abroad and an understanding of what it takes to do business in other countries and work with people of other cultures. Many large firms around the world are getting to the stage of evolution known as the stateless multinational, when work is sourced wherever it is most efficient; the result of this stage of development is that:

> *[F]or business leaders, building a firm that is seamlessly integrated across time zones and cultures presents daunting obstacles.* [23]

The above quote continues to resonate with multinational companies seeking to balance being global and local simultaneously. For example, India's largest technology and ecommerce start-up firms are based in its biggest cities—Bangalore and Greater Delhi serve as home to most of them. Yet Alibaba's Jack Ma told an Indian entrepreneur, "you must focus on the smaller cities and towns—they're untapped." Indeed, ecommerce growth is now fastest outside India's eight largest cities. Indian startup firms are facing increased competition from multinationals such as Amazon, which has observed the relatively higher growth rates in smaller Indian towns and cities.[24] According to Kishore Thota, an Amazon executive, "For a year or so we've been seeing this huge growth differential from outside the metros," he said. In light of the growth of online purchasing, Indian ecommerce users remain wary of online payment mechanisms, so Amazon offers them a cash payment option upon delivery. Needless to say, cash is the preferred payment choice for most Indian online transactions, suggesting that multinational companies—especially digitally oriented ones—need to understand local customers or miss huge growth opportunities.[25] For example, in 2018, Amazon created a Hindi version of its platform.

Small and Medium-Sized Enterprises (SMEs)

SMEs are also affected by and, in turn, affect globalization. They play a vital role in contributing to their national economies—through employment, new job creation, development of new products and services, and international operations, typically exporting. The vast majority (about

98 percent) of businesses in developed economies are small and medium-sized enterprises, which are typically referred to as those companies having fewer than 500 employees. Small businesses are rapidly discovering foreign markets. Although many small businesses are affected by globalism only to the extent that they face competing products from abroad, an increasing number of entrepreneurs are being approached by potential offshore customers, thanks to the burgeoning number of trade shows, federal and state export initiatives, and the growing use of websites that ease making contact and placing orders online.[26]

There has never been a better time for SMEs to go global; the Internet is as valid a tool for small companies to find customers and suppliers around the world as it is for large companies. By using the Internet, email, and web-conferencing, small companies can inexpensively contact customers and set up their global businesses.

The Globalization of Human Capital

> *Talent performance is now clearly seen as key to growth, job creation, and innovation. New approaches are emerging to stimulate entrepreneurial talent . . . Such strategies affect all aspects of talent competitiveness, including education, skilling, and re-skilling, attracting external talents and fostering co-creation with local ones, as well as encouraging imported or returning talent to stay and contribute to long-term local objectives.*[27]
>
> *2019 Global Talent Competitiveness Index Report*

Firms around the world have been offshoring manufacturing jobs to countries with lower wages for decades. Firms of all sizes have been and are continuing to produce or assemble parts of their products in many countries, that is, outsourcing by contracting to a local firm and then integrating it into their global supply chains. However, an increasing number of firms are realizing that their cost advantage of producing abroad is disappearing because wages and other manufacturing costs in countries such as China are going up, transportation costs are increasing, the risks involved in complex supply chains are becoming more apparent, and there is continuing pressure to supply jobs at home. According to Reshoring Initiative, an advocacy group, a growing number of U.S. firms are actively **reshoring** jobs back to the United States. They indicated that during the period 2010 to 1Q 2018, the 16 companies that reshored the most jobs, collectively brought back 73,000 manufacturing jobs to the United States. Apple led the way with 22,200 reshored jobs, followed by General Motors (12,988), Boeing (7,725), Ford (4,200), and Intel (4,000).[28]

But shipping costs do not affect nonmanufacturing jobs, and firms are outsourcing white-collar jobs to India, China, Mexico, and the Philippines. Customer support, medical analysis, technical work, computer programming, form filling, and claims processing—all these jobs can now move around the globe in the same way that farming and factory jobs could move a century ago.[29] We have all experienced talking to someone overseas when we call the airlines or a technology support service; now increasingly sophisticated jobs are being outsourced, leaving many people in developed economies worried about job retention.

For multinational firms, winning the war for talent is one of the most pressing issues, especially because hot labor markets in emerging markets are causing extremely high turnover rates.[30] Moreover, companies seeking to leverage a global talent pool need to recognize national differences in the abilities to "develop, attract, and empower the human capital that contributes to productivity and prosperity."[31] The Global Talent Competitiveness Index (GTCI) ranks countries according to six pillars—a country's ability to enable talent to develop, as well as what that country is doing to attract, grow, and retain talent. Two outcome-based pillars are the levels of vocational-technical skills and global knowledge skills of people in those countries. Switzerland, Singapore, and the United States ranked 1, 2, and 3 respectively in the 2019 GTCI rankings. The remaining countries in the top ten are all from Europe: Norway, Denmark, Finland, Sweden, the Netherlands, U.K., and Luxembourg. The United Arab Emirates ranked 19th, ahead of Israel (20th), Japan (22nd), South Korea (30th), Russian Federation (49th), and Brazil (72nd).[32] Table 1-1 shows the top three countries by competitiveness pillar.

TABLE 1–1 Global Talent Competitiveness Index by Pillar[33]

Pillar	Top Countries
Enabling Talent	Singapore, Switzerland, Denmark
Attracting Talent	Singapore, Luxembourg, UAE
Growing Talent	United States, Switzerland, Netherlands
Retaining Talent	Switzerland, Norway, Austria
Vocational-Technical Skills	Switzerland, United States, Germany
Global Knowledge Skills	Singapore, Iceland, United States

The 2019 Global Talent Competitiveness Index reveals several key takeaways. First, there is a growing talent inequality gap across countries. Second, entrepreneurial talent can mitigate inequalities. In China, for example, the migration of talent to the private sector has contributed to the emergence of globally competitive firms such as Ten-cent, Alibaba, and Haier. Third, digitalization and globalization enhance the role of entrepreneurial talent. Fourth, cities will assume a large role in cultivating entrepreneurial ecosystems.

Of all the developments propelling global business today, the one that is transforming the international manager's agenda more than any other is the rapid advance in IT. The explosive growth of IT is both a cause and an effect of globalization. Recently, however, large Indian IT companies such as Infosys Limited and the Tata Group were hiring their staff in the United States. Infosys, for example, has proclaimed on its website a "national commitment to hire 10,000 American workers."[34] The role of IT in international management is discussed later in this chapter, in the section titled "The Technological Environment."

FIGURE 1-1 **IT allows service jobs to be performed anywhere in the world.**

texelart/123RF GB Ltd

Regional Trading Blocs

The recent departure of the UK from the European Union draws attention to economic agreements between countries, or **regional economic groups**, which refer to "agreements among countries in a geographic region to reduce and ultimately remove tariff and nontariff barriers to the free flow of goods, services and factors of production between each other."[35] There are different types of regional economic groups, each of which is based on the level of integration between the member countries.

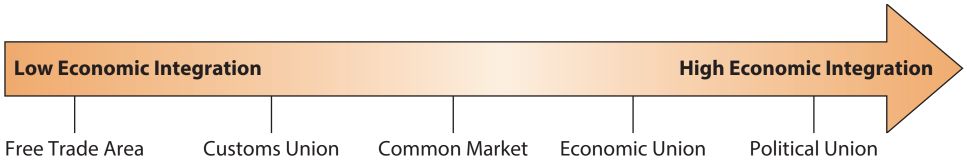
The most basic form of regional economic group is the **free trade area (FTA)**, which involves an agreement between countries that commits to removing all barriers to trade of goods and services among the member countries. However, each member country is permitted to negotiate *independently* trade policies with nonmember countries. Examples of FTAs include the European Free Trade Association, which currently consists of Iceland, Norway, Liechtenstein, and Switzerland, and the North American Free Trade Agreement between Canada, Mexico, and the United States (subsequently replaced by the USMCA [United States, Mexico, Canada Agreement]).

A **customs union** entails a deeper level of economic integration. It refers to an agreement between countries that involves the removal of all barriers to the free flow of goods and services between member countries and establishment of a *common* trade policy with nonmember countries. An example of a customs union is the Andean Community, which consists of Bolivia, Columbia, Ecuador, and Peru.

The next step toward economic integration is a **common market**, which refers to an agreement between a group of countries that commit to the removal of all barriers to the free flow of goods and services, as well as factors of production—such as the free movement of labor and capital between member countries. Moreover, common market member countries pursue a common external trade policy. A current example of a common market is Mercosur, which has consisted of Argentina, Brazil, Paraguay, Uruguay, and Venezuela. However, Venezuela has experienced difficulty in getting its membership ratified.

An **economic union** describes a deeper level of economic integration between member countries compared with a common market, customs union, and free trade area. In an economic union, member countries commit to the removal of all barriers to the free flow of goods, services, and factors of production between member countries. Moreover, member countries may adopt a common currency, establish uniform tax rates with member countries, and establish *common* trade policy with nonmember countries. The most recognized example of an economic union is the European Union. However, some EU member countries have adopted a common currency (the Euro), but other member countries have retained their own currencies.

The deepest level of economic integration is the **political union**, which consists of a central political system that directs and oversees economic, social, and foreign policies of the member states. An example of a political union is the United States.



Over time, economic groups may evolve. Some of these economic groups begin as free trade areas and then pursue deeper levels of integration over time. In addition, the members of the economic groups can change over time. For instance, some economic groups may add new member countries. However, there are instances in which member countries have been removed from the economic group for violating covenants and member countries have left voluntarily.

BENEFITS AND COSTS OF ECONOMIC INTEGRATION

One of the principal reasons to form an economic group is *trade creation*, which arises when high-cost domestic producers are replaced by lower-cost producers from other member countries. Moreover, it can reduce political risk between member countries, while enhancing the political strength of the economic group. Lastly, additional trade can increase job opportunities in the member countries. However, in light of these proposed benefits, there are some potential costs to economic integration. For example, it is conceivable to incur *trade diversion*, which arises when lower-cost producers from nonmember countries are replaced by higher-cost producers from member countries. Another concern with economic groups is the *loss of sovereignty*. For instance, some member countries may relinquish some monetary policy in economic unions. Also, expansion of an economic group may result in dilution of voting rights of existing member countries. Lastly, some member countries may contribute more than others, which can lead to concerns of inequity and even abandonment of the economic group if the inequity becomes excessive.

THE EUROPEAN UNION

In a watershed event, British citizens voted to leave the EU in its 2016 United Kingdom European Union membership referendum. As of 2020 the European Union (EU) will comprise a 27-nation unified borderless market, as shown in Map 1-2. The political fallout of Brexit has created a cloud of uncertainty pertaining to regulations, labor mobility, and trade between the UK and the rest of the EU member countries.

Total exports of goods between EU member countries steadily increased from 2003 to 2008, followed by a significant drop in exports through mid-2009. Following the global recession, exports between member countries began to increase, surpassing prerecession levels in 2011 and continuing the export trend through July 2018.[36] Countries around the world trade with the EU countries. Among non–EU members, the United States, China, Switzerland, Russia, and Turkey exhibited the highest trade with EU member countries in 2018.[37] The uncertainty as to what will

MAP 1-2 European Union

result from Brexit has led some multinational firms to rethink locating operations in the U.K. versus other EU member countries.

The importance of Germany to the eurozone is clear, but it is also a two-way street. In 2017, Germany exported the most goods to other EU member countries. From 2003 to 2017, Germany had a 4 percent annual growth rate in exports to other EU member countries. Moreover, it is among the top three trading partners of 26 EU member countries.[38] The strength of the German manufacturing model is evidenced by the fact that, although Germany has about a quarter of the population of the United States, and a quarter of the U.S. GDP (gross domestic product), it exports more than the United States.[39] Germans were concerned, however, that the need to help prop up weaker economies in the eurozone, such as Greece, would dilute their economic strength.

In spite of those problems, the World Economic Forum's 2018 Global Competitiveness Index (GCI) shows that six out of the top ten countries are in Europe (see Table 1-2).[40] The United States' rank rose from 3rd to 1st in three years, interestingly. The GCI is based on 12 pillars of competitiveness that provide attractive conditions and incentives for both local and foreign companies to do business there.[41] However, the elimination of internal tariffs and customs, as well as financial and commercial barriers, has not eliminated national pride. Although most people in Europe are thought of simply as Europeans, national identities prevail as they still think of themselves first as British, French, Danish, Italian, and so on, and are wary of giving too much power to centralized institutions or of giving up their national culture. The continuing enlargement of the EU to include many less prosperous countries, such as Croatia in 2013, has also promoted divisions among the older members.[42] In addition, continuing eurozone problems has prompted skepticism of any further enlargement.

Global managers face two major tasks. One is strategic: how firms outside of Europe can deal with the implications of the EU and of what some have called a Fortress Europe—that is, a market giving preference to insiders. Although firms must have a pan-European business strategy, they must realize that suitable market entry strategies need to be considered on a country-by-country basis.

Although the EU continues to move in the direction of a Single Market, some of Europe's most prominent industrial leaders are working together to invest more in job creation and innovation at home. One of the leaders of this initiative is Mr. Carl-Henric Svanberg, chairman of the European Round Table of Industrialists and head of Swedish truck manufacturer Volvo. Stressing the importance of a competitive home base, Mr. Svanberg stated, "*We as companies, even though we are global, will not be successful if the countries we come from are not successful.*"[43]

The other task is cultural: how to deal effectively with multiple sets of national cultures, traditions, and customs within Europe such as differing attitudes about how much time should be spent on work versus leisure activities.

ASIA

> *It would be difficult to overstate the power of the fundamental drivers of Asian growth. First, Asian economies have been enjoying a remarkable period of "productivity catch-up," adopting modern technologies, industrial practices, and ways of organizing—in some cases leapfrogging Western competitors.*[44]

TABLE 1-2 2018 Global Competitiveness Index[45]

2014–2015 Rank	Country	2018 Rank
3	United States	1
2	Singapore	2
5	Germany	3
1	Switzerland	4
6	Japan	5
8	Netherlands	6
7	Hong Kong (SAR)	7
9	United Kingdom	8
10	Sweden	9
13	Denmark	10

Source: Based on selected data from www.worldeconomicforum.org.

Manufacturing, in particular, has propelled Asia's emerging markets, helping to fuel the demand for materials and supplies from the developed world and lending hope for a quick global economic recovery.[46] Japan and the Four Tigers—Singapore, Hong Kong, Taiwan, and South Korea—have provided most of the capital and expertise for Asia's developing countries. Now the focus is on China's role in driving closer integration in the region through its rapidly growing exports. Japan continues to negotiate trade agreements with its neighbors; China is negotiating with the entire thirteen-member Association of Southeast Asian Nations (ASEAN), whereas ASEAN has "virtually established" its own free trade area, that is the ASEAN Free Trade Area (AFTA).[47] The following "Under the Lens" examines government initiatives to spur competitiveness in Southeast Asia.

UNDER THE LENS

South-East Asia Wakes Up to Power of Corporate Competition [48]

When Mahathir Mohamad reprised his role as Malaysia's prime minister in May [2018], he brought along a lengthy list of promises. Vows to root out corruption and review bloated China-backed infrastructure projects dominated the headlines. But Mr Mahathir is also following up on a less-publicised, but no less ambitious, pledge.

He wants to break up monopolies.

Governments across south-east Asia are with him, especially after a loud wake-up call earlier this year. The regional merger of ride-hailing groups Grab and Uber made it clear that authorities were ill-equipped to keep up with today's fast-acting tech companies.

Countries are recognising that monopolies and anticompetitive practices threaten to undermine trade deals and hard-won economic integration. If they level the playing field, though, it could go a long way to making the bloc a more attractive place to do business.

Mr Mahathir set things in motion immediately after his stunning victory. In May [2018], his new government ordered state-affiliated Telekom Malaysia to share its vast cable ducts for high-speed broadband. This will save new operators the expense of laying underground fibre optic networks, and save the government the burden of processing approvals. . . .

If there were any doubts about Mr Mahathir's determination, the government removed them in mid-October with a review of a five-year economic plan drawn up by his predecessor, Najib Razak.

The plan runs through 2020. "In the remaining period, focus will be given [to] reviewing and streamlining the role of state-owned enterprises and monopoly entities to meet the objectives of enhancing market efficiency and fair competition," the government said in a report. In the Philippines, President Rodrigo Duterte is making similar moves. Aiming to break the duopoly in the telecom sector, the government opened bidding for a third operating license on November 7. A few weeks before he took office in 2016, Mr Duterte complained about the country's poor internet connections. "If you cannot improve on the services . . . I would really agree to the coming in of foreign players," he said, adding that the same applied to energy. At least 10 potential bidders applied for the chance to take on PLDT, in which Japan's NTT Group and Indonesia's Salim Group are key shareholders, and Globe Telecom, a joint venture between Singapore Telecommunications and local conglomerate Ayala. An alliance between China Telecom and Davao-based tycoon Dennis Uy, an ally of Mr Duterte, emerged as the sole qualified bidder. The process is part of a broader effort to promote competition in the Philippines, led by an assertive new antitrust authority established in 2016.

Governments are focusing on competition to deliver "more economic benefits to their citizens", said Cassey Lee, senior fellow at the ISEAS-Yusof Ishak Institute and an expert on the region's competition laws. "Cross-border barriers to trade can be lowered through greater Asean integration, but anti-competitive conduct can reduce such benefits to citizens." Economically, south-east Asia may be one of the world's fastest-growing regions, but it lags behind in terms of ensuring fair play in business. Singapore offers the most level playing field of any country worldwide, according to the World Economic Forum. After the city-state, there is a drop-off to Malaysia in 24th place. The Philippines ranks 60th.

Vietnam, at 102nd place, has a new competition law set to take effect next July. The legislation will give the government authority over offshore business endeavours if there are implications for the domestic market, an upgrade prompted by cross-border acquisitions. Cambodia, the only Asean member that does not have a competition law, is in the process of establishing one.

The problem is that, although south-east Asian countries are changing their ways, the business landscape is changing even faster, particularly in the tech sector. The deal between Singapore's Grab and the US-based Uber showed how quickly the authorities can be overwhelmed.

(*Continued*)

On March 26 [2018], Grab and Uber announced they were merging their south-east Asian operations. Grab would take over Uber's regional business. In exchange, Uber would get a stake in Grab. The companies moved ahead without notifying competition authorities in advance. After all, it was not mandatory to do so.

Grab and Uber "proceeded to complete the transaction on March 26 and began the transfer of the acquired assets immediately, thus rendering it practically impossible to restore the status quo," the Competition and Consumer Commission of Singapore, or CCCS, pointed out later.

Since Uber runs a digital service with few physical assets, pulling out of the region was a breeze. Just two weeks after the announcement, Uber ended its ride-hailing services in six of the eight countries where it operated, leaving Grab as the dominant player in most markets.

The result? Fares rose while incentives for drivers were scaled back.

South-east Asian authorities gained valuable experience as they scurried to respond, suggested Toh Han Li, chief executive of the CCCS and this year's chair for Asean's competition agencies group. The Grab-Uber case "can be considered as the first significant case involving co-operation among Asean competition authorities," he said.

He noted that Singapore, the Philippines, Vietnam and Malaysia exchanged information and helped one another assess the effects of the deal. . . .

After only six years in business, Grab operates in eight south-east Asian countries and its app has been downloaded more than 100m times. Digital technology has made this sort of rapid expansion possible, which means cases such as the Grab-Uber merger are bound to increase.

Asean itself, as a bloc, recognised the significance of competition and cross-border mergers and acquisitions in 2015, when it compiled a blueprint for 2025. Member states aimed to foster a "competition-aware" region and to establish enforcement co-operation agreements.

Yet it took the Grab-Uber case to prompt meaningful action.

On October 9, the competition agencies of Asean members established a regional enforcers' network to share information and co-ordinate responses.

The stakes are high. The Asean economy has been growing at an annual rate of about 5 per cent over the past few years, but the pace may slow as markets mature. An effective framework for ensuring competition would help the region attract investors and maintain momentum.

Making that framework function properly is no easy task. South-east Asia is not Europe, and each country has its own legal structure.

"Asean is an intergovernmental organisation and member states retain full sovereignty over cross-border competition cases, unlike the European Union, which has powers to decide on [such] cases," said Mr Toh at the CCCS.

. . .

"The countries need to come together and take advantage of the regional market in order to compete more effectively with the larger economies in Asia," he said.

Source: © The FInancial Times Limited 2018.

CHINA

The Chinese market offers big opportunities for foreign investment, but you must learn to tolerate ambiguity.[49]

China has enjoyed success as an export powerhouse, a status built on its strengths of low costs and a constant flow of capital. Its tremendous growth, although now slowing, is further discussed in the following feature, "Comparative Management in Focus: China Loses Its Allure."

Comparative Management in Focus

China Loses Its Allure[50]

In 2018, China's official GDP growth rate was 6.4 percent. Nevertheless, the country is facing its slowest rate of economic growth in 30 years. A combination of forces, from flagging demand for exports to a sluggish property market, threaten to weigh down growth this year.[51] Beijing's plan for managing the slowdown in growth this year has been a stronger-than-expected burst of fiscal stimulus.

Central leadership has gone on a Rmb1.2tn ($179bn) issuance spree of local government bonds in the first three months of the year, most of which will be spent on infrastructure projects. A Brookings Institution study suggests the economic slowdown may be more severe than previously acknowledged by the Chinese government.[52] Indeed, the 2019 Brookings Institution study revealed that the official economic growth rate may have been overstated by approximately 2 percentage points per year since 2008.[53]

In 2018, China became the largest trading partner with the United States, passing Canada.[54] It is the world's second largest recipient of FDI after the United States—investment largely coming from MNCs. China is now a hybrid market-driven economy—driven by competition, capital, and entrepreneurship. As such, it is still attractive to companies wanting a piece of the action in this rapidly growing economy. In fact, more than 400 of the Fortune Global 500 companies are operating there.[55]

In spite of the economic slowdown, Chinese consumers are spending more on personal luxury goods. Young Chinese consumers associate high-end designer brands with social capital, not just a product to wear or use. According to a 2019 McKinsey & Company report on Chinese luxury goods, roughly 50 percent of post-1990 Chinese consumers made their first luxury good purchase within the past year.[56] Indeed, Chinese consumers are expected to increase luxury good spending by 6 percent per year from 2020 to 2025, while the rest of the world is expected to achieve only a 2 percent growth rate.[57]

SMEs are also active and gaining ground in this complex country, but all companies should do their homework first, as advised by the Foreign Commercial Service (FCS), which is part of the U.S. Department of Commerce's International Trade Administration:

> *FCS counsels American companies that to be a success in China, they must thoroughly investigate the market, take heed of product standards, pre-qualify potential business partners and craft contracts that assure payment and minimize misunderstandings between the parties.*[58]

With more than 1.4 billion people,[59] China benefits greatly from its large and growing foreign and domestic market size, which provides significant economies of scale. Innovation is becoming another competitive advantage with rising company spending on R&D coupled with strong university–industry research collaboration and an increasing rate of patenting. In addition, China has the world's largest foreign-exchange reserves, even though their annual foreign exchange reserves declined in 2018—the third time in four years—as the yuan faced strong selling pressure from the softening economy and rising trade tensions with the United States.[60] Not to be overlooked is the fact that the Chinese government often subsidizes and supports its manufacturing base and favors its local industries and companies. Those factors, along with rising costs of labor and shipping, mean that foreign firms are finding it increasingly difficult to do well there.

China's vast population of low-wage workers, with continued large numbers moving to the cities to work, as well as its massive consumer market potential, have long attracted offshoring of manufacturing from companies around the world. It is this low-cost manufacturing base that has contributed greatly to its exports and growth, a major factor in China's uniqueness, making it the world's largest manufacturer, second-largest consumer, largest saver, and probably the second-largest military spender. China has the world's largest shipped goods port capacity. For these reasons, China would seem well positioned to expand globally as long as global demand for its products and manufacturing continues. In all, China is still a developing country, with considerable differences between urban and rural areas making for quite varied markets. The great diversity is indicated by China's eight major languages, several dialects, and several other minority languages. Mandarin is the main language in the north, Cantonese in the south, in particular in Hong Kong. Each language reflects its own history and culture and, therefore, markets and economies. However, the fact remains that, in virtually all industrial sectors, state firms play a significant or dominant role. In addition, central, regional, and local political influences create unpredictability for businesses, as do the arbitrary legal systems, suspect data, and underdeveloped infrastructure.[61] The FCS cautions investors to beware of the following factors:

- China's legal and regulatory system is difficult to navigate. Protection of intellectual property rights is critical.
- In spite of its transition toward a market economy, China still leans toward protecting its local firms, especially the state-owned ones, from imports, and promotes their exports.
- Political goals and agendas often take precedence over commercially based decisions.
- Discrepancies of business practices make it difficult for SMEs with limited budgets to get started. The FCS advises U.S. SMEs to start with fostering a sales network through regional agents or distributors who can assist in keeping track of policy and regulation updates and who have local contacts.[62]

How to negotiate with the Chinese is the subject of a further feature in Chapter 5. Presented here are ten basic tips for doing business in China, published by Mia Doucet in CanadExport.

(*Continued*)

TEN TIPS FOR DOING BUSINESS IN CHINA[63]

When doing business in China, the ability to navigate cross-cultural issues is just as important as the goods and services you bring to the marketplace. This is true whether your company is just now considering the China market, recently gained its first sale, or maintains an in-country presence.

Tip #1 Never underestimate the importance of existing connections. You need to be dealing with a Chinese person of influence. If that person feels you are trustworthy enough, and if they can get their network of contacts to trust you, there is a chance you will succeed. Asians want to do business with people they trust. But there is no real trust unless a person is in their circle. At first, they don't know if you will be a good partner. Show respect by keeping some distance. Focus on building the relationship before talking business. Do not go for big profit on your first contract.

Tip #2 To protect your intellectual property, use the same due diligence you would in the West.

Tip #3 Never pressure your Asian colleagues for a decision. To speed up the decision process, slow down. Start from the beginning and work through to a solution in a logical, step-by-step fashion. Then stand your ground.

Tip #4 The negotiation process will be anything but smooth. Your best strategy is a walk-away mentality. You have to go in trying not to make the deal. Explain your position in clear, concise words. State your terms clearly and respectfully. Then be prepared to walk away if your terms are not met.

Tip #5 Respect face. Never argue or voice a difference of opinion with anyone—even a member of your own team. Never make the other person wrong. Never say "no" directly, as that is considered rude and arrogant.

Tip #6 Because of language differences, account for potential miscommunications and misunderstandings with your Chinese business associate. Their smiles and nods have more to do with saving face than getting your meaning. Talk in short sentences. Listen more than you speak. Pause between sentences. Find four or five easy ways to say the same thing. Never ask a question that can be answered with a simple yes. Avoid all slang. Skip humor altogether.

Tip #7 Manage the way you present written information. Document everything in writing and in precise detail. Present your ideas in stages. Write clearly, using plain English text. In order to appeal to Asian visual bias, use sketches, charts, and diagrams.

Tip #8 Prepare for every interaction. Do not count on your ability to wing it. A lack of preparedness can cause loss of face and trust. Do not give or expect to receive partial answers from your Chinese colleagues, as that is considered offensive.

Tip #9 Make sure your facts are 100 percent accurate in every detail, or you will lose credibility. Do not present an idea or theory that has not been fully researched, proven, or studied beforehand. If you make a mistake, you are not to be trusted.

Tip #10 Everyone on your team needs to know how to avoid costly gaffes.

Most of us are not by nature sensitive to the differences in culture—we have to be taught. Time-honored passive resistance could bring your company to its knees. It makes sense to teach people the cross-cultural factors that have a direct impact on your profits.

INDIA

As the world's largest democracy and the third-largest economy, it is clear that there is much opportunity for foreign businesses in India with its population of 1.4 billion and great potential for continued growth.[64] However, with its slow pace of reform and continuing corruption cases, India is losing opportunities to other emerging markets that are more investor friendly. India ranked 11th on the A. T. Kearney 2018 FDI Confidence Index, as shown in Exhibit 1-1; this was down from 2nd in the 2012–2013 Index and 7th in the 2014–2015 ranking. Nevertheless, growth for fiscal year 2018–2019 was estimated at 7.3 percent, which is up from the 6.7 percent growth rate in the previous year. India is one of the fastest-growing economies in the world, capturing about 15 percent of worldwide economic growth. Moreover, India's robust economy has elevated millions of people out of poverty.[65]

Whereas China is known as the world's factory, India has become known as the world's services supplier, providing highly skilled and educated workers to foreign companies. India is the world's leader for outsourced back-office services and, increasingly, for high-tech services, with outsourcing firms such as Infosys becoming global giants themselves. India is the fastest-growing free-market democracy, yet its biggest hindrance to growth, in particular for the manufacturing sector, remains its poor infrastructure, with both local and foreign companies experiencing traffic gridlocks and power outages. However, much of India's growth has been in technology industries that have not been affected by poor roads, compared with China's manufacturing-based growth. Nevertheless, optimism abounds in India about the country's prospects. The expanding middle class of more than 300 million people is fueling demand-led growth. Increasing deregulation is enabling whole sectors to be competitive. Here, too, there is considerable diversity in markets, incomes, and economies; there are 15 major languages and more than 1,600 dialects. Yet India's rise is largely fueled by family firms that often maintain pyramid structures and grow vertically out of convenience because of problems with red tape, erratic supply chains, and infrastructure.

> *Adaptable, ingenious and combustible, the family firm remains the backbone of India's private sector, not an anachronism. . . . The oldest, such as Aditya Birla, Tata and Bajaj, stretch back over three or more generations and are wily survivors.*[66]

Even so, approximately 40 percent of the profits of India's 100 biggest listed firms come from state-controlled firms; an estimated two-thirds of production from India's finance, energy, and natural resources firms is state controlled, despite India's moves toward further privatization.[67]

A common comparison between China and India notes that China's economy grows because of its government, whereas India's economy grows in spite of it. However, with its 1.4 billion people, many are still mired in poverty, although the poverty rate is half that of 20 years ago. Although India's large upcoming youth bulge—compared with China—will bring a wave of workers for the economy, it will also bring many more mouths to feed. (India has the largest working-age population in the world, with about one-third under age 25 and one-third under age 15, whereas China is experiencing the results of its one-child policy.)

In many areas in India, the economic transformation is startling, with growth fed by firms like the Tata Group—a global conglomerate producing everything from cars and steel to software and consulting systems. Further discussion of doing business in India is included in Chapter 4.

SOUTH ASIA

In South Asia, an agreement was signed in 1985 to form the South Asia Association of Regional Cooperation (SAARC), a free-trade pact among seven South Asian nations: Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. Afghanistan was invited to become a member in 2005.[68] The agreement was to lower tariffs to 25 percent within three to five years and to eliminate them within seven years. The member nations comprise more than 1.5 billion people, with an estimated one-third of them living in poverty. Officials in those countries hope to follow the success of the other Asian regional bloc, the ASEAN.

OCEANIA

Although not regarded as part of Southeast Asia but, rather, of the region called Oceania, which also includes New Zealand and neighboring islands in the Pacific Ocean, Australia did sign an ASEAN friendship treaty with Southeast Asia. Australia is one of the richest countries in the world, with the mining industry responsible for attracting about a third of its investment inflows. More than 50 percent of its exports go to East Asia, with more transported through the region to markets around the world. Australia ranked 8th in the 2018 FDI Confidence Index—unchanged from the 2014–2015 ranking. However, New Zealand entered the top 20 at 14th in the 2018 FDI Confidence Index shown in Exhibit 1-1.

THE AMERICAS

FROM NAFTA TO USMCA (UNITED STATES-MEXICO-CANADA FREE TRADE AGREEMENT)

The goal of the North American Free Trade Agreement (NAFTA) between the United States, Canada, and Mexico was to bring faster growth, more jobs, better working conditions, and a cleaner environment for all as a result of increased exports and trade. This trading bloc—one America—has 470 million consumers. Canada–United States trade is the largest bilateral flow between two countries. In addition, the vast majority—around 84 percent—of both Canadian and Mexican exports goes to the United States. Mexico is the United States' third largest trade partner (after Canada and China) and second largest export market for U.S. products.

From Mexico's perspective, the country's exports have exploded under NAFTA; U.S.–Mexico bilateral trade increased from $88 billion in 1993, the year prior to the implementation of NAFTA, to $394 billion in 2010, and to $612 billion in 2018.[69] However, Mexico's dependence on the United States for its exports—NAFTA's greatest success—was shown to be a liability in the global economic downturn as Mexico felt the full brunt of declining consumption in the United States. The auto industry, for example, which has flourished under NAFTA, ground to a virtual standstill at the time of the global recession in 2009.[70] However, with the U.S. economy strong, the 2019 FDI Confidence Index showed the United States atop the rankings, with Canada slipping from 2nd to 3rd place, and Mexico dropping to 25th.[71] Recent increases in violence among drug gangs, especially in border areas, have created insecurity for businesspeople.

Mexican trade policy is among the most open in the world, and the country has become an important exporting and importing power. Although the Mexican economic cycles depend on the American economy, it has signed 10 trade agreements with 45 nations, putting roughly 90 percent of its trade under free trade regulations.[72] In addition, it is estimated that 40 percent of the content of products from Mexico reimported to the United States originated in the United States as well as 25 percent from Canada.[73]

In 2018, the United States, Mexico, and Canada reached an agreement—called the United States-Mexico-Canada Agreement (USMCA)—following their renegotiations of the North American Free Trade Agreement (NAFTA). After many delays, it was finally approved by the U.S. Congress.[74]

> *USMCA is a great deal for all three countries, solves the many deficiencies and mistakes in NAFTA, greatly opens markets to our farmers and manufacturers, reduces trade barriers to the U.S. and will bring all three Great Nations together in competition with the rest of the world.*[75]
>
> U.S. President Donald J. Trump

MERCOSUR

This is the fourth largest trading bloc after the EU, NAFTA, and ASEAN. Established in 1991, it comprises the original parties—Brazil, Argentina, Paraguay, and Uruguay. Venezuela joined in 2012, but its membership has been indefinitely suspended since 2016.[76] Mercosur showed a tenfold increase in trade among member countries during the 1990s. Several South American countries have been granted associate membership: Bolivia, Chile, Colombia, Ecuador, Guyana, Peru, and Suriname. These countries receive reduced tariff in trade with member countries but lack full voting rights and free access to their respective markets. Bolivia was invited to join as a full member in 2012. Its accession from associate to full member is pending.[77]

BRAZIL

The Federal Republic of Brazil is Latin America's biggest economy and the fifth largest country in the world in terms of land mass and population, with about 209 million people. According to the U.S. Department of Commerce, Brazil is the seventh largest economy in the world. Bolstered by demand from China and elsewhere for its raw materials, strong domestic demand, and a growing middle class, Brazil ranked 25th in the 2018 FDI Confidence Index, a sharp drop from its 5th place ranking in the 2014–2015 ranking (see Exhibit 1-1).

Brazil entered a severe economic recession in 2015–2016, in which real GDP dropped by over 3 percent in each year. However, the economy has begun to rebound as real GDP grew by 1 percent in 2017 and 1.1 percent in 2018. Brazil's central bank has forecasted 2 percent growth for 2019.[78] In recent years, Brazil was hampered by corruption scandals that implicated a large number of Brazil's corporate establishment.[79] Brazil business environment is plagued by "[a] mind-bending tax system, regulatory uncertainty, crumbling infrastructure and widespread inefficiency."[80] These systemic problems have contributed to Brazil being ranked only 109th out of 190 countries in terms of ease of doing business according to a World Bank survey.[81] Further discussion regarding doing business in Brazil is included in Chapter 3.

CAFTA-DR

The Dominican Republic-Central America FTA (CAFTA-DR) is the first free-trade agreement between the United States and Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic. Collectively, the CAFTA member countries represent the 16th largest U.S. goods trading partner. Trade between the United States and the six CAFTA-DR partners has increased more than 71 percent since inception, from $35 billion in 2005 to $60 billion in 2013. However, U.S.-CAFTA trade dropped to $53 billion in 2015. (U.S. exports to the CAFTA-DR countries totaled $29 billion; imports totaled $24 billion.)[82]

Other recent agreements include three trade agreements, between the United States and South Korea, Colombia, and Panama, all passed on October 12, 2011. As of 2019, there are 20 free-trade agreements with the United States.[83]

Other Regions in the World

Sweeping political, economic, and social changes around the world present new challenges to global managers. The move toward privatization has had an enormous influence on the world economy. Economic freedom is a critical factor in the relative wealth of nations.

One of the most striking changes today is that most nations have suddenly begun to develop decentralized, free-market systems to manage a global economy of intense competition, the complexity of high-tech industrialization, and an awakening hunger for freedom.

THE RUSSIAN FEDERATION

Foreign investment in Russia, as well as its consumers' climbing confidence and affluence, did bode well for the economy—until the illegal annexation of Crimea (Ukraine) in 2014 and aggression toward the Ukrainian navy in 2018, which caused a considerable downturn in confidence and in the economy.[84] The rate of inflation soared to 11.4 percent as the ruble lost nearly half its value over the 2014–2015 period. GDP contracted 2.8 percent in 2015 and 0.2 percent in 2016, followed by modest growth of 1.6 percent in 2017.[85] According to the World Economic Forum's 2018 Global Competitiveness Report, the Russian Federation was ranked 43rd in the 2018 global competitive rankings, which is up two slots from 2017. Its global competitiveness has benefited from having a large market size and technological adoption, but is hamstrung by its lack of transparency, institutions, and relatively weak entrepreneurial climate.[86]

Membership in the WTO in 2011 promised additional trade liberalization. Until recently, Russia was regarded as more politically stable. New land, legal, and labor codes have encouraged foreign firms to take advantage of opportunities in that immense area, in particular the vast natural resources and the well-educated population of 145 million. Moscow, in particular, is teeming with new construction sites, high-end cars, and new restaurants. Export opportunities abound in Russia, with a growing middle class and vast infrastructure needs. However, corruption and government interference persist, along with excessive regulations, weak rule of law, and infrastructure problems.

THE MIDDLE EAST

The Middle East has been experiencing transition. In the past, Middle Eastern governments in many countries across the region expected (or required) citizens to sacrifice a certain degree of individual economic prosperity in return for stability and security. This arrangement was made feasible by exports of natural resources and foreign aid. It led to government inefficiencies, pervasive subsidies, and government control over large parts of the economy. Unfortunately this government-driven economic approach has proven unsustainable.

Egypt, where the political landscape has been redrawn in recent years, is beginning to attract interest from Gulf, Western, and Asian international investors. "I think the main theme when considering whether to enter these markets is the potential for long-term growth that will ultimately lead to a more positive outcome."[87]

Although a few countries have engaged in real economic reform and increased investments, the aggregate competitiveness of the Arab world economies remains stagnant over the past decade. For example, the United Arab Emirates and Qatar ranked 17 and 25 out of 137 countries on the 2018 Global Competitiveness Index.[88]

Keys to the region's economic progress are becoming less dependent on natural resources and increasing the role of the private sector. However, obstacles include a weak educational system, an underdeveloped financial system, and poor governance quality.[89]

DEVELOPING ECONOMIES

Developing economies are characterized by change that has come about more slowly as they struggle with low gross national product (GNP) and low per capita income as well as the burdens of large, relatively unskilled populations and high international debt. Their economic situations and the often unacceptable level of government intervention discourage the foreign investment they need. Many countries in Central and South America, the Middle East, and Africa desperately hope to attract foreign investment to stimulate economic growth.

THE AFRICAN UNION (AU)

As of September 2018, the AU comprises the 55 African countries and was formed from the original Organization of African Unity (OAU) primarily to deal with political issues.[90] According to the International Monetary Fund (IMF), seven of the world's ten fastest growing economies are in Africa. However, there continue to be many major problems in the region. Unfortunately, Africa has received little interest from most of the world's investors, although it receives increasing investment from companies in South Africa, which has the region's biggest economy. However, trade between China and Africa has risen from $10 billion in 2000 to over $200 billion in 2018. Specifically, China's exports to Africa reached US$104.9 billion (a 10.8 percent increase over 2017) and China's imports from Africa were US$99.3 billion, up 30.8 percent over 2017.[91]

China's infrastructure projects in Africa—for example, dams, railways, ports, and telecommunications networks—have drawn considerable attention from the international community. From 2000 to 2014, the stock of Chinese investment in Africa went from 2 percent to 55 percent of U.S. investment levels. Also, China's appetite for commodities led to a surge in FDI in Africa.[92]

> *Chinese involvement in Africa is not just about state-driven efforts. A just as large, if not larger, component is these private enterprises, which are more job-intensive, which localise quicker and which have a much larger economic and social impact.*
>
> IRENE YUAN SUN, ASSOCIATE PARTNER AT MCKINSEY & CO.

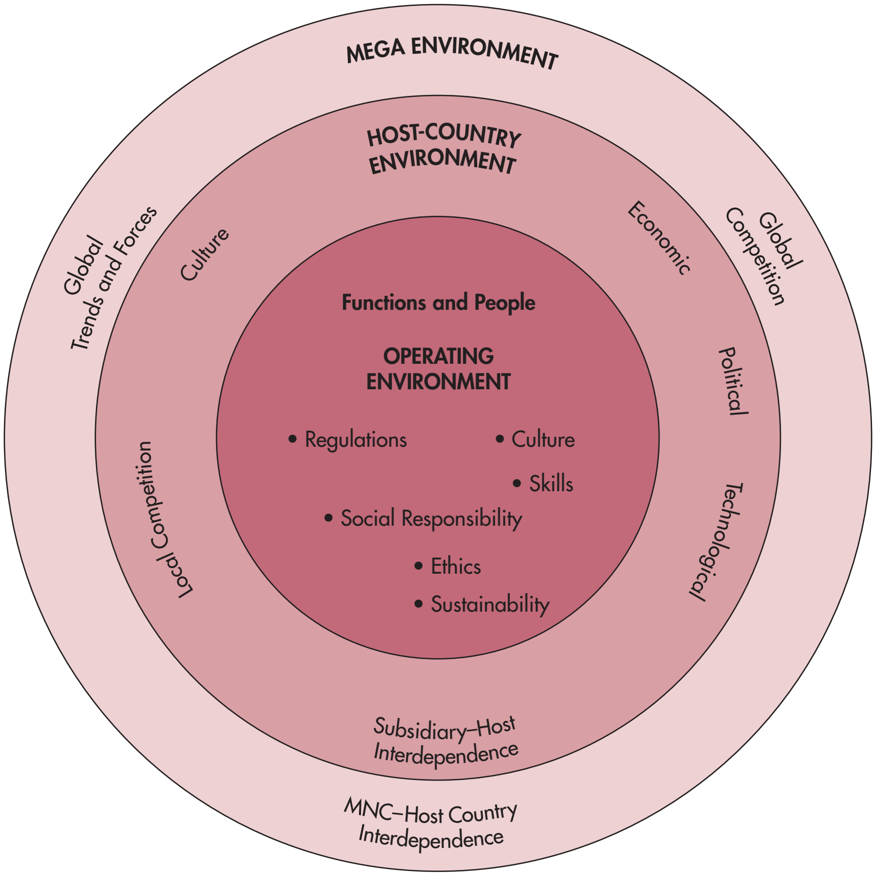
Nevertheless, widespread unemployment and extreme poverty prevail on the continent and remind businesspeople of the tremendous challenges that remain. Africa is featured in a "Comparative Management in Focus" in Chapter 6.

SOUTH AFRICA

The South African economy grew steadily since 1998 amid a more stable political environment since the defeat of apartheid. However, its annual average GDP growth has slowed—hovering around 1 percent from 2016 through 2018.[93] This is the longest economic upswing in the country's history, although unemployment remains very high.[94] South Africa is a country of roughly 57.7 million people that is rich in diverse cultures, people, and natural resources. "Enjoying remarkable macroeconomic stability and a pro-business environment, South Africa is a logical and attractive choice for U.S. companies to enter the African continent."[95] In fact, the 2014–2015 FDI Confidence Index by A. T. Kearney ranked South Africa thirteenth. In 2017, it dropped to 17th, and in 2018, it was unranked.[96]

For firms willing to take the economic and political risks, developing economies offer considerable potential for international business. Assessing the risk–return trade-offs and keeping up with political developments in these developing countries are two of the many demands facing international managers.

EXHIBIT 1-2 **An Open Systems Model**



The Global Manager's Role

Whatever your level of involvement, it is important to understand the global business environment and its influence on the manager's role. This complex role demands a contingency approach to dynamic environments, each of which has its own unique requirements. Within the larger context of global trends and competition, the rules of the game for the global manager are set by each country (see Exhibit 1-2): its political and economic agenda, its technological status and level of development, its regulatory environment, its comparative and competitive advantages, and its cultural norms. The astute manager will analyze the new environment, anticipate how it may affect the future of the company, and then develop appropriate strategies and operating styles. The manager will need to take into account the business practices and expectations of varying sets of suppliers, partners, customers, and local managers. These factors in the manager's role are the subjects of the rest of this book.

THE POLITICAL AND ECONOMIC ENVIRONMENT

1-2. To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face

Proactive, globally oriented firms maintain an up-to-date profile of the political and economic environment of the countries in which they maintain operations (or have plans for future investment). Surveys of top executives around the world show that **sustainability**—economic, political, social, and environmental—has become a significant worldwide issue. Executives who recognize that fact are leading their companies to develop new policies and to invest in sustainability projects with the purpose of benefiting the environment as well as profitability.[97] The opening profile provides a recent example of how political developments can create considerable uncertainty and therefore affect strategic decisions of local firms and multinational corporations. Among the strategic and operational risks global companies report, the top four were government regulation, country financial risks, currency risk, and political and social disturbances;

these were followed by a poor legal system; problems with suppliers, customers, or partners; terrorist attacks; and theft of intellectual property.[98]

From a separate survey by the Aon Risk Solutions Company, we can see the top ten risks as reported by 2,600 risk managers from 60 countries, giving us an overview of how concerns can change over time. The risks of economic slowdown, damage to reputation/brand, and acceleration of changes in market drivers were the top three risks facing organizations according to the 2019 Aon survey.

The Aon report noted that "investors seem to have had the wind knocked out of them by a series of incidents, each impacting the world economy's ability to manage volatility." Some of these incidents include the uncertainty surrounding Brexit, U.S. interest rates, and slowing economic growth in Europe, China, Japan, as well as many emerging markets. The report also identified geopolitical tensions—especially between the United States and China—as a driver of increased risk.[99] That led the researchers to conclude that formal risk management using business analytical tools would be more useful than experience in identifying new risks. According to the 2019 Aon report, the top ten risks overall were:

- Economic slowdown
- Regulatory/legislative changes
- Increasing competition
- Damage to reputation/brand
- Business interruption
- Acceleration of changes in market factors
- Cyber security
- Commodity price risk
- Cash flow/liquidity risk
- Inability to innovate/satisfy customer needs.[100]

Regions view these risks differently. For example, cyber security is the top risk in North America; however, economic slowdown is the top risk in both Latin America and the Middle East. In Europe, acceleration of changes in market factors is most important, while in the Asia-Pacific region, damage to reputation/brand is considered the most important risk.

An additional important aspect of the political environment is the phenomenon of ethnicity—a driving force behind political instability around the world. In fact, many uprisings and conflicts that are thought to be political in nature are actually expressions of differences among ethnic groupings. Often, religious disputes lie at the heart of those differences. Managers must understand the ethnic and religious composition of the host country to anticipate problems of general instability as well as those of an operational nature, such as effects on the workforce, on production and access to raw materials, and on the market.

Political Risk

Clearly, as evidenced by the 2011 Arab Spring uprisings, the 2014 annexation of the Crimean Peninsula by the Russian Federation, and the 2019 political unrest in Venezuela, major political changes can affect the business environment and risk level almost overnight. As far as political risk is concerned, a survey—based on 211 countries and territories—by Aon Risk Solutions (the firm discussed earlier) found that the political risk level is rising in more countries than it is declining. That conclusion was based on the level of exposure to factors such as currency inconvertibility and transfer; strikes, riots, and civil commotion; war; sovereign nonpayment; political interference; supply chain interruption; and legal and regulatory risk.[101] It is clear from the past that firms operating in some countries are exposed to political risks that can drastically affect them with little warning.

The managers of a global firm need to investigate the political risks to which they expose their company in certain countries—and the implications of those risks for the economic success of the firm. **Political risks** are any governmental action or politically motivated event that could adversely affect the long-run profitability or value of a firm. Like many countries in the world, certain countries in the Middle East have faced periods of instability in recent decades. As such, political risk heavily influences business decisions in unstable countries.

In unstable areas, multinational corporations weigh the risks of nationalization or expropriation. **Nationalization** refers to the forced sale of an MNC's assets to local buyers, with some compensation to the firm, perhaps leaving a minority ownership with the MNC.[102] In April 2012, Argentina, under President Cristina Fernandez de Kerchner, announced plans to nationalize Repsol YPF, the Spanish oil company, taking a 51 percent stake in YPF, which accounts for a third of Argentina's oil production.[103] In retaliation, Spain announced that it would restrict imports of biodiesel from Argentina. In Venezuela, nationalization was a key policy of the Hugo Chavez regime. Over the past decade, the state seized farmers' farms, food processing plants, and retailers' supermarket chain stores. Nationalization is not the only driver of food shortages throughout Venezuela. Price controls have forced businesses to operate at a loss or to cease operating. In fact, 75 percent of private businesses in Venezuela had discontinued as of 2018.[104]

Expropriation occurs when a local government seizes and provides inadequate compensation for the foreign-owned assets of an MNC; when no compensation is provided, it is confiscation. In countries that have a proven history of stability and consistency, the risk of expropriation is relatively low; it is highest in countries that experience continuous political upheaval, violence, and change. An event that affects all foreign firms doing business in a country or region is called a **macropolitical risk event**. In many regions, **terrorism** poses a severe and random political risk to company personnel and assets and obviously can interrupt the conduct of business. According to Micklous, terrorism is "the use, or threat of use, of anxiety-inducing . . . violence for ideological or political purposes."[105] The increasing incidence of terrorism around the world concerns MNCs. In particular, the kidnapping of business executives has become quite common. In addition, the random acts of violence around the world have a downward effect on global expansion, not the least because of the difficulty in attracting and retaining good managers in high-risk areas as well as the expense of maintaining security to protect people and assets and the cost of insurance to cover them. Companies that invest in those high-risk areas do so with the expectation of a higher profit premium to offset risk.

An event that affects one industry or company or only a few companies is called a **micropolitical risk event**. Such events have become more common than macropolitical risk events. Such micropolitical action is often called *creeping expropriation*, indicating a government's gradual and subtle action against foreign firms. This situation occurs when a firm hasn't been expropriated, but it takes ten times longer to do anything. Typically, such continuing problems with an investment present more difficulty for foreign firms than do major events that are insurable by political-risk insurers. The following list describes seven typical political risk events.

- Expropriation of corporate assets without prompt and adequate compensation
- Forced sale of equity to host-country nationals, usually at or below depreciated book value
- Discriminatory treatment against foreign firms in the application of regulations or laws
- Barriers to **repatriation** of funds (profits or equity)
- Loss of technology or other intellectual property (such as patents, trademarks, or trade names)
- Interference in managerial decision making
- Dishonesty by government officials, including canceling or altering contractual agreements, extortion demands, and so forth[106]

Political Risk Assessment

International companies must conduct some form of political risk assessment to manage their exposure to risk and minimize financial losses. Dow Chemical, for example, has a program in which it uses line managers trained in political and economic analysis, as well as executives in foreign subsidiaries, to provide risk analyses of each country.

Risk assessment by MNCs usually takes two forms. One uses experts or consultants familiar with the country or region under consideration to monitor important trends and make recommendations. A second and increasingly common means of political risk assessment that MNCs use is the development of internal staff and in-house capabilities: by having staff assigned to foreign subsidiaries, by having affiliates monitor local political activities, or by hiring people with expertise in the political and economic conditions in regions critical to the firm's operations.

Frequently, all means are used, but nothing can replace timely information from people on the front line. For an autonomous international **subsidiary**, most of the impact from political risk (nationalization, terrorism) will be at the level of the ownership and control of the firm because its acquisition by the host country would provide the state with a fully operational business. For global firms, the primary risks are likely to be from restrictions (on imports, exports, currency, and so forth), with the impact at the level of the firm's transfers (or exchanges) of money, products, or component parts.

Managing Political Risk

After assessing the potential political risk of investing or maintaining current operations in a specific country, managers face perplexing decisions on how to manage that risk. On one level, they can decide to suspend their firm's dealings with a certain country at a given point—by the **avoidance** of investment or by the withdrawal of current investment (by selling or abandoning plants and assets). On another level, if they decide that the risk is relatively low in a particular country or that a high-risk environment is worth the potential returns, they may choose to start (or maintain) operations there and to accommodate that risk through **adaptation** to the political regulatory environment. That adaptation can take many forms, each designed to respond to the concerns of a particular local area. Some means of adaptation that Taoka and Beeman suggest are as follows:

- Equity sharing includes the initiation of joint ventures with nationals (individuals or those in firms, labor unions, or government) to reduce political risks.
- Participative management requires the firm to involve nationals actively, including those in labor organizations or government, in the management of the subsidiary.
- Localization of the operation includes the modification of the subsidiary's name, management style, and so forth, to suit local tastes. Localization seeks to transform the subsidiary from a foreign firm to a national firm.
- Development assistance includes the firm's active involvement in infrastructure development (foreign-exchange generation, local sourcing of materials or parts, management training, technology transfer, securing external debt, and so forth).[107]

In addition to avoidance and adaptation, two other means of risk reduction available to managers are dependency and hedging. Some means that managers might use to maintain **dependency**—keeping both the subsidiary and the host nation dependent on the parent corporation—include, for example, maintaining control over key inputs or technology or control over distribution; other means are through expatriate control in key positions.[108] Firms can also minimize loss through **hedging**, which includes, for example, political risk insurance and local debt financing.

Multinational corporations also manage political risk through their global strategic choices. Many large companies diversify their operations both by investing in many countries and by operating through joint ventures with a local firm or government or through local licensees. By involving local people, companies, and agencies, firms minimize the risk of negative outcomes due to political events. (See Chapters 6 and 7 for further discussion of these and other global strategies.)

Managing Terrorism Risk

No longer is the risk of terrorism for global businesses focused only on certain areas such as South America or the Middle East. That risk now has to be considered in countries such as France, England, and the United States, which had previously been regarded as safe. Eighty countries lost citizens in the World Trade Center attack on September 11, 2001. Many companies from Asia and Europe had office branches in the towers of the World Trade Center. According to the 2018 Global Terrorism Index (GTI), Iraq, Afghanistan, Nigeria, Syria, and Pakistan have sat atop the ranking every year since 2013. Other notable countries listed in the 2018 GTI include India (8th), Egypt (9th), the Philippines (10th), Turkey (12th), the United States (20th), the United Kingdom (28th), and France (30th).[109]

As incidents of terrorism accelerate around the world, many companies are increasingly aware of the need to manage the risk of terrorism. For instance, tighter border security following the November 2015 Paris terrorist attack led to increased supply chain and security costs. Also, the 2015–2016 terror attacks in Western Europe cost airlines $2.5 billion in lost revenue.[110]

In high-risk countries, some MNCs develop a benevolent image through charitable contributions to the local community. They also try to maintain low profiles and minimize publicity in the host countries by using, for example, discreet corporate signs at company sites.[111] Some companies have assembled teams to monitor the patterns of terrorism around the world. Almost all MNCs have heightened their security measures abroad—for example, by hiring consultants in counterterrorism to train employees to cope with the threat of terrorism. For many firms, however, the opportunities outweigh the threats, even in high-risk areas.

Economic Risk

Closely connected to a country's political stability is its economic environment—and the relative risk that it may pose to foreign companies. A country's level of economic development generally determines its economic stability and, therefore, its relative risk to a foreign firm. Historically, most industrialized nations have posed little risk of economic instability; less-developed nations pose more risk. However, recently, the level of economic risk in Europe, for example, was a great concern around the world, in particular regarding concerns in the eurozone brought about by debt problems in Greece.

In 2019, the Heritage Foundation published its annual Index of Economic Freedom (excerpted in Table 1-3), which covers 186 countries and is based on 12 specific freedoms such as rule of law, trade freedom, business freedom, investment freedom, and property rights—all of which reduce economic risk. Interestingly, the much-discussed emerging BRICs—Brazil (150), Russia (98), India (129), and China (100)—are way down on the list, indicating that there is quite a risk–return trade-off for investment in those markets. (Further details of all 180 countries on the index are available at www.heritage.org.) More than half of all nations and territories examined in the 2019 Index have institutional environments with at least a moderate degree of economic freedom.[112]

A country's ability or intention to meet its financial obligations determines its economic risk. The economic risk incurred by a foreign corporation usually falls into one of two main

TABLE 1-3 **2019 Index of Economic Freedom**

Rank: Free	Country	Score
1	Hong Kong	90.2
2	Singapore	89.4
3	New Zealand	84.4
4	Switzerland	81.9
5	Australia	80.9
6	Ireland	80.5
Mostly Free		
7	United Kingdom	78.9
8	Canada	77.7
9	United Arab Emirates	77.6
10	Taiwan	77.3
11	Iceland	77.1
12	United States	76.8
Moderately Free		
35	Botswana	69.5
45	Peru	67.8
55	St. Vincent and the Grenadines	66.8
65	Slovakia	64.5
75	Morocco	62.9
94	Tanzania	60.2

Source: https://www.heritage.org/index/ranking.

categories. Its subsidiary (or other investment) in a specific country may become unprofitable if (1) the government abruptly changes its domestic monetary or fiscal policies, or (2) the government decides to modify its foreign-investment policies. The latter situation would threaten the company's ability to repatriate its earnings and would create a financial or interest-rate risk. Furthermore, the risk of exchange-rate volatility results in currency translation exposure to the firm when the balance sheet of the entire corporation is consolidated and may cause a negative cash flow from the foreign subsidiary. Currency translation exposure occurs when the value of one country's currency changes relative to that of another. The U.S. dollar remained strong relative to Euro and the British Pound in 2018 due, in large part, to what was happening in that part of the world..The U.S. dollar has been strong against other currencies in developing countries, which can have a negative affect because it costs them more to import from the United States, and their exports would bring less revenue. When exchange-rate changes are radical, repercussions are felt around the world.

Because every MNC operating overseas exposes itself to some level of economic risk, often affecting its everyday operational profitability, managers constantly reassess the level of risk that their companies may face in any specific country or region of the world, by carefully tracking economic indicators that they have found to be relevant to the company.[113]

1-3. To recognize the role of the legal environment in international business

THE LEGAL ENVIRONMENT

The prudent global manager consults with legal services, both locally and at headquarters, to comply with host-country regulations and maintain cooperative long-term relationships in the local area. If the manager waits until a problem arises, little legal recourse may be available outside of local interpretation and enforcement. Indeed, this has been the experience of many foreign managers in China, where financial and legal systems remain limited in spite of attempts to show the world a capitalist face. Foreign companies may periodically face issues with debts being repaid by Chinese businesses. The lesson for many foreign companies in China is that they are losing millions because Beijing often does not stand behind the commitments of its state-owned enterprises.

Although no guarantee is possible, the risk of massive losses may be minimized, among other ways, by making sure you get approval from related government offices (national, provincial, and local), by showing that you are not going to run riot over long-term government goals, and by getting loan guarantees from the headquarters of one of Beijing's main banks. Some of the contributing factors in cases that go against foreign companies are often the personal connections—*guanxi*—involved and the fact that some courts offer their services to the business community for profit. Many countries around the world face problems with corruption in the judicial system, and there are demonstrated issues of individuals receiving appointments as judges through corruption and nepotism. This reportedly happens in China as well.

Although the regulatory environment for international managers consists of the many local laws and the court systems in those countries in which they operate, certain other legal issues are covered by international law, which governs relationships between sovereign countries, the basic units in the world political system. One such agreement, which regulates international business by spelling out the rights and obligations of the seller and the buyer, is the United Nations Convention on Contracts for the International Sale of Goods (CISG). This applies to contracts for the sale of goods between countries that have adopted the convention.

Generally speaking, the manager of the foreign subsidiary or foreign operating division will comply with the host country's legal system. Such systems, derived from common law, civil law, or Islamic law (Sharia law), are a reflection of the country's culture, religion, and traditions. Under **common law**, used in the United States and 26 other countries of English origin or influence, past court decisions act as precedents to the interpretation of the law and to common custom. **Civil law** is based on a comprehensive set of laws organized into a code. Interpretation of these laws is based on reference to codes and statutes. About 70 countries, predominantly in Europe (e.g., France and Germany), are ruled by civil law, as is Japan. In Islamic countries, such as Saudi Arabia, the dominant legal system is **Islamic law**; based on religious beliefs, it dominates all aspects of life. Islamic law is followed in approximately 27 countries and combines, in varying degrees, civil, common, and indigenous law.

Contract Law

A **contract** is an agreement by the parties concerned to establish a set of rules to govern a business transaction. Contract law plays a major role in international business transactions because of the complexities arising from the differences in the legal systems of participating countries and because the host government in many developing and state-controlled countries is often a third party in the contract. Both common law and civil law countries enforce contracts, although their means of resolving disputes differ. Under civil law, it is assumed that a contract reflects promises that will be enforced without specifying the details in the contract; under common law, the details of promises must be written into the contract to be enforced. Astute international managers recognize that they will have to draft contracts in legal contexts different from their own, and they prepare themselves accordingly by consulting with experts in international law before going overseas. Whereas Western companies want to spell out every detail in a contract, in some countries the contract may be ignored or changed, and in Asia, "there is no shortcut for managing the relationship."[114] In other words, the contract is in the relationship, not on the paper, and the way to ensure the reliability of the agreement is to nurture the relationship.

Neglect regarding contract law may leave a firm burdened with an agent who does not perform the expected functions, or a firm may be faced with laws that prevent management from laying off employees (which, for example, is often the case in some countries in Europe).

Other Regulatory Issues

Differences in laws and regulations from country to country are numerous and complex. These and other issues in the regulatory environment that concern multinational firms are briefly discussed here.

Countries often impose protectionist policies, such as tariffs and nontariff barriers, quotas, and other import and trade restrictions, to give preference to their own companies and industries. The Japanese have come under much criticism for protectionism, which they use to limit imports of foreign goods while they continue exporting consumer goods (e.g., cars and electronics) on a large scale.

A country's tax system influences the attractiveness of investing in that country and affects the relative level of profitability for an MNC. Foreign tax credits, holidays, exemptions, depreciation allowances, and taxation of corporate profits are additional considerations the foreign investor must examine before acting. Many countries have signed tax treaties (or conventions) that define such terms as "income," "source," and "residency" and spell out what constitutes taxable activities.

The level of government involvement in the economic and regulatory environment varies a great deal among countries and has a varying impact on management practices. In Canada, for example, the government has a significant involvement in the economy. It has a powerful role in many industries, including transportation, petrochemicals, fishing, steel, textiles, and building materials—forming partly owned or wholly owned enterprises. Wholly owned businesses are called Crown Corporations (Petro Canada, Ontario Hydro, Saskatchewan Telecommunications, and so forth), many of which are as large as major private companies. The government's role in the Canadian economy, then, is one of both control and competition. Government policies, subsidies, and regulations directly affect the manager's planning process, as do other major factors in the Canadian legal environment, such as the high proportion of unionized workers. In Quebec, the law requiring official bilingualism imposes considerable operating constraints and expenses. For a foreign subsidiary, this regulation forces managers to speak both French and English and to incur the costs of language training for employees, translators, the administration of bilingual paperwork, and so on.

1-4. To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe

THE TECHNOLOGICAL ENVIRONMENT

> *The world is going to be data . . . I think this is just the beginning of the data period. We think data is going to be so important to human life in the future . . . Tomorrow [with the Internet of things], everything will be connected.*[115]
>
> Jack Ma, 2017 Fortune Global Forum held in Guangzhou, China

Jack Ma, cofounder and Executive Chairman CEO of Alibaba Group, has made several bold predictions for the digital age that will shape business for decades to come. He asserted that data lies at the heart of the digital age. He predicted, "In the next 30 to 40 years, globalization will empower 80 percent of countries, businesses and people that have not benefited from globalization."[116] From Mr. Ma's predictions, it is clear that the digital age will introduce a whole new level of global competition. For instance, he pointed out that "globalization . . . is increasingly in the hands of the people and the 'netpreneurs.'"[117]

The global management implications of the digital age technology are pervasive—both in how companies formulate strategy, organize their activities, and recruit global talent, just to name a few. Moreover, these companies need to integrate technology in various aspects of their business, especially as customers continue to incorporate technology into more aspects of their lives (e.g., purchasing products vis-à-vis mobile phones). Technology disruptions are no longer the exception, but rather the new norm. MNC leaders need to consider the magnitude and scope of these disruptions and how they affect their ability to formulate and implement strategy, as well as recruit and develop talent.

Now that we are in a global information society, it is clear that corporations must incorporate into their strategic planning and their everyday operations the accelerating macroenvironmental phenomenon of the *digital economy*, in which the rapid developments in information and communication technologies (ICTs) are propelling globalization and vice versa. Investment-led globalization is leading to global production networks, which result in global diffusion of technology to link parts of the value-added chain in different countries. That chain may comprise parts of the same firm, or it may comprise suppliers and customers or technology-partnering alliances among two or more firms. Either way, technological developments are facilitating, indeed necessitating, the firm network structure that allows flexibility and rapid response to local needs.

Clearly, the effects of technology on global trade and business transactions cannot be ignored; in addition, the Internet is propelling electronic commerce around the world. The ease of use and pervasiveness of the Internet raise difficult questions about ownership of intellectual property, consumer protection, residence location, taxation, and other issues.

New technology specific to a firm's products represents a key competitive advantage to firms and challenges international businesses to manage the transfer and diffusion of proprietary technology, with its attendant risks. Whether it is a product, a process, or a management technology, an MNC's major concern is the **appropriability of technology**—that is, the ability of the innovating firm to profit from its own technology by protecting it from competitors.

FIGURE 1-2 Cloud computing imagined.

alphaspirit/123RF GB Ltd

An MNC can enjoy many technological benefits from its global operations. Advances resulting from cooperative R&D can be transferred among affiliates around the world, and specialized management knowledge can be integrated and shared. However, the risks of technology transfer and piracy are considerable and costly. Although firms face few restrictions on the creation and dissemination of technology in developed countries, less-developed countries often impose restrictions on licensing agreements, royalties, and so forth, as well as on patent protection.

In most countries, governments use their laws to some extent to control the flow of technology. These controls may be in place for reasons of national security. Other countries in earlier stages of development use their investment laws to acquire needed technology (usually labor-intensive technology to create jobs), increase exports, use local technology, and train local people.

The most common methods of protecting proprietary technology are the use of patents, trademarks, trade names, copyrights, and trade secrets. Various international conventions afford some protection in participating countries; more than 80 countries adhere to the International Convention for the Protection of Industrial Property (often referred to as the Paris Union) for the protection of patents. However, restrictions and differences in the rules in some countries not signatory to the Paris Union, as well as industrial espionage, pose continuing problems for firms trying to protect their technology.

One risk to a firm's intellectual property is the inappropriate use of the technology by joint-venture partners, franchisees, licensees, and employees (especially those who move to other companies). Some countries rigorously enforce employee secrecy agreements.

Another major consideration for global managers is the need to evaluate the **appropriateness of technology** for the local environment—especially in less-developed countries. By studying the possible cultural consequences of the transfer of technology, managers must assess whether the local people are ready and willing to change their values, expectations, and behaviors on the job to use new technological methods, whether applied to production, research, marketing, finance, or some other aspect of the business. Often, a decision regarding the level of technology transfer is dominated by the host government's regulations or requirements. In some instances, the host country may require foreign investors to import only their most modern machinery and methods so that the local area may benefit from new technology. In other cases, the host country may insist that foreign companies use only labor-intensive processes, which can help to reduce high unemployment in an area. In still other situations, the digital economy has created access to more customer and user information. This phenomenon raises questions about the ethical use and potential abuse of customer information around the globe. The following "Management in Action" examines Google with respect to innovations, privacy, and safety challenges.

The Globalization of Information Technology

The rapid advancement in IT and its applications around the world has had, and will continue to have, a transformative effect on global business for businesses of all sizes. The speed and accuracy of information transmission are changing the nature of the global manager's job by making geographic barriers less relevant. Indeed, managers and families around the world recognize the necessity of being able to access IT and are giving priority to that access over other lifestyle accoutrements.

Governments can no longer control information completely; political, economic, market, and competitive information is available almost instantaneously to anyone around the world, permitting informed and accurate decision making. Even cultural barriers are being lowered gradually by the role of information in educating societies about one another. Indeed, as consumers around the world become more aware, through various media, of how people in other countries live, their tastes and preferences begin to converge, as the Arab Spring illustrated.

The explosive growth of information technology is both a cause and an effect of globalism. The information revolution is boosting productivity around the world. Sweden is the most networked economy in the world, followed by Singapore, the Netherlands, Norway, and Switzerland according to the 2019 edition of *The Network Readiness Index.* The report assessed 121 economies and ranked their ICT readiness levels to use and benefit from ICT for increased growth and

MANAGEMENT IN ACTION

Google to Set Up German Team to Tackle Privacy and Safety Issues[118]

Google is assembling a team of engineers in Germany to tackle privacy and safety issues on its platforms as big tech companies try to quell a backlash over the harm caused by their products and services.

The team will attempt to make privacy-focused changes for Google's products from a new "safety engineering centre" in Munich, where the company already employs around 750 people. The expansion will see Google hire approximately 100 engineers in Munich by the end of the year, as well as 150 other staff.

"The team will work hand-in-hand with privacy specialists in Google offices across Europe and globally, and the products built there will be used around the world," chief executive Sundar Pichai wrote in a blog post. He added that it was "no accident" the centre would be based in a country well-known for its focus on privacy.

The new centre will open just one week after Google unveils a suite of new products and services at its annual conference that rely on getting to know its customers in even greater detail.

Like Facebook, the company is struggling to balance its advertising focused business, which has grown rapidly on the back of user data and user-generated content on YouTube, with a new emphasis on privacy.

Engineers in Munich have previously built Google's account system, where people can manage settings across email, calendars, photos, documents and YouTube. Mr Pichai said the engineers in Munich had made it easier for users to find privacy controls while browsing the web, adding that these features would also be introduced to Google Maps, the assistant and YouTube.

However, activists have cautioned that default settings still allow Google to collect data on users, while new products such as a "graph" of user's interests and a "smart screen" for the home, which is equipped with cameras, are fundamentally at odds with the principles of privacy.

Meanwhile, a peer-reviewed study of almost 1m Android apps has revealed how data from smartphones are harvested and shared, with nearly 90 per cent of Google Play apps set up to transfer information back to Google.

Earlier this year Google was slapped with a €50m penalty from the French data protection authority for failing to be transparent about how it uses data and not having a legal basis for personalising ads. It is challenging the fine.

Google also said on Tuesday it had set up a €10m grant to fund research on safety issues such as hate crimes online.

Source: © The Financial Times Limited 2019.

development. (Table 1-4 shows the top ten as well as the ranks of selected other countries.) The report stresses the key role of ICT as an enabler of a more economically, environmentally, and socially sustainable world. Other notable countries include Japan (12), Israel (22), UAE (29), Turkey (51), Mexico (57), and South Africa (72).[119]

Technology, in all its forms, is dispersed around the world by MNCs and their alliance partners in many countries. However, some of the information intended for electronic transmission is currently subject to export controls by an EU directive intended to protect private information about its citizens. In addition, some countries, such as China, monitor and limit electronic information flows. So, perhaps IT is not yet borderless but rather is subject to the same norms, preferences, and regulations as human cross-border interactions.

When the choice is left to international managers, experts in economic development recommend that managers make informed choices about appropriate technology. The choice of technology may be capital intensive, labor intensive, or intermediate, but the key is that it should suit the level of development in the area and the needs and expectations of the people who will use it.

Global E-Business

Without doubt, the Internet has had a considerable impact on how companies buy and sell goods around the world—mostly raw materials and services going to manufacturers. Internet-based electronic trading and data exchange are changing the way companies do business while breaking