Charles W.L. Hill

# International Business

COMPETING IN THE GLOBAL MARKETPLACE

Seventh Edition

This
International
Student Edition
is for use
outside of
the U.S.

McGRAW-HILL INTERNATIONAL EDITION

# CONTENTS



# CHAPTER 1 Globalization 2

# Opening Case Flat Panel Televisions and the Global Economy 2

Introduction 4

What Is Globalization? 6
The Globalization of Markets 6
The Globalization of Production 7

# **Country Focus**

Outsourcing American Health Care 8

The Emergence of Global Institutions 9

Drivers of Globalization 11

Declining Trade and Investment Barriers 11

The Role of Technological Change 13

The Changing Demographics of the Global Economy 16
The Changing World Output and World Trade Picture 16
The Changing Foreign Direct Investment Picture 17

# **Country Focus**

India's Software Sector 18

The Changing Nature of the Multinational Enterprise 20 The Changing World Order 21

#### Management Focus

China's Hisense—An Emerging Multinational 22

The Global Economy of the 21st Century 23

The Globalization Debate 24
Antiglobalization Protests 24
Globalization, Jobs, and Income 25

#### **Country Focus**

Protesting Globalization in France 26

Globalization, Labor Policies, and the Environment 29 Globalization and National Sovereignty 30 Globalization and the World's Poor 31

Managing in the Global Marketplace 32

Chapter Summary 34

Critical Thinking and Discussion Questions 34



# CHAPTER 2

National Differences in Political Economy 40

# Opening Case Chavez's Venezuela 40

Introduction 42

Political Systems 42
Collectivism and Individualism 43
Democracy and Totalitarianism 45

Economic Systems 47
Market Economy 47
Command Economy 47
Mixed Economy 48

Legal Systems 48
Different Legal Systems 49
Differences in Contract Law 50
Property Rights and Corruption 50

# Country Focus

Corruption in Nigeria 53

The Protection of Intellectual Property 54
Product Safety and Liability 55

# **Management Focus**

Starbucks Wins Key Trademark Case in China 56

The Determinants of Economic Development 56

Differences in Economic Development 56

Broader Conceptions of Development: Amartya Sen 60

Political Economy and Economic Progresss 60

Geography, Education, and Economic Development 65

States in Transition 66

The Spread of Democracy 66
The New World Order and Global Terrorism 68
The Spread of Market-Based Systems 70

The Nature of Economic Transformation 70

Deregulation 70

Privatization 72

#### **Country Focus**

Building a Market Economy in India 73

Legal Systems 74

Implications of Changing Political Economy 74
Implications for Managers 76
Chapter Summary 80

Apple's iPod Plant 122



Critical Thinking and Discussion Questions Introduction 124 Research Task 80 Ethical Issues in International Business 124 Employment Practices 124 **Closing Case** Human Rights 125 Indonesia-The Troubled Giant 81 CHAPTER 3 **Management Focus** Unocal in Myanmar 127 Differences in Culture Environmental Pollution 127 **Opening Case** Corruption 128 Wal-Mart's Foreign Expansion 86 Moral Obligations 130 Introduction 88 **Management Focus** What Is Culture? 89 News Corporation in China 131 Values and Norms 89 Culture, Society, and the Nation-State 90 Ethical Dilemmas 131 The Determinants of Culture 91 The Roots of Unethical Behavior Social Structure 92 Personal Ethics 132 Individuals and Groups 92 Decision-Making Processes 132 Social Stratification 94 Organization Culture 132 Religious and Ethical Systems 96 **Management Focus** Christianity 96 Pfizer's Drug Testing Strategy in Nigeria Islam 98 Unrealistic Performance Expectations **Country Focus** Leadership 135 Islamic Capitalism in Turkey 101 Philosophical Approaches to Ethics 136 Hinduism 102 Straw Men 136 **Management Focus** Utilitarian and Kantian Ethics 138 McDonald's and Hindu Culture Rights Theories 139 Justice Theories Buddhism 104 140 Confucianism 105 Ethical Decision Making 141 Language 106 Hiring and Promotion 142 Organization Culture and Leadership 142 Spoken Language 106 Decision-Making Processes 144 Unspoken Language 107 Ethics Officers 145 Education 107 Moral Courage 145 Culture and the Workplace Summary of Decision-Making Steps 146 Cultural Change 110 Chapter Summary 146 Implications for Managers 112 Critical Thinking and Discussion Questions 147 **Management Focus** Cross-Cultural Illiteracy 114 Research Task 148 Chapter Summary 116 **Closing Case** Google in China 148 Critical Thinking and Discussion Questions 116 **Part Two Cases** Research Task 117 Nike: The Sweatshop Debate 154 **Closing Case** Etch-a-Sketch Ethics 157 DMG-Shanghai 117 Western Drug Companies and the AIDS Epidemic in South Africa 159 CHAPTER 4 Matsushita and Japan's Changing Ethics in International Business 122 Culture 161 **Opening Case** 

Mired in Corruption-Kellogg, Brown & Root

in Nigeria 163



# CHAPTER 5

International Trade Theory 166

# **Opening Case**

The Ecuadorian Rose Industry 166

Introduction 168

An Overview of Trade Theory 168

The Benefits of Trade 169

The Patterns of International Trade 169

Trade Theory and Government Policy 170

Mercantilism 171

Absolute Advantage 171

# **Country Focus**

Is China a Neo-Mercantilist Nation? 172

Comparative Advantage 174

The Gains from Trade 175

Qualifications and Assumptions 176

Extensions of the Ricardian Model 177

#### **Country Focus**

Moving White-Collar Jobs Offshore 181

Heckscher-Ohlin Theory 182

The Leontief Paradox 182

The Product Life-Cycle Theory 183

Evaluating the Product Life-Cycle Theory 184

New Trade Theory 186

Increasing Product Variety and Reducing Costs 186 Economies of Scale, First Mover Advantages, and the Pattern of Trade 187 Implications of New Trade Theory 187

National Competitive Advantage: Porter's Diamond 189
Factor Endowments 190
Demand Conditions 190
Related and Supporting Industries 190
Firm Strategy, Structure, and Rivalry 191
Evaluating Porter's Theory 191

#### **Management Focus**

The Rise of Finland's Nokia 192

Implications for Managers 193

Chapter Summary 195

Critical Thinking and Discussion Questions 196

Research Task 196

#### **Closing Case**

Trade in Information Technology and U.S. Economic Growth 197

#### Appendix

International Trade and the Balance of Payments 200

# CHAPTER 6

The Political Economy of International Trade 204

#### **Opening Case**

United States Cotton Subsidies and World Trade 204

Introduction 206

Instruments of Trade Policy 206
Tariffs 207
Subsidies 208
Import Quotas and Voluntary Export Restraints 208

#### **Country Focus**

Subsidized Wheat Production in Japan 209

Local Content Requirements 211
Administrative Policies 211

The Case for Government Intervention 212
Political Arguments for Intervention 212

#### **Management Focus**

U.S. Magnesium Seeks Protection 213

#### **Country Focus**

Trade in Hormone-Treated Beef 215

Economic Arguments for Intervention 217

The Revised Case for Free Trade 219 Retaliation and Trade War 219 Domestic Policies 220

Development of the World Trading System 220
From Smith to the Great Depression 220
1947–1979: GATT, Trade Liberalization, and
Economic Growth 221
1980–1993: Protectionist Trends 222
The Uruguay Round and the World Trade Organization 22:
WTO: Experience to Date 223
The Future of the WTO: Unresolved Issues and the
Doha Round 227

#### Country Focus

Estimating the Gains from Trade for America 231

Implications for Managers 232

Chapter Summary 234

Critical Thinking and Discussion Questions 235

Research Task 235

# **Closing Case**

Trade in Textiles—Holding the Chinese Juggernaut in Check 236



# CHAPTER 7 Foreign Direct Investment 240

# Opening Case Starbucks' Foreign Direct Investment 240

Introduction 242

Foreign Direct Investment in the World Economy 242
Trends in FDI 242
The Direction of FDI 244

# Country Focus

Foreign Direct Investment in China 245

The Source of FDI 246
The Form of FDI: Acquisitions versus Greenfield
Investments 247
The Shift to Services 248

Theories of Foreign Direct Investment 248
Why Foreign Direct Investment? 249
The Pattern of Foreign Direct Investment 251
The Eclectic Paradigm 252

Political Ideology and Foreign Direct Investment 254
The Radical View 254
The Free Market View 254
Pragmatic Nationalism 255
Shifting Ideology 256

# **Management Focus**

DP World and the United States 257

Benefits and Costs of FDI 257
Host-Country Benefits 257
Host-Country Costs 260
Home-Country Benefits 261
Home-Country Costs 262
International Trade Theory and FDI 262

Government Policy Instruments and FDI 262
Home-Country Policies 263
Host-Country Policies 263
International Institutions and the Liberalization of FDI 265

Implications for Managers 265

Chapter Summary 268

Critical Thinking and Discussion Questions 269

Research Task 269

# **Closing Case**

Cemex's Foreign Direct Investment 269

#### CHAPTER 8

Regional Economic Integration 274

Opening Case
The European Energy Market 274

Introduction 276

Levels of Economic Integration 277

The Case for Regional Integration 278

The Economic Case for Integration 279

The Political Case for Integration 279

Impediments to Integration 280

The Case against Regional Integration 280

Regional Economic Integration in Europe 281 Evolution of the European Union 281 Political Structure of the European Union 282

#### **Management Focus**

The European Commission and Media Industry Mergers 284

The Single European Act 284

## **Country Focus**

Creating a Single European Market in Financial Services 286

The Establishment of the Euro 287 Enlargement of the European Union 289

Regional Economic Integration in the Americas 290

The North American Free Trade Agreement 290
The Andean Community 293
MERCOSUR 294
Central American Common Market, CAFTA, and CARICOM 295
Free Trade Area of the Americas 295

Regional Economic Integration Elsewhere 296
Association of Southeast Asian Nations 296
Asia-Pacific Economic Cooperation 297
Regional Trade Blocs in Africa 298

Implications for Managers 299

Chapter Summary 301

Critical Thinking and Discussion Questions 302

Research Task 302

# **Closing Case**

NAFTA and the U.S. Textile Industry 303

Part Three Cases

Agricultural Subsidies and Development 308

Reader Boeing versus Airbus: Two Decades of Trade Disputes 309

The Politics of Trade in Steel 316

Dixon Ticonderoga — Victim of Globalization 317
Drug Development in the European Union 318
Logitech 319



# CHAPTER 9

The Foreign Exchange Market 322

# **Opening Case**

Hyundai and Kia Face a Strong Won 322

Introduction 324

The Functions of the Foreign Exchange Market 324

Currency Conversion 325

Insuring against Foreign Exchange Risk 326

# Management Focus

Volkswagen's Hedging Strategy 329

The Nature of the Foreign Exchange Market 329

Economic Theories of Exchange Rate Determination 331

Prices and Exchange Rates 331

Interest Rates and Exchange Rates 337

Investor Psychology and Bandwagon Effects 338

Summary 339

Exchange Rate Forecasting 339

The Efficient Market School 339

#### **Country Focus**

Anatomy of a Currency Crisis 340

The Inefficient Market School 340 Approaches to Forecasting 341

Currency Convertibility 342

Implications for Managers 344

#### **Management Focus**

Dealing with the Rising Euro 346

Chapter Summary 347

Critical Thinking and Discussion Questions 348

Research Task 349

### **Closing Case**

The Curse of the Strong Dollar at STMicro 349

# CHAPTER 10

The International Monetary System 352

# **Opening Case**

Argentina's Monetary Crisis 352

Introduction 354

The Gold Standard 355
Mechanics of the Gold Standard 356
Strength of the Gold Standard 356
The Period between the Wars, 1918–1939 356

The Breton Woods System 357
The Role of the IMF 358
The Role of the World Bank 359

The Collapse of the Fixed Exchange Rate System 359

The Floating Exchange Rate Regime 360

The Jamaica Agreement 361

Exchange Rates since 1973 361

# **Country Focus**

The U.S. Dollar, Oil Prices, and Recycling Petrodollars 364

Fixed versus Floating Exchange Rates 364

The Case for Floating Exchange Rates 365

The Case for Fixed Exchange Rates 365

Who Is Right? 366

Exchange Rate Regimes in Practice 367
Pegged Exchange Rates 367
Currency Boards 368

Crisis Management by the IMF 369
Financial Crises in the Post–Bretton Woods Era 369
Mexican Currency Crisis of 1995 370
The Asian Crisis 371
Evaluating the IMF's Policy Prescriptions 375

# **Country Focus**

Turkey and the IMF 376

Implications for Managers 378

Currency Management 378

Business Strategy 379

#### **Management Focus**

Airbus and the Euro 380

Corporate-Government Relations 380

Chapter Summary 381

Critical Thinking and Discussion Questions 382

Research Task 382

#### **Closing Case**

China's Managed Float 383

## **CHAPTER 11**

The Global Capital Market 386

#### **Opening Case**

Industrial and Commercial Bank of China 386

Introduction 388

Benefits of the Global Capital Market 388
Functions of a Generic Capital Market 388
Attractions of the Global Capital Market 389

# **Management Focus**

Deutsche Telekom Taps the Global Capital Market 391

Growth of the Global Capital Market 394

Global Capital Market Risks 396



# **Country Focus**

Did the Global Capital Markets Fail Mexico? 397

The Eurocurrency Market 398
Genesis and Growth of the Market 398
Attractions of the Eurocurrency Market 398
Drawbacks of the Eurocurrency Market 400

The Global Bond Market 400
Attractions of the Eurobond Market 401

The Global Equity Market 401

Foreign Exchange Risk and the Cost of Capital 402

# **Country Focus**

The Search for Capital in the Czech Republic 403

Implications for Managers 404

Chapter Summary 405

Critical Thinking and Discussion Questions 405

Research Task 406

# Closing Case China Mobile 406

Part Four Cases

The Tragedy of the Congo 412
The Russian Ruble Crisis and Its Aftermath 413
Japan's Surging Samurai Bond Market 416



## CHAPTER 12

The Strategy of International Business 418

# Opening Case MTV Networks 418

Introduction 420

Strategy and the Firm 420

Value Creation 421 Strategic Positioning 422

Operations: The Firm as a Value Chain 423

Global Expansion, Profitability, and

Profit Growth 426

Expanding the Market: Leveraging Products and

Competencies 426 Location Economies 427 Experience Effects 429 Leveraging Subsidiary Skills 431 Global Expansion Issues—A Summary 432 Cost Pressures and Pressures for Local Responsiveness 433 Pressures for Cost Reductions 433

Pressures for Cost Reductions 433
Pressures for Local Responsiveness 434

Choosing a Strategy 436 Global Standardization Strategy 436

Localization Strategy 437

# **Management Focus**

Vodaphone in Japan 438

Transnational Strategy 438

# **Management Focus**

Evolution of Strategy at Procter & Gamble 439

International Strategy 440
The Evolution of Strategy 441

Chapter Summary 442

Critical Thinking and Discussion Questions 442

Research Task 443

## **Closing Case**

Wal-Mart's Global Expansion 443

# Appendix

Profitability, Growth, and Valuation 446

# CHAPTER 13

The Organization of International Business 448

# Opening Case Nestlé 448

Introduction 450

Organizational Architecture 451

Organizational Structure 452
Vertical Differentiation: Centralization and
Decentralization 452

## **Management Focus**

The International Division at Wal-Mart 454

Horizontal Differentiation: The Design of Structure 455

#### **Management Focus**

The Rise and Fall of Dow Chemical's Matrix Structure 460

Integrating Mechanisms 461

International Business 467

Control Systems and Incentives 466
Types of Control Systems 466
Incentive Systems 467

Control Systems, Incentives, and Strategy in the

Processes 470

Organizational Culture 471

Creating and Maintaining Organizational Culture 472
Organizational Culture and Performance in the International
Business 473

Synthesis: Strategy and Architecture 475

Localization Strategy 475
International Strategy 475
Global Standardization Strategy 476
Transnational Strategy 476
Environment, Strategy, Architecture, and

Performance 477
Organizational Change 477

Organizational Inertia 477
Implementing Organizational Change 478

Chapter Summary 480

Critical Thinking and Discussion Questions 480

Research Task 481

Ciosing Case
A Decade of Organizational Change
at Unilever 481

# CHAPTER 14

Entry Strategy and Strategic Alliances 486

# Opening Case JCB in India 486

Introduction 488

Basic Entry Decisions 488
Which Foreign Markets? 488
Timing of Entry 489

#### **Management Focus**

International Expansion at ING Group 490

Scale of Entry and Strategic Commitments 490 Summary 492

Entry Modes 493

Exporting 493

#### **Management Focus**

The Jollibee Phenomenon—A Philippine Multinational 494

Turnkey Projects 495
Licensing 496
Franchising 498
Joint Ventures 499
Wholly Owned Subsidiaries 500

Selecting an Entry Mode 501

Core Competencies and Entry Mode 502

Pressures for Cost Reductions and Entry Mode 502

Greenfield Ventures or Acquisitions? 503
Pros and Cons of Acquisitions 503
Pros and Cons of Greenfield Ventures 505

Strategic Alliances 506

The Advantages of Strategic Alliances 506

Greenfield or Acquisition? 506

## **Management Focus**

Cisco and Fujitsu 507

The Disadvantages of Strategic Alliances 508 Making Alliances Work 508

Chapter Summary 511

Critical Thinking and Discussion Questions 512

Research Task 513

# Closing Case Tesco Goes Global 513

Part Five Cases

Toyota—The Rise of a Global Corporation 521
Nestlé: Global Strategy 531
Strategic and Organization Change at
Black & Decker 534
Organizational Culture and Incentives at
Lincoln Electric 536



# CHAPTER 15

Exporting, Importing, and Countertrade 538

## **Opening Case**

Exporting and Growth for Small Businesses 538

Introduction 540

The Promise and Pitfalls of Exporting 540

Improving Export Performance 541

An International Comparison 541

# **Management Focus**

FCX Systems 542

Information Sources 543
Utilizing Export Management Companies 543

## **Management Focus**

Exporting with a Little Government Help 544

#### **Management Focus**

Export Strategy at 3M 545

Export Strategy 545

#### **Management Focus**

Red Spot Paint & Varnish 546



Export and Import Financing 547

Lack of Trust 547

Letter of Credit 548

Draft 549

Bill of Lading 550

A Typical International Trade Transaction 550

Export Assistance 552
Export-Import Bank 552
Export Credit Insurance 552

Countertrade 553

The Incidence of Countertrade 553

Types of Countertrade 554

The Pros and Cons of Countertrade 555

Chapter Summary 556

Critical Thinking and Discussion Questions 557

Research Task 557

Closing Case
Megahertz Communications 558

CHAPTER 16
Global Production, Outsourcing, and Logistics 562

Opening Case Li & Fung 562

Introduction 564

Strategy, Production, and Logistics 564

Where to Produce 567 Country Factors 567

Management Focus

Philips in China 568

Technological Factors 569
Product Factors 572
Locating Production Facilities 573

The Strategic Role of Foreign Factories 574

**Management Focus** 

Hewlett-Packard in Singapore 575

Outsourcing Production: Make-or-Buy Decisions 576

The Advantages of Make 577

**Management Focus** 

Outsourcing at the Boeing Company 578

The Advantages of Buy 579
Trade-offs 581
Strategic Alliances with Suppliers 581

Managing a Global Supply Chain 582

The Role of Just-in-Time Inventory 582

The Role of Information Technology and the

The Role of Information Technology and the Internet 583

Chapter Summary 584

Critical Thinking and Discussion Questions 585

Research Task 585

Closing Case

Microsoft—Outsourcing XBox

Production 586

CHAPTER 17
Global Marketing and R&D 590

Opening Case
Levi Strauss Goes Local 590

Introduction 592

The Globalization of Markets and Brands 592

Market Segmentation 593

**Management Focus** 

Marketing to Black Brazil 594

Product Attributes 595
Cultural Differences 595
Economic Development 596
Product and Technical Standards 597

Distribution Strategy 597

Differences between Countries 597

Choosing a Distribution Strategy 600

Communication Strategy 601

Barriers to International Communication 601

**Management Focus** 

Overcoming Cultural Barriers to Selling Tampons 603

Push versus Pull Strategies 604

**Management Focus** 

Unilever—Selling to India's Poor 605

Global Advertising 606

Pricing Strategy 608

Price Discrimination 608

Strategic Pricing 609

Regulatory Influences on Prices 610

Configuring the Marketing Mix 611

**Management Focus** 

Castrol Oil in Vietnam 612

New-Product Development 613

The Location of R&D 613

Integrating R&D, Marketing, and Production 614

Cross-Functional Teams 615

Building Global R&D Capabilities 616

Chapter Summary 617

Introduction 654 Critical Thinking and Discussion Questions 618 Country Differences in Accounting Standards Research Task 619 Relationship between Business and Providers Closing Case of Capital 655 Kodak in Russia 619 Political and Economic Ties with Other Countries 657 Inflation Accounting 657 CHAPTER 18 Level of Development 657 Global Human Resource Management 624 Culture 658 National and International Standards 658 **Opening Case** Lack of Comparability 658 Lenovo 624 International Standards 659 Introduction 626 Management Focus The Strategic Role of International HRM 626 The Consequences of Different Accounting Standards 660 Staffing Policy 628 Types of Staffing Policy 628 Multinational Consolidation and Currency Translation 661 Expatriate Managers 631 Management Focus **Management Focus** Novartis Joins the International Accounting Club 662 Managing Expatriates at Royal Dutch/Shell 634 Consolidated Financial Statements 662 The Global Mind-Set 635 Currency Translation 664 Current U.S. Practice 665 Training and Management Development 635 Training for Expatriate Managers 636 Accounting Aspects of Control Systems 666 Repatriation of Expatriates 637 Exchange Rate Changes and Control Systems 666 Management Development and Strategy 637 Transfer Pricing and Control Systems 668 Separation of Subsidiary and Manager Performance 668 **Management Focus** Monsanto's Repatriation Program 638 Chapter Summary 669 Performance Appraisal 639 Critical Thinking and Discussion Questions 670 Performance Appraisal Problems 639 Research Task 671 Guidelines for Performance Appraisal 639 **Closing Case** Compensation 640 Adopting International Accounting Standards 671 National Differences in Compensation 640 Management Focus CHAPTER 20 Global Compensation Practices at McDonald's 642 Financial Management in the International Expatriate Pay 642 Business 674 International Labor Relations 644 **Opening Case** The Concerns of Organized Labor 644 Global Treasury Management at Procter & The Strategy of Organized Labor 644 Gamble 674 Approaches to Labor Relations 645 Introduction 676 Chapter Summary 646 Investment Decisions 677 Critical Thinking and Discussion Questions 647 Capital Budgeting 677 Project and Parent Cash Flows 678 Research Task 647 Adjusting for Political and Economic Risk 678 **Closing Case Management Focus** XCO China 648 Black Sea Energy Ltd. 679 CHAPTER 19 Risk and Capital Budgeting 680

652

Financing Decisions 680 Source of Financing 681

Financial Structure

Accounting in the International Business

**Opening Case** 

Chinese Accounting 652

#### xvi



Global Money Management: The Efficiency Objective 682

Minimizing Cash Balances 682 Reducing Transaction Costs 682

Global Money Management: The Tax Objective 683

Moving Money across Borders: Attaining Efficiencies and Reducing Taxes 684

Dividend Remittances 684
Royalty Payments and Fees 684
Transfer Prices 685
Fronting Loans 686

Techniques for Global Money Management 688 Centralized Depositories 688 Multilateral Netting 689

Chapter Summary 691

Critical Thinking and Discussion Questions 692

Research Task 692

Closing Case Brazil's Gol 692

Part Six Cases
Molex 698
Procter & Gamble in Japan 699
Merrill Lynch in Japan 701

Glossary 704
Photo Credits 716
Index 717