Brief Contents

1	International Business in an Age of Globalization	1
Part 1	I	
	epts and Theories in International Business	19
2	International Trade Theory and Application	21
3	Foreign Direct Investment Theory and Application	71
4	The Multinational Enterprise	115
Part 2		452
	wments and Environments of International Business	153
5	Country Competitiveness	155
6	The Cultural Environment	187
7	The Political and Legal Environment	219
Part 3	3	
Globa	al Markets and Institutions	251
8	International Economic Integration and Institutions	253
9	The International Monetary System and Financial Markets	289

Part 4	
International Business Strategies	331
10 International Entry Strategies	333
11 MNE Organization Structure and Design	377
12 Building and Managing Global Strategic Alliances (GSAs)	405
13 Managing Global Research and Development (R&D)	433
Part 5	
Functional International Business Areas	457
14 Financial Management for Global Operations	459
15 International Accounting for Global Operations	495
16 Global Marketing and Supply Chain	523
17 Global Human Resource Management	563
Part 6	
Emerging Issues in International Business	593
18 Internet and Global E-commerce	595
19 Social Responsibility and Corruption in the Global Marketplace	615
20 International Entrepreneurship	639

Detailed Contents

1	International Business in an Age of Globalization	1
	OPENING CASE: THE COCA-COLA COMPANY	2
	An Age of Globalization	3
	What Does Globalization Mean to You? 4	
	The Face of Globalization	5
	Who Benefits from Globalization? 6	
	The Impact of Globalization 8	
	Globalization and International Business	10
	What is International Business? 10	
	International versus Domestic Business 11	
	Industry/Country Box: Sinostone Comes to Elberton	13
	Why Expand Internationally? 13	
	The Structure of this Book	15
	Pedagogical Thrust 17	
Part 1	epts and Theories in International Business	19
	•	
2	International Trade Theory and Application	21
	Opening Case: Banana Wars	22
	International Trade Theories	23
	The Mercantilist Doctrine 23	
	Absolute Advantage Theory 24	
	Comparative Advantage Theory 25	
	Heckscher-Ohlin Theorem 26	
	The Leontief Paradox 28	

	Human Skills and Technology-Based Views 29	
	The Product Life-Cycle Model 31	
	Linder's Income-Preference Similarity Theory 34	
	The New Trade Theory 35	27
	INDUSTRY BOX: THE GLOBAL AUTOMOTIVE INDUSTRY	37
	Theory Assessment 37	40
	International Trade Patterns	40
	International Trade Volume and Growth 40	
	Service Trade 44	
	Trade Measurement 45	
	Major Exporters and Importers 45	
	US Trade Partners 46	
	Trade Balance 50	5.2
	Arguments for Trade Restrictions	53
	The Sovereignty Argument 54	
	The Lowest Common Denominator Argument 54	
	Trade Reciprocity 54	
	Optimal Tariff Theory 55	
	Infant Industry Argument 55	57
	Types of Trade Barriers	37
	Tariff Barriers 57 Non-Tariff Barriers 59	
	Country Box: The United States and Steel Imports	60
3	Foreign Direct Investment Theory and Application	71
	Opening Case: Japan Changes its Mind about FDI	72
	Definition and Types of Foreign Direct Investment	73
	FDI versus Foreign Portfolio Investment 74	
	Types of FDI 74	
	Entry Mode 75	
	The Strategic Logic of FD1 76	
	How the MNE Benefits from Foreign Direct Investment	77
	Enhancing Efficiency from Location Advantages 77	
	Improving Performance from Structural Discrepancies 77	
	Increasing Return from Ownership Advantages 77	
	Ensuring Growth from Organizational Learning 78	
	The Impact of FDI on the Host (Destination) and	
	Home (Origin) Countries	79
	Employment 79	
	FDI Impact on Domestic Enterprises in the Host Country 80	
	Current Theories on FDI	82
	Product Life-Cycle Theory 82	

	Monopolistic Advantage Theory 83 Internalization Theory and other Transaction Cost-Based Theories 84 The Eclectic Paradigm 86	
	New Perspectives on FDI The Dynamic Capability Perspective 88	88
	The Evolutionary Perspective 90 INDUSTRY BOX: MNEs AND FDI IN THE AUTOMOTIVE INDUSTRY The Real Option Perspective 92	91
	The Integration-Responsiveness Perspective 94	
	Patterns of FDI	95
	FDI Inflows Transnationality and FDI Performance of Individual Economies 103 FDI Entry Forms 106	101
	The Investment Environment FDI Decision Criteria 109	108
	Country Box: FDI in Israel	110
4	The Multinational Enterprise	115
	Opening Case: Johnson & Johnson	116
	What is a Multinational Enterprise? The Degree of Internationalization 118	117
	History of the MNE 119 The World's Largest MNEs	120
	The Growth of Service MNEs 122	120
	The Image of the MNE	125
	The MNE in the Public Eye 125	
	The Borderless Corporation: Myth or Reality? 126	
	The Competitive Advantage of the MNE	127
	Capabilities and Competitive Advantage 128	
	The MNE from Emerging/Developing Economies (DMNE)	131
	The Largest Developing Country MNEs 131 Obstacles Facing MNEs from Developing Faconomies 134	
	Obstacles Facing MNEs from Developing Economies 134 DMNE Advantage in Global Markets 134	
	Typical Features of DMNEs 135	
	Country Box: An Israeli Firm Becomes	
	THE WORLD'S LARGEST GENERIC DRUG MAKER	138
	The Small and Medium-Size International Enterprise (SMIE)	139
	What is an SMIE? 139	
	Obstacles to SMIE Internationalization 140	
	SMIE Advantages in Internationalization 143	
	SMIE Internationalization Features 143	1.40
	Industry Box: Investment Management and the SMIE	148

Part 2 Endowments and Environments of International Business 153		
5	Country Competitiveness	155
	OPENING CASE: SINGAPORE'S CHANGING COMPETITIVE	
	Advantage in the Hard Disk Drive Industry	156
	Defining Country Competitiveness	157
	Country Competitiveness and MNEs 159	
	Country-Level Determinants	160
	Institutional System 161	
	Infrastructure 163	
	Macroeconomic Soundness 164	
	Science, Education, and Innovation 167	
	Internationalization 170	171
	Industry-Level Determinants	171
	INDUSTRY BOX: E-COMMERCE AS AN ELEMENT OF COUNTRY COMPETITIVENESS Firm-Level Determinants	175 176
	Individual-Level Determinants	178
	Country Box: Italy: Owner Sneaks Factory to Poland	180
	Interplay of the Four-Level Determinants 181	100
	Government Role	181
6	The Cultural Environment	187
0		107
	Opening Case: Renault-Nissan Alliance	188
	What is Culture?	189
	Culture and International Business	189
	Culture Does Not Explain Everything 190	
	Correlates of Culture 191	107
	National Culture Classifications	197
	Hofstede's Dimensions of Culture 197 COUNTRY BOX: TOYOTA: A SHIFT IN TOYOTA'S CORPORATE CULTURE	100
	Schwartz's Classification 203	198
	The GLOBE Classification 205	
	Trompenaars and Hampden-Turner's Classification 205	
	Other Dimensions of Culture 206	
	National Culture Clustering 207	
	Measuring Cultural Differences 207	
	Corporate Culture	210
	Other Layers of Culture	210
	Ethnicity 210	
	Industry 210	
	Demographics 211	
	Ideology 211	

	Key Cultural Issues Cultural Etiquette 211 Cultural Stereotypes 212 Convergence and Divergence 214 Industry Box: Islamic Finance	211
7	The Political and Legal Environment	219
	Opening Case: Bolivia Nationalizes Natural Gas The Political Environment Political System 222 The Institutional Context 226	220 221
	The MNE-Government Relationship The MNE Relationship with the Host Government 227 The MNE and its Home Government 230 Coalition Building and Influence Tactics 231	227
	Industry Box: Managing Politics in the Automotive Industry Economic Freedom 233 Political Risk 233 Regional-Level Politics 237 Micro-Region Political Processes 238	232
	The Legal Environment The Institutional Context 239	239
	Country Box: Indonesia: Manufacturers Life Weathers the Storm in Indonesia Legal Jurisdiction 242 Legal Issues of Interest to the MNE 243	240
Part 3 Global	Markets and Institutions	251
8	International Economic Integration and Institutions	253
	OPENING Case: 3M's Response to European Market Integration	254
	International Economic Integration	255
	Global-Level Cooperation Among Nations The World Trade Organization (WTO) 258	257
	COUNTRY BOX: RUSSIA: RUSSIA JOINS THE WTO The International Monetary Fund (IMF) 263 The World Bank Group 264 Other International Economic Organizations 265	262
	Regional-Level Cooperation Among Nations Postwar Regional Integration 267 North America: The North American Free Trade Agreement (NAFTA) Europe: The European Union (EU) 271	267

	INDUSTRY BOX: SIEMENS SHARPENS ITS FOCUS TO RESPOND TO THE SINGLE MARKET Asia Pacific 274 Latin America 277 Africa and the Middle East 279 Responsibility of Clobalization 279	273
	Regionalization vs. Globalization 279 Commodity-Level Cooperation Among Nations Organization of Petroleum Exporting Countries (OPEC) 282 Other Commodity Agreements 284 Strategic Responses of MNEs	281 284
9	The International Monetary System and Financial Markets	289
	Opening Case: Foreign Exchange Crisis in Mexico History of the International Monetary System The Gold Standard Period (1876–1914) 292 The Inter-War Years and World War II (1914–1944) 292 The Bretton Woods System (1944–1973) 293 The Post-Bretton Woods System: 1973–Present 294	290 291
	Contemporary Exchange Rate Systems	297
	Fixed-Rate System 297	
	Crawling Peg System 298 Country Box: Hong Kong: Should the Hong Kong	
	Dollar Retain the Fixed Peg to the US Dollar? Target-Zone Arrangement 300 Managed Float System 301 Independent Float System 301 Advantages and Disadvantages of the Floating System 302	299
	Determination of Foreign Exchange Rates Foreign Exchange Rate Quotations 303 Gold Standard 305 Purchasing Power Parity (PPP) 306 Interest Rate Parity (IRP) 307 Foreign Exchange Rate Overshooting 308 Implications for MNEs: Foreign Exchange Forecasting 310	303
	The Balance of Payments Current Account 313 Capital Account 313 Official Reserves Account 313	311
	International Foreign Exchange Markets Landscape of the International Foreign Exchange Market 314 Market Participants and Functions 315 Transaction Forms 316 Foreign Exchange Arbitrage 317	314

Black Market and Parallel Market 318	
International Capital Markets	319
International Money Markets 319	
International Bond Markets 320	
INDUSTRY BOX: US FIRMS FIND CHEAPER FINANCING FROM FOREIGN SOURCES	321
International Stock Markets 321	
International Loan Markets 322	
Major International Financial Crises in Recent Times	324
The Asian Financial Crisis 324	
The Global Financial Crisis 327	
Part 4	
International Business Strategies	331
10 International Entry Strategies	333
OPENING CASE: DUPONT'S ENTRY STRATEGIES INTO CHINA	334
Dimensions of a Market Entry Strategy	335
International Location Selection (Where)	336
Locational Determinants 337	
COUNTRY BOX: FEDERAL EXPRESS SHIFTS ITS HUB FROM	344
Subic Bay to Guangzhou, China	344
Decision Framework 345	347
Timing Of Entry (When) Uncertainty and Potential for Learning 347	347
Competitive Preemption and Pioneering Costs 349	
Decision Framework 352	
Entry Mode Selection (How)	355
Entry Mode Scheeton (1700) Entry Mode Choices 355	
Trade-Centered Entry Modes 355	
Transfer-Centered Entry Modes 359	
FDI-Centered Entry Modes 362	
Decision Framework 368	
Greenfield Investment, Acquisition, and Merger 370	
INDUSTRY BOX: UNILEVER'S ACQUISITIONS IN LATIN AMERICA	371
The Evolutionary Path 371	
11 MNE Organization Structure and Design	377
OPENING CASE: PROCTER & GAMBLE: WORLDWIDE STRUCTURE	378
International Strategy and Organization Design	378
Global Integration and Local Responsiveness 379	
MNE Strategy and Design 380	
Subsidiary Roles and Imperatives 381	

	MNE Organizational Structures	383
	The National Subsidiary Structure 383	
	The International Division Structure 384	
	The Global Functional Structure 384	
	The Global Geographic Structure 385	
	Country Box: Internationalizing the Board of Directors	388
	The Global Product Structure 389	
	Industry Box: "Ford 2000"	391
	The Global Matrix Structure 393	
	Integrating Global Operations	398
	Tools for Global Integration 398	
	The Transition Challenge 400	
	The Corporate Headquarters 400	
12	Building and Managing Global Strategic Alliances (GSAs)	405
	OPENING CASE: ALLIANCES BETWEEN INFINEON TECHNOLOGIES	
	AG and Motorola, Inc.	406
	Defining Global Strategic Alliances	407
	Types of GSAs 407	
	Rationales for Building GSAs 409	
	Challenges Facing GSAs 411	
	Building Global Strategic Alliances	413
	Selecting Local Partners 413	
	Negotiating Alliance Contracts 417	
	Structuring Global Strategic Alliances 418	
	Country Box: Spain: Fujitsu in Spain: Barriers to Alliance Management	420
	Managing Global Strategic Alliances	421
	Managing Inter-Partner Learning 421	
	Exercising Managerial Control 423	
	Heightening Cooperation 426	
	Thinking Ahead of Exit 428	
	Industry Box: Wisdom Gained from Experience in Building GSAs	429
13	Managing Global Research and Development (R&D)	433
	OPENING CASE: INTEL'S R&D NETWORK IN DEVELOPING COUNTRIES	434
	Why Globalize R&D?	435
	Benefits and Challenges of Global R&D 437	
	Country Box: India: R&D Centers of Global Companies in India	440
	Designing and Structuring Global R&D	441
	Types of Foreign R&D Units 441	
	Selecting R&D Location 442	
	Industry Box: Ford Locates its R&D Center in Aachen, Germany	444
	Structuring Global R&D Activities 445	

Managing and Operating Global R&D Human Resource Management 448 Autonomy Setting 448 Global Planning 449 Communication Improvement 450	448
Technology Transfer Across Borders	452
Part 5	
Functional International Business Areas	457
14 Financial Management for Global Operations	459
OPENING CASE: MINIMIZING EXPOSURE IN RTZ	460
Why Learn Financial Management?	461
International Trade Finance	462
International Trade Payment 462	
Export Financing 467	
Financing for Global Business	471
Intercompany Financing 471	
Equity Financing 472	
Debt Financing 473	
Local Currency Financing 474	
Financing Decisions 475	476
Managing Foreign Exchange Risk and Exposure	4/6
Foreign Exchange Risk and Exposure 476 Transaction and Economic Exposures 477	
Managing Transaction Exposure 480	
Managing Economic (Operating) Exposure 483	
Industry Box: Netting in Philips	486
Global Coordination of Exposure Management 487	
Country Box: India: India Faces Dilemma on Foreign Exchange Hedgi	ING 488
Working Capital Management	489
Cash Management 489	
Foreign Receivable Management 491	
15 International Accounting for Global Operations	495
Opening Case: Glaxo to Settle Tax Dispute with IRS for \$3.4 Billion	496
Country Differences in Accounting	497
Why Accounting Systems Differ Among Countries 497	
INDUSTRY BOX: ACCOUNTING DIVERSITY IN SIEMENS	502
National Accounting Zones 502	
International Accounting Harmonization 504	
International Accounting Standards 505	

DETAILED CONTENTS

	Country Box: Australia: Accounting in Australia	507 508
	Foreign Currency Translation Commonly Used Translation Methods 509 Harmonization of Translation Methods 511 International Accounting Information Systems 512	300
	Transfer Pricing and Taxation Strategies Why Transfer Pricing? 514 Transfer Pricing Techniques 515 Transfer Pricing Regulations and Penalties 516	514
	Tax Havens, Treaties, and Strategies Tax Havens 517 Tax Treaties 518 Other Tax Strategies for MNEs 519	. 517
16	Global Marketing and Supply Chain	523
	Opening Case: Domino's Pizza	524
	The International Marketing Challenge	525
	Assessing Market Potential 526	53.0
	Globalization and Localization in International Markets Globalization Forces 529 Localization Forces 530 Product Adaptation 531	528
	Country Box: Kimchi Wars	534
	Country-of-Origin Effect 535	
	Branding 537	
	Channel Decisions 540	
	Promotion 542 Marketing Alliances 543	
	The Global Supply Chain	544
	The Globalization of Supply Chains 545	
	Global Sourcing 546	
	Customizing the Supply Chain 546	
	Packaging 547	
	Transportation Modes 548 Crossing National Borders 554	
	Industry Box: Global Logistics at Wal-Mart	554
17	Global Human Resource Management	563
	OPENING CASE: MANAGING GLOBAL HUMAN RESOURCES AT HSBC	564
	Strategic IHRM	565
	Staffing the MNE	567
	The Globalization of Boards of Directors 567	
	INDUSTRY ROY- AIRLINE PHOTS GO GLOBAL	569

COUNTRY BOX: KOREAN COMPANIES SEEK GLOBAL TALENT	570
Staffing the MNE Ranks 570	
Country-Specific Issues 572	
The Expatriate Workforce	573
Types and Distribution of Expatriates 573	
Using Expatriates: Pros and Cons 574	
Expatriate Failure 574	
Expatriate Selection 575	
Preparing for a Foreign Assignment 576	
Compensation 578	
Culture and Compensation 583	
Repatriation 585	
HRM in International Affiliates	586
Human Resource Problems in Foreign Affiliates 587	
Part 6	
Emerging Issues in International Business	593
18 Internet and Global E-commerce	595
OPENING CASE: EBAY IN CHINA	596
Internet and E-commerce Infrastructure	597
Internet Diffusion 597	
Country Box: The United States Lags behind in	
High-Speed Internet Access	598
E-Readiness 599	
Cross-border E-commerce	603
The Impact of E-commerce on International Business 603	
Industry Box: The Online Brokerage Industry Goes Global	605
Global E-commerce Challenges	607
Standardization Forces 607	
Localization Challenges 608	
Taxation Issues 611	
19 Social Responsibility and Corruption in the Global Marketplace	615
OPENING CASE: SHELL'S BRENT SPAR PROJECT	616
Corporate Social Responsibility in International Business	617
MNE Social Responsibilities 618	
Industry Box: Social Impact Assessment Steps at Shell	620
Global Guidelines and Mandates 621	
A Culture of Social Responsibility 622	
Auditing and Assessing MNE Social Responsibility 623	
Corruption in International Business	624

xvii

Definition and Magnitude of Corruption 624	
The Origins of Corruption 625	
Drawbacks of Corruption 626	
Corruption Rankings 626	
Types of Corrupt Practices	628
Smuggling 628	
Money Laundering 629	
Piracy and Counterfeiting 629	
Bribe Paying 630	
The Foreign Corrupt Practices Act (FCPA) 630	
The Globalization of the Fight Against Corruption 632	
COUNTRY BOX: DRUG COMPANIES FACE BRIBERY PROBE ON PAYMEN	TS
TO OFFICIALS OF FOREIGN EMERGING MARKETS	634
20 International Entrepreneurship	639
OPENING CASE: WILL ENTREPRENEURSHIP	
HELP JAPAN REGAIN ITS LOST DECADES?	640
Defining International Entrepreneurship	641
Comparative Entrepreneurship	642
Culture and Entrepreneurship 645	
Funding New Ventures 646	
Cross-Border Entrepreneurship	652
Internationalizing the Born Global Enterprise 6.52	
INDUSTRY BOX: ISRAELI START-UPS IN THE GLOBAL MARKETPLACE	654
Index	657