

Fundamentals of International Business

THIRD EDITION



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about the authors



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Fundamentals of International Business

Fundamentals of International Business is an introductory international business text for use at the undergraduate level. Its comprehensive coverage of the subject also makes it appropriate for compressed teaching in MBA programs.

The book's content is streamlined along the core international issues when compared to the array of international business texts now available and sufficiently rigorous and demanding to satisfy the professional integrity of the instructor.

The ever-growing cultural diversity of students attending U.S. colleges and universities has influenced the development of this text. These students bring a wide range of learning experiences and a richness of cultural backgrounds to the classroom. We are sensitive to these conditions and to the educational opportunities presented to instructors by such diversity, which is reflected in our approach to the field and to learning.

coverage

Here is what makes this book special: Individuals, business, and government are mutually interdependent. Therefore, we work hard to highlight the interrelationships and linkages among these three pillars of international business. In the chapters, questions, and vignettes, the reader will discern this nexus of personal needs, policy requirements, and business activities. Because globalization is regarded from more than one point of view, both the instructor and the student are provided with the insights and the materials to obtain an overview of the different perspectives and gain the ability to integrate the learned insights with their own personal views. We do so by providing not only the different arguments, but also by the facts and logic that allow for a scrutiny of these arguments.

organization

The global orientation of this book is reinforced by drawing on worldwide examples, trends, and data, rather than relying only on U.S.-based information. The reality and pragmatism of our content is ensured by always addressing the issue of "What does all this mean for employees and firms in terms of implementing international business activities?"

Fundamentals of International Business contains fifteen streamlined chapters, which translates into approximately one chapter per week for the traditional fifteen-week semester. Organized into six parts of two to four chapters each, the text flows logically from introductory material to the global environment to marketing and financial considerations in the global marketplace.

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sample pages from chapter 1

PART 1

GLOBALIZATION



Although the **globalization** of business opens new opportunities for governments, firms, and individuals, it also brings challenges. Part 1 describes a global business and political environment in constant flux and explains the benefits as well as the criticisms of the move toward globalization. By exploring factors such as intense competition, production on a global scale, and rapid dissemination of technology, Part 1 demonstrates the need for firms to participate in _____ if they are to survive and grow.

opening vignette — sets the stage for the chapter and includes one or two questions for students to consider and debate as they read the chapter.

learning outcomes — these are identified in the chapter introduction and each is precisely addressed in the summary section at the end of the chapter; numbered icons within the chapter margins mark where each learning outcome is covered within the text.

CHAPTER 1

GLOBALIZATION


It's Not Just Money Anymore

The sole purpose of international business used to be the maximization of profit, but today's executives have new questions to answer: Who pays the environmental and social costs of bringing a product to the global marketplace? When loggers take more timber than nature replaces or fishermen deplete a fishery, it is society that foots the bill. The prices resulting from clear-cutting and overfishing do not take into account the societal costs of losing a forest or the catch of fish for future generations. Who protects farmers whose sales and incomes are at the mercy of big customers, such as Walmart or Tesco?

Increasingly, product labeling and branding are proving an effective means of bringing the environmental and social costs of a product's production into the marketplace. Product labels inform consumers about a product's environmental background and often include the processes and production methods used. The Forest Stewardship Council's "FSC" label, the Marine Stewardship Council's "MSC" label, and Fair Trade USA's "Fair Trade Certified" labels have all proven particularly successful.


The idea of a sustainable fish label started in 1997, when Unilever, the world's largest buyer of seafood, and the World Wide Fund for Nature formed the MSC. Unilever made this move after realizing that the future of its fish finger and cod fillet businesses relied on a sustainable source of white fish. In 2012, more than 14,000 products with an estimated retail value of \$3 billion in 80 countries carried an MSC label. Fair Trade USA, the leading third-party certifier of Fair Trade products in North America, announced in April 2013 that Fair Trade Certified coffee imports hit an all-time high in 2012: 163 million pounds were imported into the United States and Canada, representing an 18 percent increase over 2011.

Environmental labels are an indicator that companies are addressing increasing consumer concerns about the environmental impact of numerous products. Although many labeling efforts are voluntary and facilitated by nongovernmental organizations, governments are becoming more involved. The EU Ecolabel is a voluntary certification scheme in which the European Commission assesses products' environmental impact based on a rigorous set of criteria established by a panel of experts from consumer organizations and industry. Labels are not the solution to every negative environmental externality, in



LEARNING OUTCOMES

- 1 To learn the definition of international business
- 2 To recognize today's global linkages that drive nations and firms to operate across borders
- 3 To understand the U.S. position in world trade and the impact international business has on the nation
- 4 To appreciate the opportunities and challenges offered by international business
- 5 To consider the effects of global concerns about uncertainty, risk, and terrorism on international business



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quick take — a “quick take” vignette is a real-world example to provide context for concepts presented in the text.



Quick Take *Controlling the Dark Side of Globalization*

Labor abuse is one of the most public drawbacks of globalization. During the past 15 years, the U.S. media has publicized numerous stories of unhealthy working conditions, 20-hour shifts, and minimal pay. From Nike in Vietnam to Kathy Lee Gifford in Honduras to Apple in China, plenty of companies have found themselves in the midst of sweatshop scandals. Providing consumers the brands they want at low prices often involves companies hiring contract manufacturers that may not respect the rights of their workers. This often has tragic consequences, as in the May 2013 Rana Plaza factory collapse that killed more than 1,100 people in Bangladesh.

What is a conscientious consumer to do? Students at campuses around the United States have banded together in the search for a solution. What began as largely disjointed protests, letter-writing campaigns, and various other forms of student activism centered around individual cases has gradually evolved into a coordinated large-scale effort called United Students Against Sweatshops. It is active on campuses around the country. The organization has successfully advocated a “designated suppliers program” that requires companies producing the apparel sold on campuses to establish long-term relationships with garment factories, so workers can be guaranteed a “living wage.” The consolidated power of student consumers is ensuring manufacturing accountability on a national scale. Industry leaders have responded with the Fair Labor Association (FLA)—a nonprofit organization dedicated to ending sweatshop conditions in factories worldwide and ending abusive labor

conditions. Apple called in the Fair Labor Association in 2012 to investigate labor conditions at Foxconn, its contract manufacturer in China.

The power of unified consumer action is not to be underestimated. Putting an end to labor abuses around the world is good, right? “Wrong,” says Harvard economist Jeffrey Sachs. He is not concerned that there are too many sweatshops but that there are too few. Sachs’ opinion is based on the theory of comparative advantage, which states that international trade will, in the long run, make most parties better off. According to this theory, poor countries can develop by doing something that they do “better” than rich countries (in this case, provide cheap labor). Eventually, as the developing country becomes wealthier, its people come to enjoy higher living standards. Indeed, in response to the Walt Disney Company announcing that it was pulling out of Bangladesh and several other countries, many workers’ rights advocates argued that companies should remain in the countries and use their influence to improve working conditions. Could the “dark” side of globalization be a blessing in disguise?

SOURCE: Allen Meyerson, “In Principle, A Case for More Sweatshops,” *The New York Times*, June 22, 1997, http://en.wikipedia.org/wiki/Sweatshop#Accessed_5/31/2007; Andrew North, “Dhaka Rana Plaza collapse: Pressure tells on retailers and government,” BBC News, <http://www.bbc.co.uk/news/world-asia-22525431>, accessed May 21, 2013; Peter Grier, “The Walt Disney Company pulls out of Bangladesh: Will that make workers safe?” *The Christian Science Monitor*, May 3, 2013.

\$22.5 trillion.³ As Figure 1.1 shows, the growth in the value of trade has greatly exceeded the output. By comparison, in 2011, total foreign direct investment to more than \$21.6 trillion.⁴

of international trade has led to the forging of a network of links that binds us all—countries, institutions, and individuals—into a global economy. These links tie together trade, financial markets, technology, and communication in unprecedented ways. The 2001 collapse of Argentina’s currency and the U.S. dollar resonated throughout South America and affected Europe, and the Far East. The economic turmoil in Asia influenced



WORLD VIEW

Trade-Offs in Trade Policy

The whole notion of reducing trade barriers is in serious trouble. Some sources of this trouble include the slow growth of most of the world’s economies, increased competition from developing countries, global excess capacity in most industries, and, as a result of all of these forces, the politically disruptive weakness of job markets around the world. A heightened perception of risk connected to operating across national borders exacerbates these problems.

In the face of risk, nations desire to unite on a political front, which forces an uneasy alliance between economic policy and international politics. Recently, Pakistan, a crucial U.S. ally, pressed for the reduction of tariffs on its textiles to allow clothing made in Pakistan to enter the United States at below-market prices. U.S. manufacturers immediately protested that any change in tariffs would severely damage the already-beleaguered textile industry of South Carolina. Around the same time, under constant pressure from U.S. steelmakers, the government raised tariffs to effectively block imported steel. The tariffs went into effect despite

strenuous objections from political advisors that the move would adversely affect relationships with such countries as Kazakhstan, another key partner on the Afghan border, and Russia, which may prove the most important U.S. ally in the war against terror.

Different perspectives require different trade-offs. While Senator Ernest “Fritz” Hollings (D-South Carolina) believes in the need for full protection of the textile manufacturers in his state, U.S. trade representative Robert Zoellick favors the use of trade to ease political frictions. “If we want to support countries over the long term in a conflict with terror,” he says, “we’ll have to pay attention to the economic problems they have.”

SOURCES: Helene Cooper, “Pakistan’s Textile Bind Presents Bush Team with a Tough Choice,” and “Trade Craft Is Employed on War’s Economic Front,” *The Wall Street Journal*, October 29, 2001; “Ar Daggers Drawn,” *The Economist*, May 8, 1999, <http://www.economist.com>.

focused on the customs and products that make them different from one another and possibly separate them. Now we think more of the issues that make us behave alike and strengthen the bonds between us.

These five features of common sense bode well for a future of international negotiations, policy directives, and formulation of joint approaches to the progress of globalization.



STRUCTURE OF THE BOOK

This book is intended to enable you to become a better, more successful participant in the global business arena. Other than doing a “book by committee,” the three of us have developed this book over thirty years to bring a consistent, harmonious, and non-overlapping perspective to those who simply want to know more about what is going on in international markets and to those who want to translate their knowledge into successful business transactions. The text melds theory and practice to balance conceptual understanding with knowledge of day-to-day

world view — this box offers concrete examples of the issues confronting global business decision makers in the classroom.

realities. To do so effectively, we address the interests of both beginning internationalists and multinational corporations.

The beginning international manager will need to know the answers to basic, yet important questions: How can I find out whether demand for my product exists abroad? What must I do to get ready to market internationally? These issues are also relevant for managers in multinational corporations, but the questions they consider are often much more sophisticated. Of course, the resources available to address them are also much greater.

Throughout the book, public policy concerns are included in discussions of business activities. In this way, you are exposed to both macro and micro issues. Part 1 introduces the concept of globalization and underlines the critical importance of international activities to the future survival and growth of firms.

Part 2 describes the macroenvironment for international business and explores the cultural, political, legal, and economic forces that drive globalization. Part 3 presents the theoretical dimensions of international trade and investment, exploring the effect of international economic activities on a nation. Part 4 explains the role of the international monetary system, showing how fluctuations in foreign exchange impact the conduct of business. It also presents strategies for international financial management. Part 5 describes how firms initiate and develop a global business strategy and lays out the options for market entry and the steps essential to success—from planning to research to marketing to logistics and operations management.

Part 6 looks to the future, anticipating changes that will continue to affect the dynamics of the international business environment as it exists today and as it develops tomorrow.

We hope that upon finishing the book, you will not only have completed another academic subject but also will be well-versed in the theoretical, policy, and strategic aspects of international business and therefore will be able to contribute to improved international competitiveness and a better global standard of living.

Fast Facts

This, the world's fifth most populous nation with a total of 201 million people, covers a vast area of 3,267,612 square miles comprised of tropical forest, plains, and mountains. (Hint: Virtually the whole country lies east of Savannah, Georgia.)
Source: CIA—The World Factbook, accessed May 22, 2013.

Brazil

fast facts — throughout the text, these facts are presented in a question-and-answer format; they focus mainly on geography-oriented topics and are meant to provide immediate feedback to the student about their knowledge of the text material at hand.

SUMMARY

International business has been conducted ever since national borders were formed and has played a major role in shaping world history. Growing in importance during the past three decades, it has shaped an environment that, due to economic linkages, today presents us with a global marketplace.

Global business involves transactions across borders, primarily through export-import trade and foreign direct investment (FDI).

From 1970 to 2012, the volume of international trade in goods and services has expanded from \$200 billion to more than \$22.5 trillion, while international investment has grown \$21.6 trillion. Both outpace the growth of most domestic economies, increasing the importance of international business. Global links have made possible investment strategies at business alternatives that offer tremendous opportunities. Yet these changes and the speed change can also represent threats to nations, firms, and individuals.



During the past 30 years, the dominance of the U.S. international trade position has gradually eroded. The United States has gained in prominence as a market and has decreased in importance as a producer of goods. New participants in international business compete fiercely for world market share.



Individuals, corporations, and policymakers around the globe have awakened to the fact that international business is a major imperative and offers opportunities for future growth and prosperity. International business provides access to new customers, affords economies of scale, and permits the honing of competitive skills.

A heightened awareness of the risks—both to firms and individuals—connected to business across borders has led to a changed global environment best characterized on five key dimensions: vulnerability, outrage, collaboration, politics, and connection.

Key Terms and Concepts

globalization	multinational corporation	microeconomic level
import-export trade	gross domestic product (GDP)	macroeconomic level
foreign direct investment (FDI)		

Review Questions

- Will future expansion of international business be similar to that in the past?
- Does increased international business mean increased risk?
- What areas of business decision making are affected by changes in the global business environment?
- Explain the rise in Chinese exports to the United States and other parts of the world.
- With wages in some countries at one-tenth of those in developed nations, how can highly paid workers expect to compete?
- Compare and contrast domestic and international business.
- Why do more firms in other countries enter international markets than do firms in the United States?
- Explain the effect of terrorism on risk and uncertainty in the conduct of cross-border transactions?

Critical Skill Builders

- Is it beneficial for nations to become dependent on one another? Why or why not? Prepare your arguments for and against and participate in a class debate on this topic.
- China joined the World Trade Organization in 2001. How has membership affected the Chinese world trade market share? How has it affected the Chinese domestic market? Research and discuss.
- Select a business in your area. Find out how the company is currently involved in international activities, either in the procurement of supplies or the marketing of finished products. How might this firm take further advantage of ongoing shifts in the global business environment? Prepare a report on past activities and future opportunities.
- Using your library and Internet resources, research such issues as global equity, sustainable development, and the forgiving of debt of the poorest countries. What are the arguments for and against forgiving the debt of countries that borrow money and then can't afford to repay it?
- Do you believe that terrorism furthers the cause of globalization or drives a wedge between nations? Prepare your arguments and discuss in small groups.

chapter summary, review questions, critical skill builders

— each chapter closes with a summary of key points that students should retain, organized by learning outcome; review questions and critical skill builder questions are complementary learning tools that will enable students to check their understanding of key issues, to think beyond basic concepts, and to determine areas that require further study.



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