CHAPTER 3
National Differences in Economic Development 62

Opening Case
Democracy and Economic Development in Sub-Saharan Africa 63

Introduction 63
Differences in Economic Development 64
Map 3.1 GNI per Capita, 2013 64
Map 3.2 GNI PPP per Capita, 2013 66
Broader Conceptions of Development: Amartya Sen 66
Map 3.3 Average Annual Growth Rate in GDP, 2004–2013 67
Map 3.4 Human Development Index, 2013 68

Political Economy and Economic Progress 69
Innovation and Entrepreneurship Are the Engines of Growth 69
Innovation and Entrepreneurship Require a Market Economy 69
Innovation and Entrepreneurship Require Strong Property Rights 70
The Required Political System 70

Country Focus
Emerging Property Rights in China 71
Economic Progress Begets Democracy 71
Geography, Education, and Economic Development 72
States in Transition 72
The Spread of Democracy 73
Map 3.5 Freedom in the World in 2015 73
The New World Order and Global Terrorism 75
The Spread of Market-Based Systems 76
Map 3.6 Distribution of Economic Freedom, 2015 77

The Nature of Economic Transformation 78
Deregulation 78
Privatization 78

Country Focus
India's Economic Transformation 79
Legal Systems 80

Implications of Changing Political Economy 80

Focus on Managerial Implications: Benefits, Costs, Risks, and Overall Attractiveness of Doing Business Internationally 81

Chapter Summary 86
Critical Thinking and Discussion Questions 86
Research Task 87

Closing Case
Political and Economic Reform in Myanmar 87

Endnotes 88

CHAPTER 4
Differences in Culture 90

Opening Case
Best Buy and eBay in China 91

Introduction 92
What Is Culture? 93
Values and Norms 94
Culture, Society, and the Nation-State 95
The Determinants of Culture 96

Social Structure 96
Individuals and Groups 97
Social Stratification 99

Country Focus
Using IT to Break India's Caste System 100

Religious and Ethical Systems 102
Christianity 102
Map 4.1 World Religions 103
Islam 104

Country Focus
Islamic Capitalism in Turkey 107
Hinduism 107
Buddhism 109
Confucianism 109

Management Focus
DMG-Shanghai 111

Language 111
Spoken Language 112
Unspoken Language 112

Education 113
Culture and Business 114
Cultural Change 117
CHAPTER 5
Ehics, Corporate Social Responsibility, and Sustainability 128

Opening Case
Making Toys Globally 129

Introduction 130

Ethical Issues in International Business 131

Employment Practices 131

Management Focus
Ethical Issues at Apple 132

Human Rights 133

Management Focus
Unocal in Myanmar 134

Environmental Pollution 135

Corruption 136

Management Focus
Corruption at Daimler 137

Ethical Dilemmas 138

The Roots of Unethical Behavior 139

Personal Ethics 139

Decision-Making Processes 140

Organizational Culture 141

Unrealistic Performance Goals 141

Leadership 141

Societal Culture 142

Philosophical Approaches to Ethics 142

Straw Men 142

Utilitarian and Kantian Ethics 144

Rights Theories 145

Justice Theories 146

Focus on Managerial Implications: Making Ethical Decisions Internationally 147

Management Focus
Corporate Social Responsibility at Stora Enso 152
CHAPTER 9
Regional Economic Integration 254

Opening Case
Regional Trade Pacts Give the Mexican Auto Industry an Edge 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 2013 262
Political Structure of the European Union 262

Management Focus
The European Commission and Intel 263
The Single European Act 264
The Establishment of the Euro 265

Focus on Managerial Implications: FDI and Government Policy 246

Chapter Summary 249
Critical Thinking and Discussion Questions 250
Research Task 250

Closing Case
Foreign Direct Investment in Nigeria 250

Endnotes 252

CHAPTER 10
The Foreign Exchange Market 286

Opening Case
Subaru’s Sales Boom Thanks to the Weaker Yen 287

Introduction 287

The Functions of the Foreign Exchange Market 289
Currency Conversion 289
Insuring against Foreign Exchange Risk 290

Management Focus
Volkswagen’s Hedging Strategy 292
The Nature of the Foreign Exchange Market 293
<table>
<thead>
<tr>
<th>Economic Theories of Exchange Rate Determination</th>
<th>Prices and Exchange Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country Focus</td>
<td>Quantitative Easing, Inflation, and the Value of the U.S. Dollar</td>
</tr>
<tr>
<td></td>
<td>Interest Rates and Exchange Rates</td>
</tr>
<tr>
<td></td>
<td>Investor Psychology and Bandwagon Effects</td>
</tr>
<tr>
<td></td>
<td>Summary of Exchange Rate Theories</td>
</tr>
<tr>
<td>Exchange Rate Forecasting</td>
<td>The Efficient Market School</td>
</tr>
<tr>
<td></td>
<td>The Inefficient Market School</td>
</tr>
<tr>
<td></td>
<td>Approaches to Forecasting</td>
</tr>
<tr>
<td>Currency Convertibility</td>
<td>Focus on Managerial Implications: Foreign Exchange Rate Risk</td>
</tr>
<tr>
<td>Chapter Summary</td>
<td>307</td>
</tr>
<tr>
<td>Critical Thinking and Discussion Questions</td>
<td>308</td>
</tr>
<tr>
<td>Research Task</td>
<td>309</td>
</tr>
</tbody>
</table>

**CHAPTER 11**

The International Monetary System

**Opening Case**

The IMF and Ukraine's Economic Crisis

**Introduction** | 313

The Gold Standard | 315

Mechanics of the Gold Standard | 315

Strength of the Gold Standard | 315

The Period between the Wars: 1918–1939 | 316

The Bretton Woods System | 316

The Role of the IMF | 317

The Role of the World Bank | 318

The Collapse of the Fixed Exchange Rate System | 318

The Floating Exchange Rate Regime | 320

The Jamaica Agreement | 320

Exchange Rates since 1973 | 320

Country Focus

The U.S. Dollar, Oil Prices, and Recycling Petrodollars | 323

Fixed versus Floating Exchange Rates | 324

The Case for Floating Exchange Rates | 324

The Case for Fixed Exchange Rates | 325

Who Is Right? | 326

Exchange Rate Regimes in Practice | 326

Pegged Exchange Rates | 327

Currency Boards | 327

Crisis Management by the IMF | 328

Financial Crises in the Post-Bretton Woods Era | 329

Country Focus

The Mexican Currency Crisis of 1995 | 330

Evaluating the IMF's Policy Prescriptions | 331

Focus on Managerial Implications: Currency Management, Business Strategy, and Government Relations | 333

Management Focus

Airbus and the Euro | 335

Chapter Summary | 336

Critical Thinking and Discussion Questions | 337

Research Task | 338

Closing Case

The IMF and Iceland's Economic Recovery | 338

Endnotes | 339

**CHAPTER 12**

The Global Capital Market

**Opening Case**

Alibaba's Record-Setting IPO | 341

Introduction | 341

Benefits of the Global Capital Market | 342

Functions of a Generic Capital Market | 342

Attractions of the Global Capital Market | 343

Management Focus

Deutsche Telekom Taps the Global Capital Market | 345

Growth of the Global Capital Market | 347

Global Capital Market Risks | 349

Country Focus

Did the Global Capital Markets Fail Mexico? | 350

The Eurocurrency Market | 351

Genesis and Growth of the Market | 351

Attractions of the Eurocurrency Market | 352

Drawbacks of the Eurocurrency Market | 353

The Global Bond Market | 353

Attractions of the Eurobond Market | 354

The Global Equity Market | 355

Foreign Exchange Risk and the Cost of Capital | 356

Endnotes | 357
Focus on Managerial Implications: Growth of the Global Capital Market 357

Chapter Summary 357
Critical Thinking and Discussion Questions 358
Research Task 358

Closing Case
Declining Cross-Border Capital Flows—Retreat or Reset? 359

Endnotes 360

part five
The Strategy and Structure of International Business

CHAPTER 13
The Strategy of International Business 362

Opening Case
IKEA's Global Strategy 363

Introduction 364
Strategy and the Firm 364
  Value Creation 365
  Strategic Positioning 366
  The Firm as a Value Chain 367
Global Expansion, Profitability, and Profit Growth 370
  Expanding the Market: Leveraging Products and Competencies 371
  Location Economies 372
  Experience Effects 374
  Leveraging Subsidiary Skills 376
  Profitability and Profit Growth Summary 376

Management Focus
Leveraging Subsidiary Skills at ArcelorMittal 377
Cost Pressures and Pressures for Local Responsiveness 377
  Pressures for Cost Reductions 378
  Pressures for Local Responsiveness 379

Management Focus
Choosing a Strategy 382
  Global Standardization Strategy 383
  Localization Strategy 384
  Transnational Strategy 384
  International Strategy 385

Management Focus
Evolution of Strategy at Procter & Gamble 386
  The Evolution of Strategy 387

Chapter Summary 388
Critical Thinking and Discussion Questions 388
Research Task 389

Closing Case
Global Strategy Levers 389

Endnotes 390

CHAPTER 14
The Organization of International Business 392

Opening Case
P&G—Strength in Architecture 393

Introduction 393
Organizational Architecture 394
  Vertical Differentiation: Centralization and Decentralization 396
Management Focus
Walmart International 398
  Horizontal Differentiation: The Design of Structure 398
  Integrating Mechanisms 405
Management Focus
Dow—(Failed) Early Global Matrix Adopter 406
Control Systems and Incentives 410
  Types of Control Systems 410
  Incentive Systems 412
  Control Systems, Incentives, and Strategy in the International Business 413
Processes 415
Organizational Culture 416
  Creating and Maintaining Organizational Culture 416
  Organizational Culture and Performance in the International Business 418
Management Focus
Lincoln Electric and Culture 419
Synthesis: Strategy and Architecture 420
  Localization Strategy 420
  International Strategy 421
  Global Standardization Strategy 421
  Transnational Strategy 421
  Environment, Strategy, Architecture, and Performance 422
CHAPTER 19
Global Human Resource Management 554

Opening Case
A Global Team at Mary Kay Inc. 555

Introduction 555
Strategic Role of Global HRM 556
Staffing Policy 558
Types of Staffing Policies 558
Expatriate Managers 561

Management Focus
Managing Expatriates at Royal Dutch Shell 564
Global Mindset 565
Training and Management Development 556
Training for Expatriate Managers 567
Repatriation of Expatriates 567
Management Development and Strategy 568

Management Focus
Monsanto’s Repatriation Program 569

Performance Appraisal 569
Performance Appraisal Problems 569
Guidelines for Performance Appraisal 570

Compensation 570
National Differences in Compensation 570

Management Focus
McDonald’s Global Compensation Practices 571
Expatriate Pay 572

International Labor Relations 573
The Concerns of Organized Labor 574
The Strategy of Organized Labor 574
Approaches to Labor Relations 575

Chapter Summary 576
Critical Thinking and Discussion Questions 577
Research Task 577

Closing Case
IBM and Its Human Resources 577
Endnotes 579