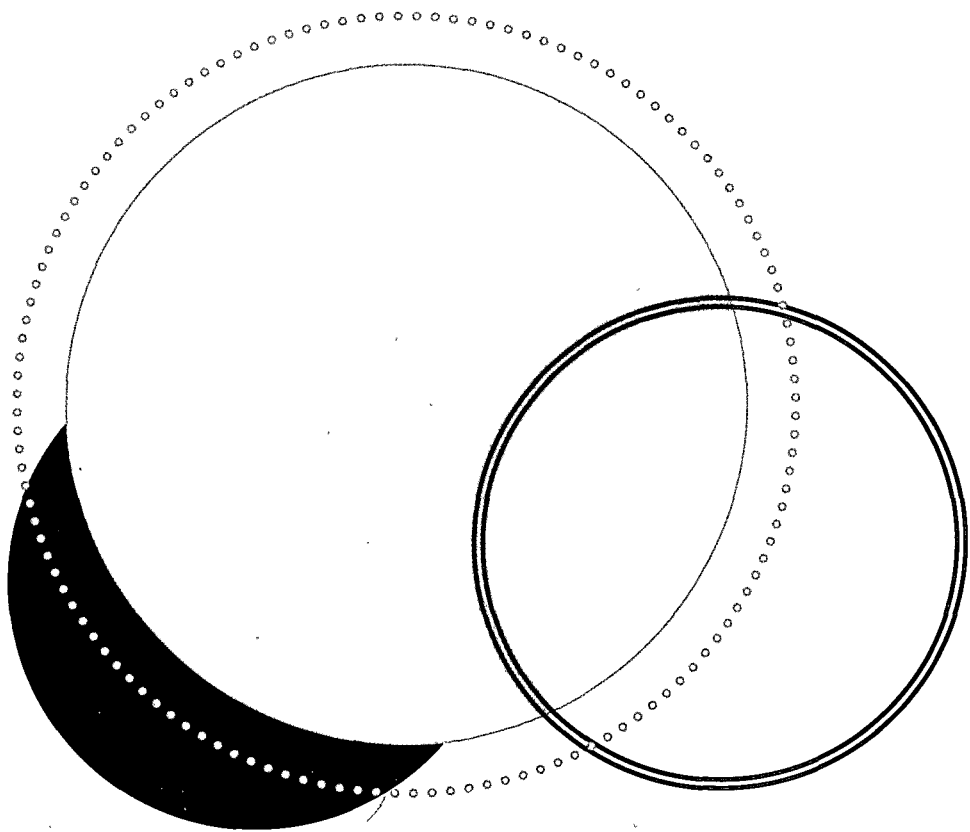


832 159 311



sixth edition

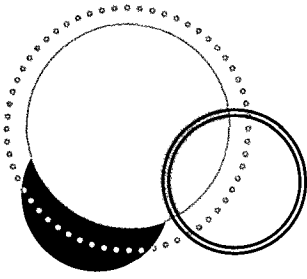
Global Business Today

Charles W. L. Hill

University of Washington



Boston Burr Ridge, IL Dubuque, IA New York San Francisco St. Louis
Bangkok Bogotá Caracas Kuala Lumpur Lisbon London Madrid Mexico City
Milan Montreal New Delhi Santiago Seoul Singapore Sydney Taipei Toronto



contents

PREFACE xiii

PART ONE Introduction and Overview 2

Chapter One	Globalization 2
Opening Case: Globalization at General Electric	3
Introduction	5
What Is Globalization?	7
<i>The Globalization of Markets</i>	7
<i>The Globalization of Production</i>	8
The Emergence of Global Institutions	10
Drivers of Globalization	11
<i>Declining Trade and Investment Barriers</i>	12
<i>The Role of Technological Change</i>	14
The Changing Demographics of the Global Economy	17
<i>The Changing World Output and World Trade Picture</i>	17
<i>The Changing Foreign Direct Investment Picture</i>	19
<i>The Changing Nature of the Multinational Enterprise</i>	21
<i>The Changing World Order</i>	24
<i>The Global Economy of the 21st Century</i>	25
The Globalization Debate	26
<i>Antiglobalization Protests</i>	26
<i>Globalization, Jobs, and Income</i>	27
<i>Globalization, Labor Policies, and the Environment</i>	31
<i>Globalization and National Sovereignty</i>	32
<i>Globalization and the World's Poor</i>	33
Managing in the Global Marketplace	35
Key Terms	36
Summary	37

Critical Thinking and Discussion Questions	38
Research Task	38
Closing Case: Flat-Panel Televisions and the Global Economy	39

PART TWO Country Differences 40

Chapter Two	National Differences in Political Economy 40
Opening Case: India's Transformation	41
Introduction	43
Political Systems	43
<i>Collectivism and Individualism</i>	44
<i>Democracy and Totalitarianism</i>	46
Economic Systems	48
<i>Market Economy</i>	49
<i>Command Economy</i>	49
<i>Mixed Economy</i>	50
Legal Systems	50
<i>Different Legal Systems</i>	50
<i>Differences in Contract Law</i>	52
<i>Property Rights and Corruption</i>	52
<i>The Protection of Intellectual Property</i>	56
<i>Product Safety and Product Liability</i>	57
The Determinants of Economic Development	58
<i>Differences in Economic Development</i>	58
<i>Broader Conceptions of Development: Amartya Sen</i>	62
<i>Political Economy and Economic Progress</i>	65
<i>Geography, Education, and Economic Development</i>	68
States in Transition	69
<i>The Spread of Democracy</i>	69
<i>The New World Order and Global Terrorism</i>	71
<i>The Spread of Market-Based Systems</i>	73

The Nature of Economic Transformation 75	Ethical Issues in International Business 127
<i>Deregulation</i> 75	<i>Employment Practices</i> 127
<i>Privatization</i> 75	<i>Human Rights</i> 128
<i>Legal Systems</i> 76	<i>Environmental Pollution</i> 131
<i>Implications of Changing Political Economy</i> 77	<i>Corruption</i> 132
Focus on Managerial Implications 78	<i>Moral Obligations</i> 134
Key Terms 78	Ethical Dilemmas 134
Summary 83	The Roots of Unethical Behavior 137
Critical Thinking and Discussion Questions 83	<i>Personal Ethics</i> 137
Research Task 84	<i>Decision-Making Processes</i> 138
Closing Case: Chavez's Venezuela 84	<i>Organization Culture</i> 139
Chapter Three Differences in Culture 86	<i>Unrealistic Performance Expectations</i> 139
Opening Case: McDonald's in India 87	<i>Leadership</i> 141
Introduction 88	Philosophical Approaches to Ethics 141
What Is Culture? 90	<i>Straw Men</i> 141
<i>Values and Norms</i> 90	<i>Utilitarian and Kantian Ethics</i> 144
<i>Culture, Society, and the Nation-State</i> 91	<i>Rights Theories</i> 145
<i>The Determinants of Culture</i> 92	<i>Justice Theories</i> 146
Social Structure 93	Focus on Managerial Implications 148
<i>Individuals and Groups</i> 93	Key Terms 153
<i>Social Stratification</i> 95	Summary 154
Religious and Ethical Systems 99	Critical Thinking and Discussion Questions 155
<i>Christianity</i> 99	Research Task 155
<i>Islam</i> 101	Closing Case: Google in China 156
<i>Hinduism</i> 105	PART THREE Cross-Border Trade and Investment 158
<i>Buddhism</i> 106	Chapter Five International Trade Theory 158
<i>Confucianism</i> 107	Opening Case: The Ecuadorean Rose Industry 159
Language 109	Introduction 160
<i>Spoken Language</i> 109	An Overview of Trade Theory 161
<i>Unspoken Language</i> 110	<i>The Benefits of Trade</i> 162
Education 111	<i>The Pattern of International Trade</i> 162
Culture and the Workplace 112	<i>Trade Theory and Government Policy</i> 163
Cultural Change 114	Mercantilism 164
Focus on Managerial Implications 117	Absolute Advantage 165
Key Terms 120	Comparative Advantage 167
Summary 120	<i>The Gains from Trade</i> 168
Critical Thinking and Discussion Questions 121	<i>Qualifications and Assumptions</i> 170
Research Task 122	<i>Extensions of the Ricardian Model</i> 171
Closing Case: Wal-Mart's Foreign Expansion 122	Heckscher-Ohlin Theory 176
Chapter Four Ethics in International Business 124	<i>The Leontief Paradox</i> 176
Opening Case: Wal-Mart's Chinese Suppliers 125	The Product Life-Cycle Theory 177
Introduction 127	<i>Evaluating the Product Life-Cycle Theory</i> 177

New Trade Theory 180		<i>1980–1993: Protectionist Trends</i> 219
<i>Increasing Product Variety and Reducing Costs</i> 180		<i>The Uruguay Round and the World Trade Organization</i> 220
<i>Economies of Scale, First-Mover Advantages, and the Pattern of Trade</i> 181		<i>The Future of the WTO: Unresolved Issues and the Doha Round</i> 224
<i>Implications of New Trade Theory</i> 182		Focus on Managerial Implications 230
National Competitive Advantage: Porter's Diamond 183		Key Terms 232
<i>Factor Endowments</i> 185		Summary 232
<i>Demand Conditions</i> 185		Critical Thinking and Discussion Questions 233
<i>Related and Supporting Industries</i> 185		Research Task 234
<i>Firm Strategy, Structure, and Rivalry</i> 187		Closing Case: Agricultural Subsidies 234
<i>Evaluating Porter's Theory</i> 187		Chapter Seven Foreign Direct Investment 236
Focus on Managerial Implications 188		Opening Case: Lakshmi Mittal and the Growth of Mittal Steel 237
Key Terms 190		Introduction 238
Summary 191		Foreign Direct Investment in the World Economy 239
Critical Thinking and Discussion Questions 192		<i>Trends in FDI</i> 239
Research Task 192		<i>The Direction of FDI</i> 241
Closing Case: Trade in Information Technology and U.S. Economic Growth 193		<i>The Source of FDI</i> 244
Appendix A: International Trade and the Balance of Payments 195		<i>The Form of FDI: Acquisitions versus Greenfield Investments</i> 245
Chapter Six The Political Economy of International Trade 200		<i>The Shift to Services</i> 245
Opening Case: Why Are Global Food Prices Soaring? 201		Theories of Foreign Direct Investment 246
Introduction 202		<i>Why Foreign Direct Investment?</i> 246
Instruments of Trade Policy 204		<i>The Pattern of Foreign Direct Investment</i> 250
<i>Tariffs</i> 204		<i>The Eclectic Paradigm</i> 251
<i>Subsidies</i> 205		Political Ideology and Foreign Direct Investment 252
<i>Import Quotas and Voluntary Export Restraints</i> 206		<i>The Radical View</i> 253
<i>Local Content Requirements</i> 208		<i>The Free Market View</i> 253
<i>Administrative Policies</i> 208		<i>Pragmatic Nationalism</i> 254
<i>Antidumping Policies</i> 209		<i>Shifting Ideology</i> 255
The Case for Government Intervention 210		Benefits and Costs of FDI 256
<i>Political Arguments for Intervention</i> 211		<i>Host-Country Benefits</i> 256
<i>Economic Arguments for Intervention</i> 215		<i>Host-Country Costs</i> 259
The Revised Case for Free Trade 217		<i>Home-Country Benefits</i> 261
<i>Retaliation and Trade War</i> 217		<i>Home-Country Costs</i> 261
<i>Domestic Policies</i> 217		<i>International Trade Theory and FDI</i> 262
Development of the World Trading System 218		Government Policy Instruments and FDI 262
<i>From Smith to the Great Depression</i> 218		<i>Home-Country Policies</i> 262
<i>1947–1979: GATT, Trade Liberalization, and Economic Growth</i> 219		<i>Host-Country Policies</i> 263
		<i>International Institutions and the Liberalization of FDI</i> 265

Focus on Managerial Implications 266
Key Terms 268
Summary 269
Critical Thinking and Discussion Questions 269
Research Task 270
Closing Case: Starbucks' Foreign Direct Investment 270

Chapter Eight Regional Economic Integration 272

Opening Case: The European Energy Market 273
Introduction 274
Levels of Economic Integration 276
The Case for Regional Integration 277
 The Economic Case for Integration 278
 The Political Case for Integration 278
 Impediments to Integration 279
The Case against Regional Integration 279
Regional Economic Integration in Europe 280
 Evolution of the European Union 280
 Political Structure of the European Union 281
 The Single European Act 284
 The Establishment of the Euro 285
 Enlargement of the European Union 289
Regional Economic Integration in the Americas 290
 The North American Free Trade Agreement 290
 The Andean Community 294
 MERCOSUR 294
 Central American Common Market, CAFTA, and CARICOM 295
 Free Trade Area of the Americas 296
Regional Economic Integration Elsewhere 296
 Association of Southeast Asian Nations 297
 Asia-Pacific Economic Cooperation 297
 Regional Trade Blocs in Africa 299
Focus on Managerial Implications 300
Key Terms 302
Summary 302
Critical Thinking and Discussion Questions 303
Research Task 304
Closing Case: NAFTA and the U.S. Textile Industry 304

PART FOUR

Global Money System 306

Chapter Nine

The Foreign Exchange Market 306

Opening Case: Hyundai and Kia Face a Strong Won 307
Introduction 308
The Functions of the Foreign Exchange Market 309
 Currency Conversion 309
 Insuring against Foreign Exchange Risk 310
The Nature of the Foreign Exchange Market 314
Economic Theories of Exchange Rate Determination 315
 Prices and Exchange Rates 316
 Interest Rates and Exchange Rates 322
 Investor Psychology and Bandwagon Effects 323
 Summary 324
Exchange Rate Forecasting 326
 The Efficient Market School 326
 The Inefficient Market School 327
 Approaches to Forecasting 327
Currency Convertibility 328
Focus on Managerial Implications 330
Key Terms 333
Summary 334
Critical Thinking and Discussion Questions 335
Research Task 336
Closing Case: The Curse of the Strong Dollar at STMicro 336

Chapter Ten

The International Monetary System 338

Opening Case: Argentina's Monetary Crisis 339
Introduction 340
The Gold Standard 342
 Mechanics of the Gold Standard 342
 Strength of the Gold Standard 343
 The Period between the Wars: 1918–1939 343
The Bretton Woods System 344
 The Role of the IMF 345
 The Role of the World Bank 346
The Collapse of the Fixed Exchange Rate System 346

The Floating Exchange Rate Regime 348	Cost Pressures and Pressures for Local Responsiveness 391
<i>The Jamaica Agreement 348</i>	<i>Pressures for Cost Reductions 392</i>
<i>Exchange Rates since 1973 348</i>	<i>Pressures for Local Responsiveness 392</i>
Fixed versus Floating Exchange Rates 352	Choosing a Strategy 395
<i>The Case for Floating Exchange Rates 352</i>	<i>Global Standardization Strategy 395</i>
<i>The Case for Fixed Exchange Rates 353</i>	<i>Localization Strategy 396</i>
<i>Who Is Right? 354</i>	<i>Transnational Strategy 398</i>
Exchange Rate Regimes in Practice 354	<i>International Strategy 399</i>
<i>Pegged Exchange Rates 355</i>	<i>The Evolution of Strategy 400</i>
<i>Currency Boards 355</i>	Strategic Alliances 401
Crisis Management by the IMF 356	<i>The Advantages of Strategic Alliances 402</i>
<i>Financial Crises in the Post-Bretton Woods Era 357</i>	<i>The Disadvantages of Strategic Alliances 402</i>
<i>Mexican Currency Crisis of 1995 357</i>	<i>Making Alliances Work 403</i>
<i>The Asian Crisis 358</i>	Key Terms 406
<i>Evaluating the IMF's Policy Prescriptions 362</i>	Summary 406
Focus on Managerial Implications 366	Critical Thinking and Discussion Questions 407
Key Terms 369	Research Task 408
Summary 369	Closing Case: IKEA—The Global Retailer 408
Critical Thinking and Discussion Questions 370	Chapter Twelve Entering Foreign Markets 410
Research Task 370	Opening Case: General Electric's Joint Ventures 411
Closing Case: China's Managed Float 371	Introduction 412
PART FIVE Competing in a Global Marketplace 372	Basic Entry Decisions 413
Chapter Eleven The Strategy of International Business 372	<i>Which Foreign Markets? 413</i>
Opening Case: The Evolving Strategy of Coca-Cola 373	<i>Timing of Entry 414</i>
Introduction 375	<i>Scale of Entry and Strategic Commitments 416</i>
Strategy and the Firm 375	<i>Summary 417</i>
<i>Value Creation 376</i>	Entry Modes 419
<i>Strategic Positioning 378</i>	<i>Exporting 419</i>
<i>Operations: The Firm as a Value Chain 379</i>	<i>Turnkey Projects 420</i>
<i>Organization: The Implementation of Strategy 381</i>	<i>Licensing 421</i>
<i>In Sum: Strategic Fit 383</i>	<i>Franchising 422</i>
Global Expansion, Profitability, and Profit Growth 384	<i>Joint Ventures 423</i>
<i>Expanding the Market: Leveraging Products and Competencies 384</i>	<i>Wholly Owned Subsidiaries 425</i>
<i>Location Economies 385</i>	Selecting an Entry Mode 426
<i>Experience Effects 387</i>	<i>Core Competencies and Entry Mode 427</i>
<i>Leveraging Subsidiary Skills 390</i>	<i>Pressures for Cost Reductions and Entry Mode 427</i>
<i>Summary 391</i>	Greenfield Venture versus Acquisition 428
	<i>Pros and Cons of Acquisitions 428</i>
	<i>Pros and Cons of Greenfield Ventures 431</i>
	<i>Greenfield or Acquisition? 431</i>

Key Terms	432	<i>Product Factors</i>	471
Summary	432	<i>Locating Production Facilities</i>	472
Critical Thinking and Discussion Questions	433	The Strategic Role of Foreign Factories	473
Research Task	434	Outsourcing Production: Make-or-Buy Decisions	475
Closing Case: JCB in India	434	<i>The Advantages of Make</i>	476
Chapter Thirteen Exporting, Importing, and Countertrade	436	<i>The Advantages of Buy</i>	478
Opening Case: Exporting and Growth for Small Businesses	437	<i>Trade-Offs</i>	479
Introduction	438	<i>Strategic Alliances with Suppliers</i>	479
The Promise and Pitfalls of Exporting	439	Managing a Global Supply Chain	480
Improving Export Performance	441	<i>The Role of Just-in-Time Inventory</i>	480
<i>An International Comparison</i>	442	<i>The Role of Information Technology and the Internet</i>	481
<i>Information Sources</i>	442	Key Terms	482
<i>Utilizing Export Management Companies</i>	444	Summary	482
<i>Export Strategy</i>	444	Critical Thinking and Discussion Questions	483
Export and Import Financing	446	Research Task	484
<i>Lack of Trust</i>	447	Closing Case: Li & Fung	484
<i>Letter of Credit</i>	448	Chapter Fifteen Global Marketing and R&D	486
<i>Draft</i>	449	Opening Case: Dove—Building a Global Brand	487
<i>Bill of Lading</i>	450	Introduction	489
<i>A Typical International Trade Transaction</i>	450	The Globalization of Markets and Brands	490
Export Assistance	451	Market Segmentation	491
<i>Export-Import Bank</i>	452	Product Attributes	493
<i>Export Credit Insurance</i>	452	<i>Cultural Differences</i>	493
Countertrade	453	<i>Economic Development</i>	494
<i>The Incidence of Countertrade</i>	453	<i>Product and Technical Standards</i>	495
<i>Types of Countertrade</i>	454	Distribution Strategy	495
<i>The Pros and Cons of Countertrade</i>	455	<i>Differences between Countries</i>	496
Key Terms	456	<i>Choosing a Distribution Strategy</i>	498
Summary	456	Communication Strategy	499
Critical Thinking and Discussion Questions	457	<i>Barriers to International Communication</i>	499
Research Task	458	<i>Push versus Pull Strategies</i>	501
Closing Case: Megahertz Communications	458	<i>Global Advertising</i>	504
Chapter Fourteen Global Production, Outsourcing, and Logistics	460	Pricing Strategy	506
Opening Case: Building the Boeing 787	461	<i>Price Discrimination</i>	506
Introduction	462	<i>Strategic Pricing</i>	507
Strategy, Production, and Logistics	463	<i>Regulatory Influences on Prices</i>	509
Where to Produce	466	Configuring the Marketing Mix	510
<i>Country Factors</i>	466	New-Product Development	511
<i>Technological Factors</i>	468	<i>The Location of R&D</i>	512
		<i>Integrating R&D, Marketing, and Production</i>	513

<i>Cross-Functional Teams</i>	515	<i>Performance Appraisal</i>	537
<i>Building Global R&D Capabilities</i>	515	<i>Performance Appraisal Problems</i>	537
Key Terms	517	<i>Guidelines for Performance Appraisal</i>	537
Summary	517	Compensation	538
Critical Thinking and Discussion	518	<i>National Differences in</i>	
Questions	518	<i>Compensation</i>	538
Research Task	519	<i>Expatriate Pay</i>	539
Closing Case: Levi Strauss Goes Local	519	International Labor Relations	541
Chapter Sixteen Global Human Resource		<i>The Concerns of Organized Labor</i>	542
Management	520	<i>The Strategy of Organized Labor</i>	542
Opening Case: Lenovo	521	<i>Approaches to Labor Relations</i>	543
Introduction	522	Key Terms	544
The Strategic Role of International HRM	523	Summary	544
Staffing Policy	525	Critical Thinking and Discussion Questions	545
<i>Types of Staffing Policy</i>	525	Research Task	546
<i>Expatriate Managers</i>	529	Closing Case: XCO China	546
<i>The Global Mind-Set</i>	532	GLOSSARY	548
Training and Management Development	533	ENDNOTES	557
<i>Training for Expatriate Managers</i>	534	PHOTO CREDITS	583
<i>Repatriation of Expatriates</i>	535	INDEX	584
<i>Management Development and</i>			
<i>Strategy</i>	535		