Introduction and Overview

Chapter 1 Globalization 2

Country Differences

Chapter 2 National Differences in Political Economy 40
Chapter 3 Differences in Culture 86
Chapter 4 Ethics in International Business 122
Cases: Nike: The Sweatshop Debate 154
Etch-a-Sketch Ethics 157
Western Drug Companies and the AIDS Epidemic in South Africa 159
Matsushita and Japan’s Changing Culture 161
Mired in Corruption—Kellogg, Brown & Root in Nigeria 163

The Global Trade and Investment Environment

Chapter 5 International Trade Theory 166
Chapter 6 The Political Economy of International Trade 204
Chapter 7 Foreign Direct Investment 240
Chapter 8 Regional Economic Integration 274
Cases: Agricultural Subsidies and Development 308
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

The Global Monetary System

Chapter 9 The Foreign Exchange Market 322
Chapter 10 The International Monetary System 352
Chapter 11 The Global Capital Market 386
Cases: The Tragedy of the Congo 412
The Russian Ruble Crisis and Its Aftermath 413
Japan’s Surging Samurai Bond Market 416
The Strategy and Structure of International Business

Chapter 12 The Strategy of International Business 418
Chapter 13 The Organization of International Business 448
Chapter 14 Entry Strategy and Strategic Alliances 486
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

International Business Operations

Chapter 15 Exporting, Importing, and Countertrade 538
Chapter 16 Global Production, Outsourcing, and Logistics 562
Chapter 17 Global Marketing and R&D 590
Chapter 18 Global Human Resource Management 624
Chapter 19 Accounting in the International Business 652
Chapter 20 Financial Management in the International Business 674
Cases: Molex 698
       Procter & Gamble in Japan 699
       Merrill Lynch in Japan 701

Glossary 704
Photo Credits 716
Index 717
part one
Introduction and Overview

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

Research Task 34

Closing Case
IKEA-The Global Retailer 36

part two
Country Differences

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 Progress 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
## Critical Thinking and Discussion Questions 80

## Research Task 80

### Closing Case

**Indonesia—The Troubled Giant** 81

### CHAPTER 3

**Differences in Culture** 86

---

### Opening Case

**Wal-Mart’s Foreign Expansion** 86

---

**Introduction** 88

**What Is Culture?** 89

  - Values and Norms 89
  - Culture, Society, and the Nation-State 90
  - The Determinants of Culture 91

**Social Structure** 92

  - Individuals and Groups 92
  - Social Stratification 94

**Religious and Ethical Systems** 96

  - Christianity 96
  - Islam 98

---

**Country Focus**

**Islamic Capitalism in Turkey** 101

  - Hinduism 102

**Management Focus**

**McDonald’s and Hindu Culture** 103

  - Buddhism 104
  - Confucianism 105

**Language** 106

  - Spoken Language 106
  - Unspoken Language 107

**Education** 107

**Culture and the Workplace** 108

**Cultural Change** 110

**Implications for Managers** 112

---

**Management Focus**

**Cross-Cultural Illiteracy** 114

**Chapter Summary** 116

**Critical Thinking and Discussion Questions** 116

**Research Task** 117

---

**Closing Case**

**DMG-Shanghai** 117

### CHAPTER 4

**Ethics in International Business** 122

---

**Opening Case**

**Apple’s iPod Plant** 122

---

**Introduction** 124

**Ethical Issues in International Business** 124

  - Employment Practices 124
  - Human Rights 125

**Management Focus**

**Unocal in Myanmar** 127

  - Environmental Pollution 127
  - Corruption 128
  - Moral Obligations 130

---

**Management Focus**

**News Corporation in China** 131

**Ethical Dilemmas** 131

**The Roots of Unethical Behavior** 132

  - Personal Ethics 132
  - Decision-Making Processes 132
  - Organization Culture 132

**Management Focus**

**Pfizer’s Drug Testing Strategy in Nigeria** 134

  - Unrealistic Performance Expectations 135
  - Leadership 135

**Philosophical Approaches to Ethics** 136

  - Straw Men 136
  - Utilitarian and Kantian Ethics 138
  - Rights Theories 139
  - Justice Theories 140

**Ethical Decision Making** 141

  - Hiring and Promotion 142
  - Organization Culture and Leadership 142
  - Decision-Making Processes 144
  - Ethics Officers 145
  - Moral Courage 145
  - Summary of Decision-Making Steps 146

**Chapter Summary** 146

**Critical Thinking and Discussion Questions** 147

**Research Task** 148

---

**Closing Case**

**Google in China** 148

---

**Part Two Cases**

**Nike: The Sweatshop Debate** 154

**Etch-a-Sketch Ethics** 157

**Western Drug Companies and the AIDS Epidemic in South Africa** 159

**Matsushita and Japan’s Changing Culture** 161

**Mired in Corruption—Kellogg, Brown & Root in Nigeria** 163
part three
The Global Trade and Investment Environment

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 222
  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
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
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 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
Nestle 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
Control Systems and Incentives 466
  Types of Control Systems 466
  Incentive Systems 467
  Control Systems, Incentives, and Strategy in the International Business 467
Processes 470
# Contents

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  
Closing Case 481  

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  
Greenfield or Acquisition? 506  

Strategic Alliances 506  
The Advantages of Strategic Alliances 506  
The Disadvantages of Strategic Alliances 508  
Making Alliances Work 508

Chapter Summary 511  
Critical Thinking and Discussion Questions 512  
Research Task 513  
Closing Case 513  
Tesco Goes Global 513

---

### Part Five Cases

<table>
<thead>
<tr>
<th>Case</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toyota—The Rise of a Global Corporation</td>
<td>521</td>
</tr>
<tr>
<td>Nestlé: Global Strategy</td>
<td>531</td>
</tr>
<tr>
<td>Strategic and Organization Change at Black &amp; Decker</td>
<td>534</td>
</tr>
<tr>
<td>Organizational Culture and Incentives at Lincoln Electric</td>
<td>536</td>
</tr>
</tbody>
</table>

---

### PART SIX

International Business Operations 538

### 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

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

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 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
Critical Thinking and Discussion Questions 618
Research Task 619

Closing Case
Kodak in Russia 619

CHAPTER 18
Global Human Resource Management 624
Opening Case
Lenovo 624

Introduction 626

The Strategic Role of International HRM 626
Staffing Policy 628
Types of Staffing Policy 628
Expatriate Managers 631

Management Focus
Managing Expatriates at Royal Dutch/Shell 634

The Global Mind-Set 635

Training and Management Development 635
Training for Expatriate Managers 636
Repatriation of Expatriates 637
Management Development and Strategy 637

Management Focus
Monsanto's Repatriation Program 638

Performance Appraisal 639
Performance Appraisal Problems 639
Guidelines for Performance Appraisal 639

Compensation 640
National Differences in Compensation 640

Management Focus
Global Compensation Practices at McDonald's 642

Expatriate Pay 642

International Labor Relations 644
The Concerns of Organized Labor 644
The Strategy of Organized Labor 644
Approaches to Labor Relations 645

Chapter Summary 646

Critical Thinking and Discussion Questions 647
Research Task 647

Closing Case
XCO China 648

CHAPTER 19
Accounting in the International Business 652
Opening Case
Chinese Accounting 652

Introduction 654

Country Differences in Accounting Standards 654
Relationship between Business and Providers of Capital 655
Political and Economic Ties with Other Countries 657
Inflation Accounting 657
Level of Development 657
Culture 658

National and International Standards 658
Lack of Comparability 658
International Standards 659

Management Focus
The Consequences of Different Accounting Standards 660

Multinational Consolidation and Currency Translation 661

Management Focus
Novartis Joins the International Accounting Club 662

Consolidated Financial Statements 662
Currency Translation 664
Current U.S. Practice 665

Accounting Aspects of Control Systems 666
Exchange Rate Changes and Control Systems 666
Transfer Pricing and Control Systems 668
Separation of Subsidiary and Manager Performance 668

Chapter Summary 669

Critical Thinking and Discussion Questions 670
Research Task 671

Closing Case
Adopting International Accounting Standards 671

CHAPTER 20
Financial Management in the International Business 674
Opening Case
Global Treasury Management at Procter & Gamble 674

Introduction 676

Investment Decisions 677
Capital Budgeting 677
Project and Parent Cash Flows 678
Adjusting for Political and Economic Risk 678

Management Focus
Black Sea Energy Ltd. 679
Risk and Capital Budgeting 680

Financing Decisions 680
Source of Financing 681
Financial Structure 681
<table>
<thead>
<tr>
<th>Global Money Management: The Efficiency Objective</th>
<th>682</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimizing Cash Balances</td>
<td>682</td>
</tr>
<tr>
<td>Reducing Transaction Costs</td>
<td>682</td>
</tr>
<tr>
<td>Global Money Management: The Tax Objective</td>
<td>683</td>
</tr>
<tr>
<td>Moving Money across Borders: Attaining Efficiencies and Reducing Taxes</td>
<td>684</td>
</tr>
<tr>
<td>Dividend Remittances</td>
<td>684</td>
</tr>
<tr>
<td>Royalty Payments and Fees</td>
<td>684</td>
</tr>
<tr>
<td>Transfer Prices</td>
<td>685</td>
</tr>
<tr>
<td>Fronting Loans</td>
<td>686</td>
</tr>
</tbody>
</table>

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
Map 2.1 Gross National Income per Capita, 2005  57
Map 2.2 Purchasing Power Parity, 2005  59
Map 2.3 Growth in Gross National Product, 1996-2005  61
Map 2.4 The Human Development Index, 2004  62
Map 2.5 Political Freedom, 2006  67
Map 2.6 Distribution of Economic Freedom in 2007  71
Map 3.1 World Religions  97
Map 8.1 Member States of the European Union in 2007  282
Map 8.2 Economic Integration in the Americas  291
Map 8.3 ASEAN Countries  297
Map 8.4 APEC Members  298