

Brief Contents

Part 1 Globalization

Chapter 1 The Emerging Global Economy

Part 2 Country Differences

Chapter 2 Differences in Political Economy

Chapter 3 Differences in Culture

Part 3 Cross-Border Trade and Investment

Chapter 4 International Trade Theory

Chapter 5 The Global Trading System

Chapter 6 Foreign Direct Investment

Chapter 7 Regional Economic Integration

Part 4 Global Money System

Chapter 8 The Foreign Exchange Market

Chapter 9 The Global Monetary System

Part 5 Competing in a Global Marketplace

Chapter 10 Global Strategy

Chapter 11 Entering Foreign Markets

Chapter 12 Global Marketing

Chapter 13 Global Operations Management

Chapter 14 Global Human Resource Management

Endnotes

Glossary

Index

Contents

Part 1

Globalization 2

Chapter 1 The Emerging Global Economy 2

Opening Case: Citicorp—Building a Global Growth Company 2

Introduction 4

What Is Globalization? 5

The Globalization of Markets 5

The Globalization of Production 6

Drivers of Globalization 8

Declining Trade and Investment Barriers 9

The Role of Technological Change 11

The Changing Demographics of the Global Economy 15

The Changing World Output and World Trade Picture 15

The Changing Foreign Direct Investment Picture 17

The Changing Nature of the Multinational Enterprise 19

The Changing World Order 23

The Globalization Debate: Prosperity or Impoverishment? 25

Globalization, Jobs, and Incomes 25

Globalization, Labor Policies, and the Environment 26

Globalization and National Sovereignty 27

Managing in the Global Marketplace 28

Critical Thinking and Discussion Questions 32

Internet Exercise 32

Closing Case: Kodak versus Fuji in 1995 34

Could You Do This? Peer Profile: Lynda Luna 36

Part 2

Country Differences 38

Chapter 2 National Differences in Political Economy 38

Opening Case: General Electric in Hungary 38

Introduction 40

Political Systems 41

Collectivism and Individualism 41

Democracy and Totalitarianism 44

Economic Systems 47

Market Economy 47

Command Economy 48

Mixed Economy 48

Legal System 49

Property Rights 50

The Protection of Intellectual Property 51

Product Safety and Product Liability 52

Contract Law 53

Determinants of Economic Development 54

Differences in Economic Development 55

Political Economy and Economic Progress 57

States in Transition 62

Eastern Europe and the Former Soviet Union 63

Western Europe 65

Asia 66

Latin America 67

Africa 67

Implications 70

Implications for Business 70

Attractiveness 70

Ethical Issues 73

Critical Thinking and Discussion Questions 77

Internet Exercise 77

Closing Case: Trinity Motors in Russia 78

Chapter 3 Differences in Culture **80**

Opening Case: Euro-Disneyland: "Where Are the French?" 80

Introduction 82

What Is Culture? 84

Values and Norms 84

Culture, Society, and the Nation-State 85

The Determinants of Culture 86

Social Structure 86

Individuals and Groups 87

Social Stratification 89

Religion 92

Christianity 92

Islam 93

Hinduism 96

Buddhism 98

Confucianism 99

Language 100

Spoken Language 100

Unspoken Language 102

Education 102

Cultures and the Workplace 103

Hofstede's Model 103

Evaluating Hofstede's Model 107

Cultural Change 109

Implications for Business 112

Cross-Cultural Literacy 112

Culture and Competitive Advantage 112

Critical Thinking and Discussion Questions
116

Internet Exercise 116

Closing Case: Cultural Differences at ABB 117

Part 3

Cross-Border Trade and Investment 120

Chapter 4 International Trade Theory 120

**Opening Case: The Gains from Trade: Ghana and
South Korea 120**

Introduction 123

An Overview of Trade Theory 123

The Benefits of Trade 123

The Pattern of International Trade 124

Trade Theory and Government Policy 125

Mercantilism 126

Absolute Advantage 127

Comparative Advantage 130

The Gains from Trade 132

Qualifications and Assumptions 132

Trade and Economic Growth 134

Heckscher-Ohlin Theory 135

The Leontief Paradox 136

The Product Life-Cycle Theory 137

Evaluating the Product Life-Cycle Theory 138

The New Trade Theory 140

National Competitive Advantage: Porter's
Diamond 142

Factor Endowments 143

Demand Conditions 144

Related and Supporting Industries 144

Firm Strategy, Structure, and Rivalry 145

Evaluating Porter's Theory 145

Implications for Business 147

Location Implications 147

First-Mover Implications 149

Policy Implications 149

Critical Thinking and Discussion Questions
152

Internet Exercise 152

**Closing Case: The Italian Ceramic Tile Industry
153**

Could You Do This? Peer Profile: Rodrigo
de la Cruz 155

Chapter 5 The Global Trading System 158

Opening Case: Anatomy of a Trade Dispute 158

Introduction 160

Instruments of Trade Policy 162

Tariffs 162

Subsidies 164

Import Quotas and Voluntary Export Restraints 165

Local Content Requirements 165

Administrative Policies 166

The Case for Government Intervention 166

Political Arguments for Intervention 167

Economic Arguments for Intervention 168

The Revised Case for Free Trade 170

Retaliation and Trade War 171

Domestic Politics 171

Development of the Global Trading System 171

From Smith to the Great Depression 172

1947–79: GATT, Trade Liberalization, and Economic Growth 173

1980–93: Disturbing Trends 174

The Uruguay Round and the World Trade Organization 175

The Future of the WTO: Unresolved Issues 179

Implications for Business 180

Trade Barriers and Firm Strategy 180

Policy Implications 181

Critical Thinking and Discussion Questions 186

Internet Exercise 187

Closing Case: Malaysia and Britain Enter into a Trade Dispute 187

Could You Do This? Peer Profile: Yanira Gutierrez 189

Chapter 6 Foreign Direct Investment 192

Opening Case: Electrolux Invests in Asia and Eastern Europe 192

Introduction 194

Foreign Direct Investment in the World Economy 194

The Growth of Foreign Direct Investment 195

Changes in the Source of Foreign Direct Investment 197

The Recipients of FDI 197

FDI by Medium-Sized and Small Firms 199

The Theory of Foreign Direct Investment 201

Why Foreign Direct Investment? 201

The Pattern of Foreign Direct Investment 205

The Eclectic Paradigm 207

Political Ideology and Foreign Direct Investment 208

The Radical View 208

The Free Market View 209

Pragmatic Nationalism 210

Shifting Ideology 210

Costs and Benefits of FDI to the Nation-State 211

Host Country Effects: Benefits 211

Host Country Effects: Costs 214

Home Country Effects: Benefits 216

Home Country Effects: Costs 216

International Trade Theory and Offshore Production 217

Government Policy Instruments and FDI 217

Home Country Policies 218

Host Country Policies 219

Implications for Business 220

The Theory of FDI 220

Government Policy 222

Critical Thinking and Discussion Questions 225

Internet Exercise 225

Closing Case: Conoco's Russian Investment 226

Chapter 7 Regional Economic Integration 228

Opening Case: Tales from the New Europe 228

Introduction 230

Levels of Economic Integration 232

Free Trade Area 232

Customs Union 233

Common Market 234

Economic Union 234

Political Union 234

The Case for Regional Integration 234

The Economic Case for Integration 235

The Political Case for Integration 235

Impediments to Integration 236

The Case against Regional Integration 236

Regional Economic Integration in Europe 237

Evolution of the European Union 237

The Single European Act 238

The Treaty of Maastricht and Its Aftermath 242

Enlargement of the European Union 243

Fortress Europe? 243

Regional Economic Integration in the Americas 245

The North American Free Trade Agreement 245

The Andean Group 251

MERCOSUR 251

Other Latin American Trade Pacts 253

Regional Economic Integration Elsewhere 253

Association of Southeast Asian Nations 253

Asia Pacific Economic Cooperation 254

Implications for Business 255

Opportunities 256

Threats 257

Critical Thinking and Discussion Questions 259

Internet Exercise 259

Closing Case: Martin's Textiles 260

Part 4

Global Money System 262

Chapter 8 The Foreign Exchange Market 262

Opening Case: JAL 262

Introduction 264

The Functions of the Foreign Exchange Market 266

Currency Conversion 266

Insuring against Foreign Exchange Risk 267

The Nature of the Foreign Exchange Market 271

What Determines Exchange Rates? 273

Prices and Exchange Rates 273

Interest Rates and Exchange Rates 279

Investor Psychology and Bandwagon Effects 280

Summary 280

Exchange Rate Forecasting 281

The Efficient Market School 281

The Inefficient Market School 281

Approaches to Forecasting 282

Currency Convertibility 283

Convertibility and Government Policy 283

Countertrade 284

Implications for Business 285

Critical Thinking and Discussion Questions 287

Internet Exercise 287

Closing Case: The Collapse of the Russian Ruble 288

Chapter 9 The Global Monetary System 290

Opening Case: The Tumbling Peso and the Auto Industry 290

Introduction 292

The Gold Standard 294

Nature of the Gold Standard 294

The Strength of the Gold Standard 294

The Period between the Wars, 1918–39 295

The Bretton Woods System 296

The Role of the IMF 296

The Role of the World Bank 298

The Collapse of the Fixed Exchange Rate System 298

The Floating Exchange Rate Regime 300

The Jamaica Agreement 300

Exchange Rates since 1973 301

Fixed versus Floating Exchange Rates 304

The Case for Floating Exchange Rates 304

The Case for Fixed Exchange Rates 306

Who Is Right? 307

The IMF and World Bank after Bretton Woods 308

IMF and the Developing World Debt 308

From the IMF Solution to the Brady Plan 309

The Future of the IMF and the World Bank 310

Implications for Business 311

Currency Management 311

Business Strategy 311

Corporate-Government Relations 312

Critical Thinking and Discussion Questions 315

Internet Exercise 315

Closing Case: The Fall and Rise of Caterpillar Tractor 315

Could You Do This? Peer Profile: Danny Wong 318

Part 5

Competing in a Global Marketplace 320

Chapter 10 Global Strategy 320

Opening Case: It's a Mac World 320

Introduction 322

Strategy and the Firm 323

The Firm as a Value Chain 324

The Role of Strategy 325

Profiting from Global Expansion 325

Transferring Core Competencies 326

Realizing Location Economies 327

Realizing Experience Curve Economies 329

Pressures for Cost Reductions and Local Responsiveness 332

Pressures for Cost Reductions 332

Pressures for Local Responsiveness 333

Strategic Choice 335

International Strategy 336

Multidomestic Strategy 337

Global Strategy 337

Transnational Strategy 339

Summary 341

Strategic Alliances 342

The Advantages of Strategic Alliances 343

The Disadvantages of Strategic Alliances 344

Making Alliances Work 344

Partner Selection 345

Alliance Structure 345

Managing the Alliance 348

Critical Thinking and Discussion Questions 351

Internet Exercise 351

Closing Case: Sweden's IKEA 352

Could You Do This? Peer Profile: Heather Kinney 354

Chapter 11 Entering Foreign Markets 356

Opening Case: Artais Weather Check 356

Introduction 358

Entry Modes 359

Exporting 359

Turnkey Projects 360

Licensing 361

Franchising 363

Joint Ventures 366

Wholly Owned Subsidiaries 367

Selecting an Entry Mode 368

Core Competencies and Entry Mode 368

Pressures for Cost Reductions and Entry Mode 370

The Promise and Pitfalls of Exporting 370

Improving Export Performance 372

Government Information Sources 372

Utilizing Export Management Companies 373

Exporting Strategy 373

Export (and Import) Financing 375

Lack of Trust 375

Letter of Credit 376

Draft 378

Bill of Lading 379

Summary: A Typical International Trade

Transaction 379

Critical Thinking and Discussion Questions 383

Internet Exercise 383

Closing Case: Downey's Soup 384

Chapter 12 Global Marketing and Product Development 386

Opening Case: MTV and the Globalization of Teen Culture 386

Introduction 389

The Globalization of Markets? 390

Product Attributes 391

Cultural Differences 391

Economic Differences 392

Product and Technical Standards 392

Distribution Strategy 393

A Typical Distribution System 393

Differences among Countries 393

Choosing a Distribution Strategy 395

Communication Strategy 396

Barriers to International Communication 397

Push versus Pull Strategies 398

Global Advertising 400

Pricing Strategy 401

Price Discrimination 401

Strategic Pricing 406

Regulatory Influences on Prices 406

Configuring the Marketing Mix 407

New-Product Development 408

The Location of R&D 410

Linking R&D and Marketing 411

Critical Thinking and Discussion Questions 413

Internet Exercise 414

Closing Case: Procter & Gamble 414

Could You Do This? Peer Profile:

Nick Zumbiehl 416

Chapter 13 Global Operations Management 418

Opening Case: Global Manufacturing and Logistics at Timberland 418

Introduction 420

Strategy, Manufacturing, and Materials Management 421

Where to Manufacture 423

Country Factors 424

Technological Factors 424

Product Factors 427

Locating Manufacturing Facilities 428

Make-or-Buy Decisions 429

The Advantages of Make 430

The Advantages of Buy 432

Trade-offs 434

Strategic Alliances with Suppliers 435

Coordinating a Global Manufacturing System 436

The Power of Just-in-Time 437

The Role of Information Technology 437

Critical Thinking and Discussion Questions 441

Internet Exercise 441

Closing Case: The Global Supply Chain at Digital Equipment 442

Could You Do This? Peer Profile:

Henry Slonsky 444

Chapter 14 Global Human Resource Management 446

Opening Case: Global Human Resource Management at Coca-Cola 446

Introduction 448

Staffing Policy 449

The Ethnocentric Approach 450

The Polycentric Approach 451

The Geocentric Approach 452

Summary 452

The Expatriate Problem 453

Expatriate Failure Rates 453

Expatriate Selection 455

Training and Management Development 457

Training for Expatriate Managers 457

Repatriation of Expatriates 458

Management Development Strategy 459

Performance Appraisal 461

Performance Appraisal Problems 461

Guidelines for Performance Appraisal 461

Compensation 462

National Differences in Compensation 462

Expatriate Pay 463

Critical Thinking and Discussion Questions 468

Internet Exercise 468

Closing Case: Global HRM at Colgate-Palmolive, Inc. 468

Endnotes 471

Glossary 491

Index 497