International Business

COMPETING IN THE GLOBAL MARKETPLACE

Charles W. L. Hill

UNIVERSITY OF WASHINGTON
CONTENTS

part one
Introduction and Overview

CHAPTER 1
Globalization 2

Opening Case
Colombian Coffee: Adapting to an Ever Changing Global Market 3

Introduction 4
What Is Globalization 5
The Globalization of Markets 5
The Globalization of Production 6

Vizio and the Market for Flat-Panel TVs 8
The Emergency of Global Institutions 8

Drivers of Globalization 10
Declining Trade and Investment Barriers 10
The Role of Technological Change 12

The Changing Demographics of the Global Economy 14
The Changing World Output and World Trade Picture 14
The Changing Foreign Direct Investment Picture 15

India's Software Sector 16
The Changing Nature of the Multinational Enterprise 18
The Global Economy of the Twenty-First Century 20

China's Hisense—An Emerging Multinational 21
The Globalization Debate 22
Antiglobalization Protests 22

Protesting Globalization in France 23
Globalization, Jobs, and Income 24
Globalization, Labor Policies, and the Environment 26
Globalization and National Sovereignty 27
Globalization and the World's Poor 28

Managing in the Global Marketplace 29
Chapter Summary 31

Critical Thinking and Discussion Questions 32
Research Task 32
Closing Case
Who Makes the Apple iPhone? 33
Endnotes 34

part two
Country Differences

CHAPTER 2
National Differences in Political Economy 36

Opening Case
Ethiopia: A Land of Opportunity 37

Introduction 38
Political Systems 39
Collectivism and Individualism 39
Democracy and Totalitarianism 41

Venezuela under Hugo Chávez, 1999-2013 42
Economic Systems 43
Market Economy 44
Command Economy 44
Mixed Economy 45

Legal Systems 46
Different Legal Systems 46
Differences in Contract Law 47
Property Rights and Corruption 48

Corruption in Nigeria 50

Did JP Morgan Violate the Foreign Corrupt Practices Act? 51
The Protection of Intellectual Property 51
Product Safety and Product Liability 53

Starbucks Wins Key Trademark Case in China 54
Implications for Managers 54
Chapter Summary 55
CHAPTER 7
The Political Economy of International Trade 194

Opening Case
Got Milk? The Russia–Lithuania Trade Row Over Dairy Products 195

Introduction 196
Instruments of Trade Policy 197
Tariffs 197

Country Focus
Are the Chinese Illegally Subsidizing Auto Exports? 198
Subsidies 198
Import Quotas and Voluntary Export Restraints 199
Local Content Requirements 200
Administrative Policies 201
Antidumping Policies 201

Management Focus
U.S. Magnesium Seeks Protection 202
The Case for Government Intervention 203
Political Arguments for Intervention 203

Country Focus
Trade in Hormone-Treated Beef 205
Economic Arguments for Intervention 206

The Revised Case for Free Trade 207
Retaliation and Trade War 207
Domestic Politics 208

Development of the World Trading System 208
From Smith to the Great Depression 209
The Uruguay Round and the World Trade Organization 210
WTO: Experience to Date 211
The Future of the WTO: Unresolved Issues and the Doha Round 212

Country Focus
Estimating the Gains from Trade for America 215
Implications for Managers 216
Chapter Summary 218
Critical Thinking and Discussion Questions 218
Research Task 219

Closing Case
Morocco’s Growing Aviation Industry 187

Appendix
International Trade and the Balance of Payments 189
Endnotes 191

CHAPTER 8
Foreign Direct Investment 223

Opening Case
Mexico’s Oil Market Open to Foreign Investment 223

Introduction 224
Foreign Direct Investment in the World Economy 224
Trends in FDI 224
The Direction of FDI 225
The Source of FDI 226

Country Focus
Foreign Direct Investment in China 227
The Form of FDI: Acquisitions versus Greenfield Investments 228

Management Focus
Foreign Direct Investment by Cemex 229
Theories of Foreign Direct Investment 229
Why Foreign Direct Investment? 230
The Pattern of Foreign Direct Investment 232
The Eclectic Paradigm 233
Political Ideology and Foreign Direct Investment 235
The Radical View 235
The Free Market View 235
Pragmatic Nationalism 236
Shifting Ideology 236

Management Focus
DP World and the United States 237
Benefits and Costs of FDI 238
Host-Country Benefits 238
Host-Country Costs 240
Home-Country Benefits 242
Home-Country Costs 242
International Trade Theory and FDI 242
Government Policy Instruments and FDI 243
Home-Country Policies 243
Host-Country Policies 244
International Institutions and the Liberalization of FDI 245
CHAPTER 9
Regional Economic Integration 254

Opening Case
U.S.–Mexico Trade Relations After 20 Years of NAFTA: Is There a Dark Side to Free Trade? 255

Introduction 256

Levels of Economic Integration 257

The Case for Regional Integration 259

The Economic Case for Integration 259

The Political Case for Integration 259

Impediments to Integration 260

The Case against Regional Integration 260

Regional Economic Integration in Europe 261

Evolution of the European Union 261

Map 9.1 Member States of the European Union in 2012 262

Political Structure of the European Union 262

EU Takes Aim at Google over Anti-trust Accusations 263

The Single European Act 264

The Establishment of the Euro 265

Why the European Union is Creating a European Banking Union 266

Enlargement of the European Union 269

The Looming Debt Crisis in . . . Scandinavia? 270

Regional Economic Integration in the Americas 272

The North American Free Trade Agreement 272

Map 9.2 Economic Integration in the Americas 272

The Andean Community 275

Mercosur 275

Central American Common Market, CAFTA, and CARICOM 276

Free Trade Area of the Americas 277

Regional Economic Integration Elsewhere 277

Association of Southeast Asian Nations 277

Map 9.3 ASEAN Countries 278

Map 9.4 APEC Members 279

Asia-Pacific Economic Cooperation 279

Regional Trade Blocs in Africa 280

Implications for Managers 280

Chapter Summary 282

Critical Thinking and Discussion Questions 283

Research Task 283

Closing Case
I Want My Greek TV! 284

Endnotes 285

Cases
Legal Outsourcing 288

The Global Financial Crisis and Protectionism 289

NAFTA and Mexican Trucking 290

The Rise of the Indian Automobile Industry 291

Logitech 292

part four
The Global Monetary System

CHAPTER 10
The Foreign Exchange Market 294

Opening Case
Are World Currency Markets Being Manipulated? 295

Introduction 296

The Functions of the Foreign Exchange Market 297

Currency Conversion 297

Insuring against Foreign Exchange Risk 298

Volkswagen’s Hedging Strategy 300

The Nature of the Foreign Exchange Market 301

Economic Theories of Exchange Rate Determination 302

Prices and Exchange Rates 303

Abenomics and Japan: Preventing a Third Lost Decade? 307

Interest Rates and Exchange Rates 308

Investor Psychology and Bandwagon Effects 309

Summary of Exchange Rate Theories 310

Exchange Rate Forecasting 310

The Efficient Market School 310

The Inefficient Market School 311

Approaches to Forecasting 311
part five
The Strategy and Structure of International Business

CHAPTER 13
The Strategy of International Business 378

Opening Case
Ford’s Global Strategy 379

Introduction 380

Strategy and the Firm 380
  Value Creation 381
  Strategic Positioning 382
  Operations: The Firm as a Value Chain 383

Global Expansion, Profitability, and Profit Growth 386
  Expanding the Market: Leveraging Products and Competencies 386
  Location Economies 387
  Experience Effects 389
  Leveraging Subsidiary Skills 391

Leveraging Subsidiary Skills at ArcelorMittal 392
  Summary 392

Cost Pressures and Pressures for Local Responsiveness 393
  Pressures for Cost Reductions 394
  Pressures for Local Responsiveness 394

Local Responsiveness at MTV Networks 395

Choosing a Strategy 397
  Global Standardization Strategy 398
  Localization Strategy 398
  Transnational Strategy 399
  International Strategy 400

Evolution of Strategy at Procter & Gamble 401
  The Evolution of Strategy 401

Chapter Summary 402

Critical Thinking and Discussion Questions 403

Research Task 403

Closing Case
Avon Products 404

Endnotes 405

CHAPTER 14
The Organization of International Business 408

Opening Case
Reorganization at EADS 409

Introduction 410

Organizational Architecture 411

Organizational Structure 412
  Vertical Differentiation: Centralization and Decentralization 412

Management Focus
The International Division at Walmart 414
  Horizontal Differentiation: The Design of Structure 415

Management Focus
The Rise and Fall of Dow Chemical’s Matrix Structure 421
  Integrating Mechanisms 422

Control Systems and Incentives 426
  Types of Control Systems 426
  Incentive Systems 427
  Control Systems, Incentives, and Strategy in the International Business 428

Processes 430

Organizational Culture 431
  Creating and Maintaining Organizational Culture 432
  Organizational Culture and Performance in the International Business 433

Management Focus
Culture and Incentives at Lincoln Electric 434

Synthesis: Strategy and Architecture 435
  Localization Strategy 435
  International Strategy 436
  Global Standardization Strategy 436
  Transnational Strategy 437
  Environment, Strategy, Architecture, and Performance 437

Organizational Change 438
  Organizational Inertia 438
  Implementing Organizational Change 439

Chapter Summary 440
Critical Thinking and Discussion Questions 441
Research Task 442

Closing Case
Philips NV 442
Endnotes 443

CHAPTER 15
Entry Strategy and Strategic Alliances 446

Opening Case
Sulky Burel in Russia 447

Introduction 448

Basic Entry Decisions 448
Which Foreign Markets?  448
Timing of Entry 449

Management Focus
Tesco's International Growth Strategy 450
Scale of Entry and Strategic Commitments 451
Summary 452

Management Focus
The Jollibee Phenomenon—A Philippine Multinational 453

Entry Modes 453
Exporting 454
Turnkey Projects 454
Licensing 455
Franchising 457
Joint Ventures 458
Wholly Owned Subsidiaries 459

Selecting an Entry Mode 460
Core Competencies and Entry Mode 461
Pressures for Cost Reductions and Entry Mode 461

Greenfield Venture or Acquisition? 462
Pros and Cons of Acquisitions 462
Pros and Cons of Greenfield Ventures 464
Greenfield Venture or Acquisition? 465

Strategic Alliances 465
The Advantages of Strategic Alliances 465
The Disadvantages of Strategic Alliances 466
Making Alliances Work 466

Chapter Summary 469
Critical Thinking and Discussion Questions 470
Research Task 471

Closing Case
General Motors in China 471
Endnotes 472

Cases
The Evolving Strategy of IBM 476
IKEA in 2013 477
General Electric's Joint Ventures 483
The Globalization of Starbucks 484
Coca-Cola's Strategy 486

part six
International Business Functions

CHAPTER 16
Exporting, Importing, and Countertrade 488

Opening Case
Ex-Im Bank and Boeing; Even Billion Dollar Companies Need a Little Help Sometimes 489

Introduction 490
The Promise and Pitfalls of Exporting 490
Management Focus
FCX Systems 492

Improving Export Performance 492
An International Comparison 492
Information Sources 493

Management Focus
Exporting with a Little Government Help 494
Utilizing Export Management Companies 495
Export Strategy 495

Management Focus
Export Strategy at 3M 496

Export and Import Financing 497
Lack of Trust 497
Letter of Credit 498
Draft 499
Bill of Lading 500
A Typical International Trade Transaction 500

Export Assistance 501
Export-Import Bank 501
Export Credit Insurance 502

Countertrade 502
The Popularity of Countertrade 503
Types of Countertrade 503
The Pros and Cons of Countertrade 504
CHAPTER 17
Global Production, Outsourcing, and Logistics

Opening Case
Airbus Re-thinks How it Manages its Suppliers

Introduction
Strategy, Production, and Logistics
Where to Produce
Country Factors

Philips in China
Technological Factors
Product Factors
Locating Production Facilities
The Hidden Costs of Foreign Locations

GE Moves Manufacturing, from China to the United States

The Strategic Role of Foreign Production Sites

Hewlett-Packard in Singapore

Outsourcing Production: Make-or-Buy Decisions
The Advantages of Make
The Advantages of Buy
Trade-offs
Strategic Alliances with Suppliers

Managing a Global Supply Chain
The Role of Just-in-Time Inventory
The Role of Information Technology and the Internet

Chapter Summary
Critical Thinking and Discussion Questions
Research Task

Closing Case
Vellus Products

Endnotes

CHAPTER 18
Global Marketing and R&D

Opening Case
Hyundai’s Global Brand; Sign of the Times

Introduction
The Globalization of Markets and Brands
Market Segmentation
Management Focus
Marketing to Black Brazil

Product Attributes
Cultural Differences
Economic Development
Product and Technical Standards

Distribution Strategy
Differences between Countries
Choosing a Distribution Strategy

Communication Strategy
Barriers to International Communication
Push versus Pull Strategies

Unilever—Selling to India’s Poor
Global Advertising

Dove’s Global “Real Beauty” Campaign

Pricing Strategy
Price Discrimination
Strategic Pricing
Regulatory Influences on Prices

Configuring the Marketing Mix

Levi Strauss Goes Local

New-Product Development
The Location of R&D
Integrating R&D, Marketing, and Production
Cross-Functional Teams
Building Global R&D Capabilities

Chapter Summary
Critical Thinking and Discussion Questions
Research Task