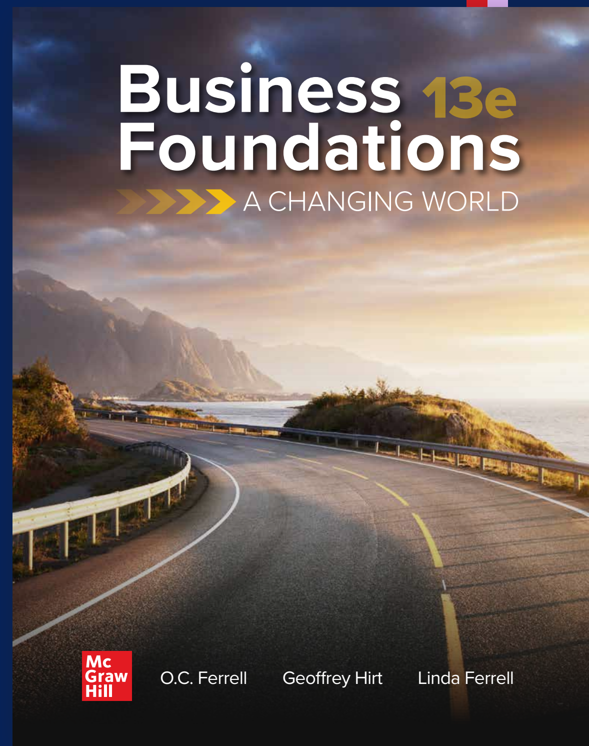
McGraw Hill connect



Business Foundations, 13e

O.C. Ferrell | Geoffrey A. Hirt
Linda Ferrell

Table of Contents

Business Foundations

13e

A CHANGING WORLD

O.C. Ferrell
Auburn University

Geoffrey A. Hirt
DePaul University

Linda Ferrell
Auburn University

Mc Graw Hill

BUSINESS FOUNDATIONS: A CHANGING WORLD, THIRTEENTH EDITION

This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 LWI 27 26 25 24 23 22

ISBN 978-1-264-06749-7 (bound edition)
MHID 1-264-06749-6 (bound edition)
ISBN 978-1-265-445829 (loose-leaf edition)
MHID 1-265-44582-6 (loose-leaf edition)

Executive Portfolio Manager: *Meredith Fossel*
Senior Product Developer: *Anne Leung*
Executive Marketing Manager: *Nicole Young*
Lead Project Manager, Core Content: *Kathryn D. Wright*
Senior Project Manager, Assessment Content: *Bruce Gin*
Senior Buyer: *Sandy Ludovissy*
Designer: *Laurie Entringer*
Senior Content Licensing Specialist: *Lori Hancock*
Cover Image: *IakovKalinin/iStock*
Compositor: *Straive*

Library of Congress Cataloging-in-Publication Data

Names: Ferrell, O. C., author. | Hirt, Geoffrey A., author. | Ferrell, Linda, author.
Title: Business foundations : a changing world / O.C. Ferrell, Auburn University, Geoffrey Hirt, DePaul University, Linda Ferrell, Auburn University.
Description: 13e [edition]. | New York, NY : McGraw Hill LLC, [2023] | Includes bibliographical references and index.
Identifiers: LCCN 2021034861 (print) | LCCN 2021034862 (ebook) | ISBN 9781264067497 (hbk ; alk. paper) | ISBN 9781265444716 (ebook)
Subjects: LCSH: Business. | Management—United States.
Classification: LCC HF1008 .F47 2023 (print) | LCC HF1008 (ebook) | DDC 658—dc23
LC record available at https://lccn.loc.gov/2021034861
LC ebook record available at https://lccn.loc.gov/2021034862

Dedication

To James Ferrell

To Stan Block

To George Ferrell

Authors

O.C. FERRELL


Courtesy of the NASBA Center for the Public Trust

O.C. Ferrell is the James T. Pursell Sr. Eminent Scholar in Ethics and Director of the Center for Ethical Organizational Cultures in the Raymond J. Harbert College of Business, Auburn University. He was formerly Distinguished Professor of Leadership and Business Ethics at Belmont University and University Distinguished Professor at the University of New Mexico. He has also been on the faculties of the University of Wyoming, Colorado State University, University of Memphis, Texas A&M University, Illinois State University, and Southern Illinois University. He received his PhD in marketing from Louisiana State University.

Dr. Ferrell is past president of the Academy of Marketing Science. He is past president of the Academic Council of the American Marketing Association and chaired the American Marketing Association Ethics Committee. Under his leadership, the committee developed the AMA Code of Ethics and the AMA Code of Ethics for Marketing on the Internet. In addition, he is a former member of the Academy of Marketing Science Board of Governors and is a Society of Marketing Advances and Southwestern Marketing Association Fellow and an Academy of Marketing Science Distinguished Fellow. He served for nine years as the vice president of publications for the Academy of Marketing Science. He received a Lifetime Achievement Award from the Macromarketing Society and a special award for service to doctoral students from the Southeast Doctoral Consortium. He received the Harold Berkman Lifetime Service Award from the Academy of Marketing Science and the Cutco Vector Distinguished Marketing Educator Award from the Academy of Marketing Science.

Dr. Ferrell has been involved in entrepreneurial engagements, co-founding Print Avenue in 1981, providing a solution-based printing company. He has been a consultant and served as an expert witness in legal cases related to marketing and business ethics litigation. He has conducted training for a number of global firms, including General Motors. His involvement with direct selling companies includes serving on the Academic Advisory Committee and as a fellow for the Direct Selling Education Foundation.

Dr. Ferrell is the co-author of 20 books and more than 100 published articles and papers. His articles have been published in the *Journal of Marketing Research, Journal of Marketing, Journal of Business Ethics, Journal of Business Research, Journal of the Academy of Marketing Science, AMS Review,* and *Journal of Public Policy & Marketing,* as well as other journals.

GEOFFREY A. HIRT


Courtesy of Geoffrey A. Hirt

Geoffrey A. Hirt of DePaul University previously taught at Texas Christian University and Illinois State University, where he was chairman of the Department of Finance and Law. At DePaul, he was chairman of the Finance Department from 1987 to 1997 and held the title of Mesirow Financial Fellow. He developed the MBA program in Hong Kong and served as director of international initiatives for the College of Business, supervising overseas programs in Hong Kong, Prague, and Bahrain, and was awarded the Spirit of St. Vincent DePaul award for his contributions to the university. Dr. Hirt directed the Chartered Financial Analysts (CFA) study program for the Investment Analysts Society of Chicago from 1987 to 2003. He has been a visiting professor at the University of Urbino in Italy, where he still maintains a relationship with the economics department. He received his PhD in finance from the University of Illinois at Champaign-Urbana, his MBA at Miami University of Ohio, and his BA from Ohio Wesleyan University.

Dr. Hirt is currently on the Dean's Advisory Board and Executive Committee of DePaul's School of Music. He served on the James C. Tyree Foundation Board and Grant Committee from 2012 to 2016. Dr. Hirt is past president and a current member of the Midwest Finance Association and a former editor of the *Journal of Financial Education.* He belongs to the Pacific Pension Institute, an organization of public pension funds, private equity firms, and international organizations such as the Asian Development Bank, the IMF, and the European Bank for Reconstruction and Development.

Dr. Hirt is widely known for his textbook *Foundations of Financial Management,* published by McGraw Hill. This book, in its eighteenth edition, has been used in more than 31 countries and translated into more than 14 different languages. Additionally, Dr. Hirt is well known for his textbook *Fundamentals of Investment Management,* also published by McGraw Hill and now in its tenth edition. Dr. Hirt enjoys golf, swimming, music, and traveling with his wife, who is a pianist and opera coach.

LINDA FERRELL

Courtesy of the NASBA Center for the Public Trust

Linda Ferrell is the Roth Family Professor of Marketing and Business Ethics in the Raymond J. Harbert College of Business, Auburn University. She was formerly Distinguished Professor of Leadership and Business Ethics at Belmont University. She completed her PhD in business administration, with a concentration in management, at the University of Memphis. She has taught at the University of Tampa, Colorado State University, University of Northern Colorado, University of Memphis, University of Wyoming, and the University of New Mexico. She has also team-taught classes at Thammasat University in Bangkok, Thailand.

Her work experience as an account executive for McDonald's and Pizza Hut's advertising agencies supports her teaching of advertising, marketing strategy, marketing ethics, and marketing principles. She has published in the *Journal of Public Policy & Marketing, Journal of Business Research, Journal of the Academy of Marketing Science, Journal of Business Ethics, AMS Review, Journal of Academic Ethics, Journal of Marketing Education, Marketing Education Review, Journal of Teaching Business Ethics, Marketing Management Journal,* and *Case Research Journal,* and she is co-author of *Business Ethics: Ethical Decision Making and Cases* (thirteenth edition), *Management* (fourth edition), and *Business and Society* (seventh edition).

Dr. Ferrell is the past president of the Academy of Marketing Science and a past president for the Marketing Management Association. She is on the college advisory board for Cutco/Vector and previously served on a NASDAQ corporate board. She is also on the Board, Executive Committee, and Academic Advisory Committee of the Direct Selling Education Foundation. She has served as an expert witness in cases related to advertising, business ethics, and consumer protection.

Welcome

Business Foundations: A Changing World, thirteenth edition, provides coverage of dynamic changes in the economy as they relate to business and business decisions. The contents of this book are integrated with current events and examples to illustrate the concepts discussed. We have listened to your feedback and incorporated needed changes in content, boxes, cases, exercises, support, online resources, and other features.

Digital marketing and social media, discussed in Chapter 13, are dynamic areas that continue to change the face of business. Entrepreneurs and small businesses can increase sales and reduce costs by using social networking to communicate and develop relationships with customers. The sharing, or "gig," economy has transformed entrepreneurial opportunities for employees. For example, the number of independent contractors in our economy has increased to almost one-third of the workforce. The internet is providing opportunities for peer-to-peer relationships for companies such as Uber, Lyft, TaskRabbit, Airbnb, and Fiverr. Digital marketing has helped many entrepreneurs launch successful businesses.

The foundational areas of introduction to business, entrepreneurship, small business management, marketing, accounting, and finance have all been revised. Examples have been provided to which students can easily relate in our "Enter the World of Business" opening vignette found in each chapter. Throughout the text, we highlight innovation and disruption in our boxed features. "Entrepreneurship in Action" demonstrates the importance of entrepreneurs; "Technology and the Economy" demonstrates how emerging technologies such as artificial intelligence, drones, and augmented reality influence business; "Business Disruption" provides real-world examples of the changing business landscape; and "Responding to Business Challenges" features companies that have overcome obstacles.

We have been careful to continue our coverage of global business, ethics and social responsibility, and information technology as they relate to the foundations important in an introduction to business course. Our co-author team has a diversity of expertise in these important areas. O.C. Ferrell and Linda Ferrell have been recognized as leaders in business ethics education, and their insights are reflected in every chapter and in the "Consider Ethics and Social Responsibility" boxes. Geoff Hirt has a strong background in global business development, especially world financial markets and trade relationships.

Our goal is to make sure that the content and teaching package for this book are of the highest quality possible. We wish to seize this opportunity to gain your trust, and we appreciate any feedback to help us continually improve these materials. We hope that the real beneficiary of all of our work will be well-informed students who appreciate the role of business in society and take advantage of the opportunity to play a significant role in improving our world. In this new edition, we have additional content to help our students understand how our free enterprise system operates and how we fit into the global competitive environment. This course is an opportunity for students to understand how they can create their own success and improve their quality of life.

O.C. Ferrell

Geoffrey A. Hirt

Linda Ferrell

Focused, Exciting, Applicable, Happening

Business Foundations: A Changing World, thirteenth edition, offers faculty and students a **focused** resource that is **exciting, applicable,** and **happening!** What sets this learning program apart from the competition? An unrivaled mixture of exciting content and resources blended with application-focused text and activities, and fresh topics and examples that show students what is happening in the world of business today!

Our product contains all of the essentials that most students should learn in a semester. *Business Foundations* has, since its inception, delivered a focused presentation of the essential material needed to teach introduction to business. An unrivaled mixture of exciting content and resources, application-focused content and activities, and fresh topics and examples that show students what is happening in the world of business today set this text apart!

Focused!

It's easy for students taking their first steps into business to become overwhelmed. Longer products try to solve this problem by chopping out examples or topics to make ad hoc shorter editions. *Business Foundations* carefully builds just the right mix of coverage and applications to give your students a firm grounding in business principles. Where other products have you sprinting through the semester to get everything in, Ferrell/Hirt/Ferrell allows you the breathing space to explore topics and incorporate other activities that are important to you and your students. The exceptional resources and the *Active Classroom Resource Manual* support you in this effort every step of the way.

Exciting!

It's exciting to see students succeed! It's exciting to see more As and Bs in a course without grade inflation. Ferrell/Hirt/Ferrell makes these results possible for your course with its integrated learning package that is proven effective, tailored to each individual student, and easy to use.

Applicable!

When students see how content applies to them, their life, their career, and the world around them, they are more engaged in the course. *Business Foundations* helps students maximize their learning efforts by setting clear objectives; delivering interesting cases and examples; focusing on core issues; and providing engaging activities to apply concepts, build skills, and solve problems.

Happening!

Everything in this edition reflects the very latest developments in the business world—such as the COVID-19 pandemic that resulted in high unemployment, stress on small businesses, and disruption in supply chains. In addition, ethics and social responsibility have become much more important as firms are being rewarded for having a social conscience and addressing unrest and conflicts in society.

New to This Edition

As always, when revising this material for the current edition, all examples, figures, and statistics have been updated to incorporate any recent developments that affect the world of business. Additionally, content was updated to ensure the most pertinent topical coverage is provided.

Here are the highlights for each chapter:

Chapter 1: The Dynamics of Business and Economics

- New boxed features describing real-world business issues
- Updated unemployment and GDP data
- New stats on inflation
- New stats on women in the workforce
- New section on technology and the economy
- New examples related to the COVID-19 pandemic
- New figure depicting artificial intelligence in relation to its enablers
- New *See for Yourself Case* featuring Tesla

Chapter 2: Business Ethics and Social Responsibility

- New boxed features describing issues in business ethics and social responsibility
- New data on global trust in different industries
- New examples about ethical issues in the sharing economy
- New content about aggressive financial or business objectives
- New example of a bribery scandal
- Expanded timeline of ethical and socially responsible activities
- New content on diversity, equity, and inclusion
- New table of the divisions of the Federal Trade Commission
- New *See for Yourself Case* featuring Hershey

Chapter 3: Business in a Borderless World

- New boxed features describing issues in international business
- Updated list of top 10 countries with which the United States has trade deficits/surpluses
- New content on the United States–China trade war
- Updated Euro Zone details
- New details on the EU's General Data Protection Regulation (GDPR)
- New content about the United States–Mexico–Canada Agreement (USMCA)
- New table of U.S. top trading partners
- Updated table of common hand gestures that are rude in other countries
- New *See for Yourself Case* featuring McDonald's

Chapter 4: Options for Organizing Business

- New boxed features describing real-world business issues
- New table of world's biggest dividend payers
- Updated table of America's largest private companies
- New *See for Yourself Case* featuring Casper

Chapter 5: Small Business, Entrepreneurship, and Franchising

- New boxed features describing current business issues
- Examples of innovative small businesses
- New information on artificial intelligence
- Updated table of the fastest growing franchises
- Updated table of the most business-friendly states
- New stats on small business
- New data on Gen Z in the workforce
- New data on minority-owned businesses
- New *See for Yourself Case* discussing the impact of COVID-19 on small business

Chapter 6: The Nature of Management

- New boxed features describing current business issues
- New content about business models
- New table of compensation packages of CEOs
- New content on gender equality
- New *See for Yourself Case* featuring Everlane

Chapter 7: Organization, Teamwork, and Communication

- New boxed features describing current business issues
- New examples of organizational culture
- New content on artificial intelligence
- New content on email and videoconferencing usage in the workplace
- New *See for Yourself Case* featuring Coca-Cola

Chapter 8: Managing Operations and Supply Chains

- New boxed features describing current business operational issues
- New content on marketing research and artificial intelligence
- New section on blockchain technology
- New content on drone technology
- Extensive overhaul of Managing the Supply Chain section
- Updated airline scorecard table
- New examples related to the COVID-19 pandemic and supply chains
- New *See for Yourself Case* featuring Scentsy

Chapter 9: Motivating the Workforce

- New boxed features describing current business issues
- New examples of organizational culture
- New table of best places for businesses and careers
- New *See for Yourself Case* featuring Google

Chapter 10: Managing Human Resources

- New boxed features describing current HR issues
- Updated common job interview questions
- New content on wage gap
- New example of how soft benefits inspire loyalty
- New section on employee relations and sexual harrassment
- New content on diversity, equity, and inclusion
- New *See for Yourself Case* featuring Apple

Chapter 11: Customer-Driven Marketing

- New boxed features describing current marketing issues
- New content on marketing orientation
- New content on supply chain management
- New content on marketing analytics dashboards
- New data on the buying power by race/ethnicity
- New table of companies with the best customer service
- New *See for Yourself Case* featuring Dollar General

Chapter 12: Dimensions of Marketing Strategy

- New boxed features describing current marketing issues
- Logistics added as key term
- New definition for physical distribution key term
- Updated figure depicting a company's product mix
- Updated personal care and cleaning products customer satisfaction ratings
- New examples related to the impact of the COVID-19 pandemic on marketing strategy
- New *See for Yourself Case* featuring Dr. Martens

Chapter 13: Digital Marketing and Social Media

- New boxed features describing current digital marketing issues
- New stats on social media use by platform
- New stats on mobile app activities
- New data on the main sources of identity theft
- New section on TikTok
- New *See for Yourself Case* featuring Facebook and Instagram

Chapter 14: Accounting and Financial Statements

- New boxed features describing current accounting issues
- Updated rankings of accounting firms in the United States
- New financial information for NVIDIA
- New content on net income and corporate tax rate
- New *See for Yourself Case* featuring Tesla

Chapter 15: Money and the Financial System

- New boxed features describing current financial issues
- Updated life expectancy of money
- Updated cost to produce coins
- New content on cryptocurrency
- New content on interest rates
- New content on exchange-traded funds (ETFs)
- New *See for Yourself Case* discussing the Big Mac Index

Chapter 16: Financial Management and Securities Markets

- New boxed features describing current financial issues
- Updated short-term investment possibilities
- Updated U.S. corporate bond quotes
- New content on electronic markets
- Updated estimated common stock price-earnings, ratios, and dividends for selected companies
- New table of S&P 500 corrections
- New content on the impacts of the COVID-19 pandemic on financial management
- New *See for Yourself Case* featuring the Dow Jones Industrial Average

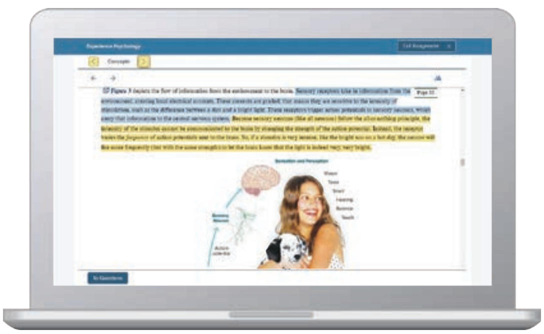
McGraw Hill connect®

Instructors: Student Success Starts with You

Tools to enhance your unique voice

Want to build your own course? No problem. Prefer to use an OLC-aligned, prebuilt course? Easy. Want to make changes throughout the semester? Sure. And you'll save time with Connect's auto-grading too.

65%
Less Time Grading



Laptop: McGraw Hill; Woman/dog: George Doyle/Getty Images

Study made personal

Incorporate adaptive study resources like SmartBook® 2.0 into your course and help your students be better prepared in less time. Learn more about the powerful personalized learning experience available in SmartBook 2.0 at **www.mheducation.com/highered/connect/smartbook**

Affordable solutions, added value

Make technology work for you with LMS integration for single sign-on access, mobile access to the digital textbook, and reports to quickly show you how each of your students is doing. And with our Inclusive Access program you can provide all these tools at a discount to your students. Ask your McGraw Hill representative for more information.

Padlock: Jobalou/Getty Images

Solutions for your challenges

A product isn't a solution. Real solutions are affordabl , reliable, and come with training and ongoing support when you need it and how you want it. Visit **www.supportateverystep.com** for videos and resources both you and your students can use throughout the semester.

Checkmark: Jobalou/Getty Images

SUPPORT AT every step

Students: Get Learning that Fits You

Effective tools for efficient study

Connect is designed to help you be more productive with simple, fl xible, intuitive tools that maximize your study time and meet your individual learning needs. Get learning that works for you with Connect.

Study anytime, anywhere

Download the free ReadAnywhere app and access your online eBook, SmartBook 2.0, or Adaptive Learning Assignments when it's convenient, even if you're offli   . And since the app automatically syncs with your Connect account, all of your work is available every time you open it. Find out more at **www.mheducation.com/readanywhere**

"I really liked this app—it made it easy to study when you don't have your text-book in front of you."

- Jordan Cunningham, Eastern Washington University

Calendar: owattaphotos/Getty Images

Everything you need in one place

Your Connect course has everything you need—whether reading on your digital eBook or completing assignments for class, Connect makes it easy to get your work done.

Learning for everyone

McGraw Hill works directly with Accessibility Services Departments and faculty to meet the learning needs of all students. Please contact your Accessibility Services Office and ask them to emai accessibility@mheducation.com, or visit **www.mheducation.com/about/accessibility** for more information.

Top: Jenner Images/Getty Images, Left: Hero Images/Getty Images, Right: Hero Images/Getty Images

Proctorio: Remote Proctoring & Browser-Locking Capabilities

Remote proctoring and browser-locking capabilities, hosted by Proctorio within Connect, provide control of the assessment environment by enabling security options and verifying the identity of the student.

Seamlessly integrated within Connect, these services allow instructors to control students' assessment experience by restricting browser activity, recording students' activity, and verifying students are doing their own work.

Instant and detailed reporting gives instructors an at-a-glance view of potential academic integrity concerns, thereby avoiding personal bias and supporting evidence-based claims.

ReadAnywhere

Read or study when it's convenient for you with McGraw Hill's free ReadAnywhere app. Available for iOS or Android smartphones or tablets, ReadAnywhere gives users access to McGraw Hill tools including the eBook and SmartBook 2.0 or Adaptive Learning Assignments in Connect. Take notes, highlight, and complete assignments offline—all of your work will sync when you open the app with WiFi access. Log in with your McGraw Hill Connect username and password to start learning—anytime, anywhere!

OLC-Aligned Courses: Implementing High-Quality Online Instruction and Assessment through Preconfigured Courseware

In consultation with the Online Learning Consortium (OLC) and our certified Faculty Consultants, McGraw Hill has created preconfigured courseware using OLC's quality scorecard to align with best practices in online course delivery. This turnkey courseware contains a combination of formative assessments, summative assessments, homework, and application activities, and can easily be customized to meet an individual's needs and course outcomes. For more information, visit https://www.mheducation.com/highered/olc.

Tegrity: Lectures 24/7

Tegrity in Connect is a tool that makes class time available 24/7 by automatically capturing every lecture. With a simple one-click start-and-stop process, you capture all computer screens and corresponding audio in a format that is easy to search, frame by frame. Students can replay any part of any class with easy-to-use, browser-based viewing on a PC, Mac, iPod, or other mobile device.

Educators know that the more students can see, hear, and experience class resources, the better they learn. In fact, studies prove it. Tegrity's unique search feature helps students efficiently find what they need, when they need it, across an entire semester of class recordings. Help turn your students' study time into learning moments immediately supported by your lecture. With Tegrity, you also increase intent listening and class participation by easing students' concerns about note-taking. Using Tegrity in Connect will make it more likely you will see students' faces, not the tops of their heads.

Test Builder in Connect

Available within Connect, Test Builder is a cloud-based tool that enables instructors to format tests that can be printed, administered within a Learning Management System, or exported as a Word document of the test bank. Test Builder offers a modern, streamlined interface for easy content configuration that matches course needs, without requiring a download.

Test Builder allows you to:

- Access all test bank content from a particular title.
- Easily pinpoint the most relevant content through robust filtering options.
- Manipulate the order of questions or scramble questions and/or answers.
- Pin questions to a specific location within a test.
- Determine your preferred treatment of algorithmic questions.
- Choose the layout and spacing.
- Add instructions and configure default settings.

Test Builder provides a secure interface for better protection of content and allows for just-in-time updates to flow directly into assessments.

Writing Assignment

Available within Connect and Connect Master, the Writing Assignment tool delivers a learning experience to help students improve their written communication skills and conceptual understanding. As an instructor, you can assign, monitor, grade, and provide feedback on writing more efficiently and effectively.

Application-Based Activities in Connect

Application-Based Activities in Connect are highly interactive, assignable exercises that provide students a safe space to apply the concepts they have learned to real-world, course-specific problems. Each Application-Based Activity involves the application of multiple concepts, allowing students to synthesize information and use critical thinking skills to solve realistic scenarios.

Create: Your Book, Your Way

McGraw Hill's Content Collections Powered by Create® is a self-service website that enables instructors to create custom course materials—print and eBooks—by drawing upon McGraw Hill's comprehensive, cross-disciplinary content. Choose what you want from our high-quality textbooks, articles, and cases. Combine it with your own content quickly and easily, and tap into other rights-secured, third-party content such as readings, cases, and articles. Content can be arranged in a way that makes the most sense for your course and you can include the course name and information as well. Choose the best format for your course: color print, black-and-white print, or eBook. The eBook can be included in your Connect course and is available on the free ReadAnywhere app for smartphone or tablet access as well. When you are finished customizing, you will receive a free digital copy to review in just minutes! Visit McGraw Hill Create®—www.mcgrawhillcreate.com—today and begin building!

Acknowledgments

The thirteenth edition of *Business Foundations: A Changing World* would not have been possible without the commitment, dedication, and patience of Kelsey Reddick. Kelsey Reddick provided oversight for editing text content and developed the cases, boxes, and supplements. Meredith Fossel, Executive Portfolio Manager, provided leadership and creativity in planning and implementing all aspects of this edition. Anne Leung, Senior Product Developer, did an outstanding job of coordinating all aspects of the development and production process. Kathryn Wright was the Content Project Manager. Bruce Gin managed the technical aspects of Connect. Also important in this edition was Nicole Young, Executive Marketing Manager. Michael Hartline developed the Personal Career Plan in Appendix B. Vickie Bajtelsmit developed Bonus Chapter B on personal financial planning. Eric Sandberg of Interactive Learning assisted in developing the interactive exercises. Rhonda Thomas and Amanda Stoecklein helped with the exercises and Helen Davis with the instructor's manual. Many others have assisted us with their helpful comments, recommendations, and support throughout this and previous editions. Thank you for all of your insight and feedback. We'd like to express our sincere thanks to the reviewers who helped us shape this edition. Your time and thoughtful feedback have helped us greatly make this another great revision:

Gene Blackmun III
Rio Hondo College

Thierry Brusselle
Chaffey College

Jeanne Christ
Broward College

John DeSpagna
Nassau Community College

Tracy Ethridge
Tri-County Technical College

Anthony D. Fontes III
Bunker Hill Community College

Christina Marie Force
Bloomsburg University of Pennsylvania

Paul Frise
University of Phoenix

Richard T. Gordon
Illinois State University

Stan Heister
Portland State University

Michael Allen Holubar
Santa Clara University

Dan Jones
Ball State University

Ryan Kauth
University of Wisconsin–Green Bay

Greta Kishbaugh
St. Petersburg College

Stephen Konrad
Portland State University

Noah Koontz
Ball State University

Stevan H. Labush
Johnson & Wales University

Steven Levine
Nassau Community College

David Levy
Bellevue University

Amy Neuman
Oregon State University

Karen E. Overton
Houston Community College

Daniel Pfaltzgraf
University of Toledo

Doug Read
Ball State University

Kristen Regine
Johnson & Wales University

Michael J. Rose
Butler Community College

Adam Shelffo
Arapahoe Community College

Nayrie Smith
Miami Dade College

Amanda Stoecklein
State Fair Community College

Timothy J. Syfert
Grand Valley State University

Marguerite Teubner
Nassau Community College

We would also like to thank the following individuals for their contributions to this edition and previous editions.

Phyllis Alderdice, *Jefferson Community College*
NaRita Gail Anderson, *University of Central Oklahoma*
Brenda Anthony, *Tallahassee Community College*
Vondra Armstrong, *Pulaski Tech College*
John Bajkowski, *American Association of Individual Investors*
Gene Baker, *University of North Florida*
Lia Barone, *Norwalk Community College*
Ellen Benowitz, *Mercer County Community College*
Michael Bento, *Owens Community College*
Stephanie Bibb, *Chicago State University*
Gene Blackmun, *Rio Hondo College*
Susan Blumen, *Montgomery College*
Barbara Boyington, *Monmouth-Ocean County Small Business Development Center*
Patty Boyle, *Lane Community College*
Suzanne Bradford, *Angelina College*
Alka Bramhandkar, *Ithaca College*
Dennis Brode, *Sinclair Community College*
Harvey S. Bronstein, *Oakland Community College*
Colin Brooks, *University of New Orleans*
Eric Brooks, *Orange County Community College*
Nicky Buenger, *Texas A&M University*
Anthony Buono, *Bentley College*
Tricia Burns, *Boise State University*
Diana Carmel, *Golden West College*
Angela Casler, *California State University*
William Chittenden, *Texas State University*
Michael Cicero, *Highline Community College*
Margaret Clark, *Cincinnati State Tech & Community College*
Mark Lee Clark, *Collin College*
Debbie Collins, *Anne Arundel Community College-Arnold*
Karen Collins, *Lehigh University*
Katherine Conway, *Borough of Manhattan Community College*
Rex Cutshall, *Indiana University*
Laurie Dahlin, *Worcester State College*
Dana D’Angelo, *Drexel University*
Deshaun H. Davis, *Northern Virginia Community College*
Yalonda Ross Davis, *Grand Valley State University*
Peter Dawson, *Collin County Community College-Plano*
John DeNisco, *Buffalo State College*
Tom Diamante, *Corporate Consulting Associates, Inc.*
Joyce Domke, *DePaul University*
Glenn Doolittle, *Santa Ana College*
Michael Drafke, *College of DuPage*
Steven M. Dunphy, *Indiana University Northwest*
John Eagan, *Erie Community College/City Campus SUNY*
Glenda Eckert, *Oklahoma State University*
Thomas Enerva, *University of Maine-Fort Kent*
Robert Ericksen, *Business Growth Center*
Donna Everett, *Santa Rosa Junior College*
Joe Farinella, *University of North Carolina-Wilmington*
Bob Farris, *Mt. San Antonio College*
Gil Feiertag, *Columbus State Community College*
James Ferrell, *R. G. Taylor, P.C.*
Cheryl Fetterman, *Cape Fear Community College*
Art Fischer, *Pittsburg State University*
Jackie Flom, *University of Toledo*
Jennifer Friestad, *Anoka-Ramsey Community College*
Jillian Gasser, *Auburn University*
Chris Gilbert, *Tacoma Community College/University of Washington*
Ross Gittell, *University of New Hampshire*

Connie Golden, *Lakeland Community College*
Terri Gonzales-Kreisman, *Delgado Community College*
Kris Gossett, *Ivy Tech Community College of Indiana*
Carol Gottuso, *Metropolitan Community College*
Bob Grau, *Cuyahoga Community College–Western Campus*
Gary Grau, *Northeast State Tech Community College*
Jack K. Gray, *Attorney-at-Law, Houston, Texas*
Catherine Green, *University of Memphis*
Claudia Green, *Pace University*
Maurice P. Greene, *Monroe College*
Phil Greenwood, *University of Wisconsin–Madison*
David Gribbin, *East Georgia College*
Selina Andrea Griswold, *University of Toledo*
Chad Grooms, *Gateway Community and Technical College*
John P. Guess, *Delgado Community College*
Peggy Hager, *Winthrop University*
Ivan Franklin Harber Jr., *Indian River State College*
Michael Hartline, *Florida State University*
Paul Harvey, *University of New Hampshire*
Neil Herndon, *University of Missouri*
James Hoffman, *Borough of Manhattan Community College*
MaryAnne Holcomb, *Antelope Valley College*
Carrie Holt, *Auburn University*
Timothy D. Hovet, *Lane Community College*
Joseph Hrebenak, *Community College of Allegheny County–Allegheny Campus*
Stephen Huntley, *Florida Community College*
Rebecca Hurtz, *State Farm Insurance Co.*
Donald C. Hurwitz, *Austin Community College*
Scott Inks, *Ball State University*
Steven Jennings, *Highland Community College*
Carol Jones, *Cuyahoga Community College–Eastern Campus*
Sandra Kana, *Mid-Michigan Community College*
Norm Karl, *Johnson County Community College*
Janice Karlan, *LaGuardia Community College*
Eileen Kearney, *Montgomery County Community College*
Craig Kelley, *California State University–Sacramento*
Susan Kendall, *Arapahoe Community College*
Ina Midkiff Kennedy, *Austin Community College*
Kathleen Kerstetter, *Kalamazoo Valley Community College*
Arbrie King, *Baton Rouge Community College*
John Knappenberger, *Mesa State College*
Gail Knell, *Cape Cod Community College*
Anthony Koh, *University of Toledo*
Regina Korossy, *Pepperdine University*
Velvet Landingham, *Kent State University–Geauga*
Jeffrey Lavake, *University of Wisconsin-Oshkosh*
Daniel LeClair, *AACSB*
Chad T. Lewis, *Everett Community College*
Richard Lewis, *East Texas Baptist College*
Corinn Linton, *Valencia Community College*
Corrine Livesay, *Mississippi College*
Thomas Lloyd, *Westmoreland Community College*
Terry Loe, *Kennerow University*
Terry Lowe, *Illinois State University*
Kent Lutz, *University of Cincinnati*
Scott Lyman, *Winthrop University*
Dorinda Lynn, *Pensacola Junior College*
Isabelle Maignan, *ING*
Larry Martin, *Community College of Southern Nevada–West Charles*
Therese Maskulka, *Youngstown State University*
Theresa Mastrianni, *Kingsborough Community College*
Kristina Mazurak, *Albertson College of Idaho*
Debbie Thorne McAlister, *Texas State University–San Marcos*
Noel McDeon, *Florida Community College*
John McDonough, *Menlo College*
Tom McInish, *University of Memphis*
Mark McLean, *Delgado Community College*
Chris McNamara, *Fingers Lake Community College*
Kimberly Mencken, *Baylor University*
Mary Meredith, *University of Louisiana at Lafayette*
Michelle Meyer, *Joliet Junior College*
George Milne, *University of Massachusetts-Amherst*
Daniel Montez, *South Texas College*
Glynna Morse, *Augusta College*
Suzanne Murray, *Piedmont Technical College*
Stephanie Narvell, *Wilmington College–New Castle*
Fred Nerone, *International College of Naples*
Laura Nicholson, *Northern Oklahoma College*
Stef Nicovich, *Lynchburg College*
Michael Nugent, *SUNY–Stony Brook University New York*
Mark Nygren, *Brigham Young University–Idaho*
Lauren Paisley, *Genesee Community College*
Hui Pate, *Skyline College*
James Patterson, *Paradise Valley Community College*
Wes Payne, *Southwest Tennessee Community College*
Dyan Pease, *Sacramento City College*
Constantine G. Petrides, *Borough of Manhattan Community College*

John Pharr, *Cedar Valley College*
Shirley Polejewski, *University of St. Thomas*
Daniel Powroznik, *Chesapeake College*
Krista Price, *Heald College*
Larry Prober, *Rider University*
Stephen Pruitt, *University of Missouri–Kansas City*
Vincent Quan, *Fashion Institute of Technology*
Michael Quinn, *Penn State University*
Victoria Rabb, *College of the Desert*
Gregory J. Rapp, *Portland Community College*
Tom Reading, *Ivy Tech State College*
Delores Reha, *Fullerton College*
David Reiman, *Monroe County Community College*
Linda L. Ridley, *CUNY Hostos Community College*
Susan Roach, *Georgia Southern University*
Dave Robinson, *University of California–Berkeley*
Carol Rowey, *Surry Community College*
Marsha Rule, *Florida Public Utilities Commission*
Crawford Rummel, *Auburn University*
Carol A. Rustad, *Sylvan Learning*
Cyndy Ruszkowski, *Illinois State University*
Don Sandlin, *East Los Angeles College*
Nick Sarantakes, *Austin Community College*
Andy Saucedo, *Dona Ana Community College–Las Cruces*
Dana Schubert, *Colorado Springs Zoo*
Marianne Sebok, *Community College of Southern Nevada–West Charles*
Jeffery L. Seglin, *Seglin Associates*
Morgan Shepherd, *University of Colorado*
Daniel Sherrell, *University of Memphis*
Elaine Simmons, *Guilford Technical Community College*
Greg Simpson, *Blinn College*
Nicholas Siropolis, *Cuyahoga Community College*
Robyn Smith, *Pouder Valley Hospital*
Martin St. John, *Westmoreland Community College*
Kurt Stanberry, *University of Houston Downtown*
Cheryl Stansfield, *North Hennepin Community College*
Ron Stolle, *Kent State University–Kent*
Edith Strickland, *Tallahassee Community College*
Jeff Strom, *Virginia Western Community College*
Lisa Strusowski, *Tallahassee Community College*
Scott Taylor, *Moberly Area Community College*
Wayne Taylor, *Trinity Valley Community College*
Ray Tewell, *American River College*
Rodney Thirion, *Pikes Peak Community College*
Amy Thomas, *Roger Williams University*
Rhonda K. Thomas, *Butler Community College*
Evelyn Thrasher, *University of Massachusetts–Dartmouth*
Steve Tilley, *Gainesville College*
Kristin Trask, *Butler Community College*
Allen D. Truell, *Ball State University*
George Valcho, *Bossier Parish Community College*
Ted Valvoda, *Lakeland Community College*
Gunnar Voltz, *Northern Arizona University–Flagstaff*
Sue Vondran, *Loyola University Chicago*
Elizabeth Wark, *Springfield College*
Emma Watson, *Arizona State University–West*
Ruth White, *Bowling Green State University*
Elisabeth Wicker, *Bossier Parish Community College*
Frederik Williams, *North Texas State University*
Richard Williams, *Santa Clara University*
Pat Wright, *University of South Carolina*
Lawrence Yax, *Pensacola Junior College–Warrington*
Bruce Yuille, *Mid-Michigan Community College*

Brief Contents

Contents

3 Business in a Borderless World

Mohammed Elshamy/Anadolu Agency/Getty Images

Chapter Outline

- **Introduction**
- **The Role of International Business**
  - *Why Nations Trade*
  - *Trade between Countries*
  - *Balance of Trade*
- **International Trade Barriers**
  - *Economic Barriers*
  - *Ethical, Legal, and Political Barriers*
  - *Social and Cultural Barriers*
  - *Technological Barriers*
- **Trade Agreements, Alliances, and Organizations**
  - *General Agreement on Tariffs and Trade*
  - *The United States–Mexico–Canada Agreement*
  - *The European Union*
  - *Asia-Pacific Economic Cooperation*
  - *Association of Southeast Asian Nations*
  - *World Bank*
  - *International Monetary Fund*
- **Getting Involved in International Business**
  - *Exporting and Importing*
  - *Trading Companies*
  - *Licensing and Franchising*
  - *Contract Manufacturing*
  - *Outsourcing*
  - *Offshoring*
  - *Joint Ventures and Alliances*
  - *Direct Investment*
- **International Business Strategies**
  - *Developing Strategies*
  - *Managing the Challenges of Global Business*

Learning Objectives

After reading this chapter, you will be able to:

LO 3-1 Explore some of the factors within the international trade environment that influence business.

LO 3-2 Assess some of the economic, ethical, legal, political, social, cultural, and technological barriers to international business.

LO 3-3 Specify some of the agreements, alliances, and organizations that may encourage trade across international boundaries.

LO 3-4 Summarize the different levels of organizational involvement in international trade.

LO 3-5 Contrast two basic strategies used in international business.

LO 3-6 Assess the opportunities and problems facing a small business that is considering expanding into international markets.

Enter the World of Business

Spotify: Streaming Everywhere

Spotify, the world's most popular audio streaming service, sees its mission as supporting human creativity by giving recording artists an opportunity to make money while giving fans access to music. With more than 356 million users under its belt in 178 markets, the Swedish audio streaming provider is growing its global footprint to maintain its market share.

Spotify holds about a third of the global music-streaming market. But, with competition from Pandora, Apple Music, YouTube Music, and Amazon Music, among others, Spotify will need to innovate to maintain this lead. Spotify's strategy has been to draw in customers on its free, ad-supported level, and then convert them into paying premium subscribers. Amazon introduced a free version of Amazon Music that stands to pull from Spotify's free-user base.

Spotify is eyeing international growth as a way to maintain its lead in streaming. For example, Spotify launched in Russia—the fastest-growing market for music—as well as Albania, Belarus, Bosnia and Herzegovina, Croatia, Kazakhstan, Kosovo, Moldova, Montenegro, North Macedonia, Serbia, Slovenia, and Ukraine. Spotify believes by working with local distributors and establishing regional partnerships, it can act more local than other global competitors and act more global than local competitors, offering the best of both worlds.

In markets where Spotify's presence is long-established, Spotify plans to increase subscription prices to pull in higher revenues. For example, Spotify provides a growing library of original and exclusive content in 16 markets. The company believes it is offering more value in mature markets than it did in the past. Spotify hopes these strategies will help it maintain its lead over the audio streaming competition while increasing earnings from active subscribers.[a]

Critical Thinking Questions

1. How is Spotify attempting to increase earnings?
2. Do you think users will continue to see the value Spotify provides?
3. What are Spotify's strengths as it expands globally?

Introduction

Consumers around the world can drink Coca-Cola and Pepsi, eat at McDonald's and Pizza Hut, buy an Apple phone made in China, and watch Netflix on Samsung televisions. It may surprise you that German automaker BMW has manufacturing facilities in Mexico and South Africa that export many of their cars to the United States. In fact, BMW has 31 production and assembly facilities in 15 countries.[1] The products you consume today are just as likely to have been made in China, India, or Germany as in the United States.[2] Likewise, consumers in other countries buy Western electrical equipment, clothing, rock music, cosmetics, and toiletries, as well as computers, robots, and household goods. Google's YouTube has more than 1 billion hours of global viewing of videos a day, more than Netflix and Facebook video combined.[3]

Many U.S. firms are finding that international markets provide tremendous opportunities for growth. Accessing these markets can promote innovation, while intensifying global competition spurs companies to market better and less expensive products. Today, more than 7 billion people who inhabit the earth comprise one tremendous marketplace.

In this chapter, we explore business in this exciting global marketplace. First, we look at the nature of international business, including barriers and promoters of trade across international boundaries. Next, we consider the levels of organizational involvement in international business. Finally, we briefly discuss strategies for trading across national borders.

The Role of International Business

LO 3-1

Explore some of the factors within the international trade environment that influence business.

international business the buying, selling, and trading of goods and services across national boundaries.

International business refers to the buying, selling, and trading of goods and services across national boundaries. Falling political barriers and new technology are making it possible for more and more companies to sell their products overseas as well as at home. And, as differences among nations continue to narrow, the trend toward the globalization of business is becoming increasingly important. Starbucks serves millions of global customers at more than 30,000 locations in 83 markets.[4] The internet and the ease by which mobile applications can be developed provide many companies with easier entry to access global markets than opening brick-and-mortar stores.[5] Amazon, an online retailer, has distribution centers from Nevada to Germany that fill millions of orders a day and ship them to customers in every corner of the world. Indeed, most of the world's population and two-thirds of its total purchasing power are outside the United States.

Subway has more restaurants around the world than any other fast-food chain.

Andrew Resek/McGraw Hill Education

Outside of the United States, China and Europe are Apple's largest markets.[6] When McDonald's sells a Big Mac in Moscow or Sony sells a television in Tokyo, the sale affects the economies of the countries involved. The U.S. market, with 331 million consumers, makes up only 4.2 percent of the more than 7.8 billion people in the world to whom global companies must consider marketing.[7] Global marketing requires balancing a firm's global brand with the needs of local consumers. To begin our study of international business, we must first consider some economic issues: why nations trade, exporting and importing, and the balance of trade.

DID YOU KNOW? Despite declining sales, Subway surpassed McDonald's as the largest global restaurant chain, with more than 42,000 restaurants.[b]

Why Nations Trade

Nations and businesses engage in international trade to obtain raw materials and goods that are otherwise unavailable to them or are available elsewhere at a lower price than what they can produce. A nation, or individuals and organizations from a nation, sell materials and goods to buy the goods, services, and ideas its people need. Countries like Ethiopia, Cameroon, and Kenya trade with Western nations in order to acquire technology and techniques to advance their economy. Which goods and services a nation sells depends on what resources it has available and its ability to compete in global markets.

Many companies choose to outsource manufacturing to factories in Asia due to lower costs of labor.

Roberto Westbrook/Blend Images

Some nations have a monopoly on the production of a particular resource or product. Such a monopoly, or **absolute advantage,** exists when a country is the most efficient producer of a unique item. For example, Tequila is only produced in select areas, primarily Jalisco, Mexico.

Most international trade is based on **comparative advantage,** which occurs when a country specializes in products that it can supply more efficiently or at a lower cost than it can produce other items. France has a comparative advantage in making wine because of its agricultural capabilities, its reputation, and the experience of its vintners. Saudi Arabia has a comparative advantage over the United States in oil production. In Saudi Arabia, it takes one hour to produce a barrel of oil while it takes two hours in the United States. Other countries, particularly India and Ireland, are also gaining a comparative advantage over the United States in the provision of some services, such as call-center operations, engineering, and software programming. As a result, U.S. companies are increasingly **outsourcing,** or transferring manufacturing and other tasks to countries where labor and supplies are less expensive. Outsourcing has become a controversial practice in the United States because many jobs have moved overseas where those tasks can be accomplished for lower costs. Nike outsources footwear production to countries such as China, Thailand, South Korea, Vietnam, and India.

absolute advantage
a monopoly that exists when a country is the only source of an item, the only producer of an item, or the most efficient producer of an item.

comparative advantage
the basis of most international trade, when a country specializes in products that it can supply more efficiently or at a lower cost than it can produce other items.

outsourcing
the transferring of manufacturing or other tasks—such as data processing—to countries where labor and supplies are less expensive.

Trade between Countries

To obtain needed goods and services, nations trade by exporting and importing. **Exporting** is the sale of goods and services to foreign markets. The United States exports more than $2.1 trillion in goods and services annually.[8] U.S. businesses export many goods and services, particularly agricultural, entertainment (movies, television shows, etc.), and technological products. **Importing** is the purchase of goods and services from foreign sources. Many of the goods you buy in the United States are likely to be imported or to have some imported components. Sometimes, you may not even realize they are imports. The United States imports more than $2.8 trillion each year.[9]

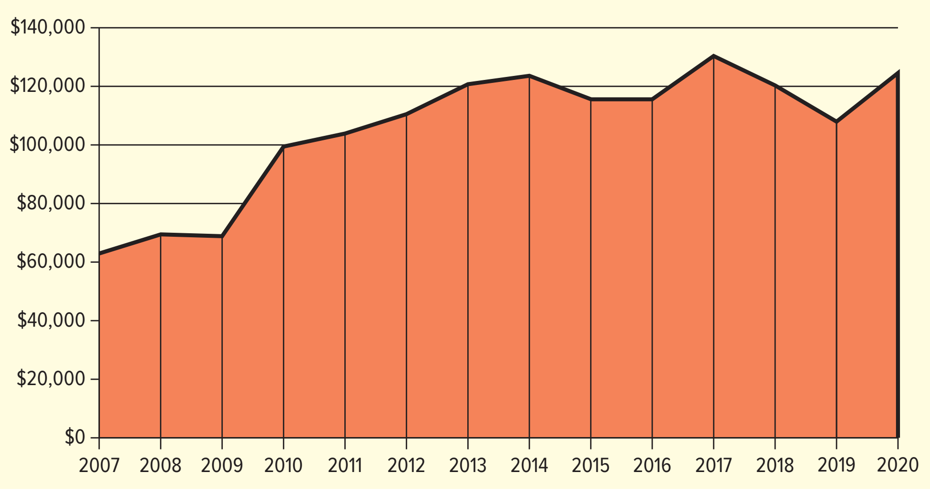
exporting
the sale of goods and services to foreign markets.

importing
the purchase of goods and services from foreign sources.

FIGURE 3.1

U.S. Exports to China (millions of U.S. dollars)

Source: U.S. Census Bureau, "Trade in Goods with China," https://www.census.gov/foreign-trade/balance/c5700.html (accessed February 14, 2021).



Balance of Trade

balance of trade the difference in value between a nation's exports and its imports.

trade deficit a nation's negative balance of trade, which exists when that country imports more products than it exports.

You have probably read or heard about the fact that the United States has a trade deficit, but what is a trade deficit? A nation's **balance of trade** is the difference in value between its exports and imports. Because the United States (and some other nations as well) imports more products than it exports, it has a negative balance of trade, or **trade deficit.** U.S. exports to China rapidly increased, as Figure 3.1 indicates, but not fast enough to offset the imports from China. Table 3.1 shows the overall trade deficit for the United States, which is currently around $679 million.[10] The trade deficit fluctuates according to factors such as the health of the United States and other economies, productivity, perceived quality, and exchange rates. Trade deficits are harmful because they can mean the failure of businesses, the loss of jobs, and a lowered standard of living.

Of course, when a nation exports more goods than it imports, it has a favorable balance of trade, or trade surplus. Until about 1970, the United States had a trade surplus due to an abundance of natural resources and the relative efficiency of its manufacturing systems and distribution systems. Table 3.2 shows the top 10 countries with which the United States has a trade deficit and a trade surplus.

TABLE 3.1 **U.S. Trade Deficit (in billions of dollars)**

	2000	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Exports	1,075.3	1,853.0	2,125.9	2,218.3	2,294.2	2,376.7	2,266.7	2,215.8	2,352.5	2,508.8	2,498.0	2,131.9
Imports	1,447.8	2,348.3	2,675.6	2,755.8	2,755.3	2,866.2	2,765.2	2,718.8	2,902.7	3,129.0	3,114.5	2,810.6
Trade surplus/deficit	−372.5	−495.2	−549.7	−537.4	−461.1	−489.6	−498.5	−503.0	−550.1	−627.7	−616.4	−678.7

Source: U.S. Bureau of the Census, Foreign Trade Division, "U.S. Trade in Goods and Services—Balance of Payments (BOP) Basis," www.census.gov/foreign-trade/statistics/historical/gands.pdf (accessed February 14, 2021).

Rank	Trade Deficit	Trade Surplus
1	China	Netherlands
2	Mexico	Hong Kong
3	Vietnam	Brazil
4	Germany	United Arab Emirates
5	Switzerland	Australia
6	Ireland	United Kingdom
7	Japan	Belgium
8	Malaysia	Panama
9	Taiwan	Chile
10	Italy	Bahamas

TABLE 3.2
Top 10 Countries with Which the United States Has Trade Deficits/Surpluses

Source: "Top Trading Partners," December 2020, https://www.census.gov/foreign-trade/statistics/highlights/toppartners.html (accessed February 14, 2021).

The difference between the flow of money into and out of a country is called its **balance of payments.** A country's balance of trade, foreign investments, foreign aid, loans, military expenditures, and money spent by tourists comprise its balance of payments. As you might expect, a country with a trade surplus generally has a favorable balance of payments because it is receiving more money from trade with foreign countries than it is paying out. When a country has a trade deficit, more money flows out of the country than into it. If more money flows out of the country than into it from tourism and other sources, the country may experience declining production and higher unemployment because there is less money available for spending.

balance of payments the difference between the flow of money into and out of a country.

International Trade Barriers

LO 3-2

Assess some of the economic, ethical, legal, political, social, cultural, and technological barriers to international business.

Completely free trade seldom exists. When a company decides to do business outside its own country, it will encounter a number of barriers to international trade. Any firm considering international business must research the other country's economic, ethical, legal, political, social, cultural, and technological background. Such research will help the company choose an appropriate level of involvement and operating strategies, as we will see later in this chapter.

Economic Barriers

When looking at doing business in another country, managers must consider a number of basic economic factors, such as economic development, infrastructure, and exchange rates.

Economic Development. When considering doing business abroad, U.S. businesspeople need to recognize that they cannot take for granted that other countries offer the same things as are found in *industrialized nations*—economically advanced countries such as the United States, Japan, the United Kingdom, and Canada. Many countries in Africa, Asia, and South America, for example, are in general poorer and less economically advanced than those in North America and Europe; they are often called *least-developed countries* (LDCs). LDCs are characterized by low per-capita income (income generated by the nation's production of goods and services divided by the population), which means that consumers are less likely to purchase nonessential products. Nonetheless, LDCs represent a potentially huge and profitable market for many businesses because they may be buying technology to improve their infrastructures, health, and well-being. For example, automobile manufacturers are looking toward LDCs as a way to expand their customer base. The rising middle class has caused many consumers in India and China to desire their own vehicles. The automobile market in China is now larger than the market in the United States.

infrastructure
the physical facilities that support a country's economic activities, such as communication, transportation, education, and health care systems as well as utilities.

exchange rate
the ratio at which one nation's currency can be exchanged for another nation's currency.

A country's level of development is determined in part by its **infrastructure,** the physical facilities that support its economic activities, such as communication, transportation, education, and health care systems as well as utilities. When doing business in LDCs, for example, a business may need to compensate for rudimentary distribution and communication systems, or even a lack of technology.

Exchange Rates. The ratio at which one nation's currency can be exchanged for another nation's currency is the **exchange rate.** Exchange rates vary daily and can be found through many sites on the internet. Familiarity with exchange rates is important because they affect the cost of imports and exports. When the value of the U.S. dollar declines relative to other currencies, such as the euro, the price of imports becomes more economical for U.S. consumers. For example, if the exchange rate for the dollar moves from $1.30 per euro to $1.10 per euro, then imports from Europe will be less expensive. On the other hand, U.S. exports become relatively expensive for international markets—in this example, the European Union (EU). The U.S. dollar is most frequently used in international trade, with 90 percent of foreign exchange trading involving the U.S. dollar.[11]

Occasionally, a government may intentionally alter the value of its currency through fiscal policy. Devaluation decreases the value of currency in relation to other currencies. If the U.S. government were to devalue the dollar, it would lower the cost of American goods abroad and make trips to the United States less expensive for foreign tourists. Thus, devaluation encourages the sale of domestic goods and tourism. The Central Bank of Sudan devalued the country's currency to overcome economic crisis and access debt relief.[12]

Ethical, Legal, and Political Barriers

A company that decides to enter the international marketplace must contend with potentially complex relationships among the different domestic laws, international laws, and the laws of the host country. In addition, there are various trade restrictions imposed on international trade; changing political climates; and different ethical values. For example, with tension rising between the U.S. and Russia, McDonald's attempted to put distance between the two countries by sourcing ingredients locally for its restaurants in Russia.[13] Legal and ethical requirements for successful business are increasing globally.

Laws and Regulations. The United States has a number of laws and regulations that govern the activities of U.S. firms engaged in international trade and has a variety of commerce and navigation treaties with other nations. These treaties allow business to be transacted between U.S. companies and citizens of the specified countries. We discuss some of these relationships in this chapter.

Once outside U.S. borders, we are likely to find that the laws of other countries differ from those of the United States. Many of the legal rights that Americans take for granted do not exist in other countries, and a firm doing business abroad must

Responding to Business Challenges

Harley-Davidson Gets Up to Speed in International Markets

Harley-Davidson is one of America's most recognized brands, but its popularity has fallen significantly, and its user base is aging. Harley-Davidson has about 50 percent of the U.S. market share for motorcycles, but motorcycle sales are decreasing. As a result, Harley-Davidson is looking toward increasing international sales.

Harley-Davidson markets its bike model called LiveWire, a small electric bike designed to compete with electric bike brands like Honda. Europe could be a lucrative market for Harley-Davidson's LiveWire because the top 10 most "environmentally conscious" countries are European. Additionally, about 80 percent of households in Indonesia, Thailand, and Vietnam own a motorcycle or scooter. Harley's new design philosophy fits well in Europe and Asia, where people need small, affordable bikes for transportation. Harley-Davidson faces competition from already-established brands like Royal Enfield, the leading bike brand in Asia. After successfully demonstrating that it could produce a high-quality electric motorcycle, Harley-Davidson introduced a dedicated electric motorcycle division within the company.

Though Harley-Davidson has secured a nearly 8 percent share of Europe's heavyweight motorcycle market, global motorcycle business took a hit as a result of the COVID-19 (coronavirus) pandemic beginning in 2019. The crisis led to a new strategic plan for the company referred to as The Rewire. Harley-Davidson's plan is to reduce the complexity of its products and sharpen the strategic focus of its business, investing in markets that will drive profitability and growth.

Tariffs are another challenge. Thailand, India, and China have large tariffs on U.S. goods, making exporting from the United States difficult. Harley is overcoming this challenge by building international plants. Harley-Davidson's plant in India allows it to avoid a 50 percent tariff that would be levied if exporting from the United States. Harley's Thailand plant services China and 10 other Asian countries while helping it avoid tariffs in those countries. Although Harley-Davidson has a tough road ahead in the United States, it has big plans for building its international presence in Asia and Europe.[c]

Critical Thinking Questions

1. What barriers does Harley-Davidson face in marketing its motorcycles to countries outside of the United States?
2. What are some ways Harley-Davidson is overcoming these challenges?
3. What opportunities does Harley-Davidson have in other countries that they do not necessarily have in the United States?

understand and obey the laws of the host country. Some countries have strict laws limiting the amount of local currency that can be taken out of the country and the amount of currency that can be brought in; others limit how foreign companies can operate within the country. While the United States has been slow to adopt aviation regulations for commercial drones, many countries such as Australia, Singapore, and Britain have regulations that have allowed drone deliveries to grow quickly.[14]

Some countries have copyright and patent laws that are less strict than those of the United States, and some countries fail to honor U.S. laws. Although countries such as China have and enforce copyright laws, controlling the amount of counterfeit products sold in their countries is very challenging. According to the U.S Chamber of Commerce, counterfeit goods originating from China and Hong Kong have an estimated worth of $397 billion.[15] Companies are angry because the counterfeits harm not only their sales but also their reputations if the knock-offs are of poor quality. Such counterfeiting is not limited to China or Hong Kong. It is estimated that nearly half of all software installed on personal computers worldwide is not properly licensed.[16] In countries where these activities occur, laws against them may not be sufficiently enforced if counterfeiting is deemed illegal. Thus, businesses engaging in foreign trade may have to take extra steps to protect their products because local laws and enforcement may be insufficient to do so.

Tariffs and Trade Restrictions. Tariffs and other trade restrictions are part of a country's legal structure but may be established or removed for political reasons.

import tariff
a tax levied by a nation on goods imported into the country.

An **import tariff** is a tax levied by a nation on goods imported into the country. A *fixed tariff* is a specific amount of money levied on each unit of a product brought into the country, while an *ad valorem tariff* is based on the value of the item. Most countries allow citizens traveling abroad to bring home a certain amount of merchandise without paying an import tariff. A U.S. citizen may bring $200, $800, or $1,600 worth of merchandise into the United States duty free depending on the country visited. After that, U.S. citizens must pay an ad valorem tariff based on the cost of the item and the country of origin. Thus, identical items purchased in different countries might have different tariffs.

Countries sometimes levy tariffs for political reasons, as when they impose sanctions against other countries to protest their actions. However, import tariffs are more commonly imposed to protect domestic products by raising the price of imported ones. Such protective tariffs have become controversial as Americans become increasingly concerned over the U.S. trade deficit. Protective tariffs allow more expensive domestic goods to compete with foreign ones. For example, the United States imposed tariffs on steel imported into the United States because imports caused many local steelworks to crash.[17] Other countries can produce steel more cheaply than the United States. The United States placed tariffs on aluminum and steel imports from all countries but Canada and Mexico in 2008 and expanded the tariffs to include products made of steel and aluminum in 2020. Small manufacturers that fabricate metal into parts for cars, appliances, and other components feared job loss and higher prices.[18] The United States indicated it would drop the 25 percent tariffs on steel and aluminum if other countries would make concessions on other trade issues.[19] Trade wars can be difficult to win. For example, the United States entered into an escalating trade war with China after the United States imposed tariffs on some high-tech products. China responded with a 25 percent tariff on U.S. products such as airplanes and soybeans. Retaliation was suspended briefly but resumed the next year. Tensions between the countries reached an all-time high as a result of the COVID-19 pandemic. China's foreign minister, Wang Yi, said political attacks over the coronavirus and global trade were "pushing our two countries to the brink of a new cold war."[20]

exchange controls
regulations that restrict the amount of currency that can be bought or sold.

Critics of protective tariffs argue that their use inhibits free trade and competition. Supporters of protective tariffs say they insulate domestic industries, particularly new ones, against well-established foreign competitors. Once an industry matures, however, its advocates may be reluctant to let go of the tariff that protected it. Tariffs also help when, because of low labor costs and other advantages, foreign competitors can afford to sell their products at prices lower than those charged by domestic companies. Some Americans argue that tariffs should be used to keep domestic wages high and unemployment low. Recently, there are fears that a trade war could develop that damages the world economy.

Tariffs on U.S. wine exports to China negatively impacted U.S. sellers.
Nicolas Asfouri/AFP/Getty Images

Exchange controls restrict the amount of currency that can be bought or sold. Some countries control their foreign trade by forcing businesspeople to buy and sell foreign products through a central bank. If John Deere, for example, receives payments for its tractors in a foreign currency, it may be required to sell the currency to that nation's central bank. When foreign currency is in short supply, as it is in many

LDCs, the government uses foreign currency to purchase necessities and capital goods and produces other products locally, thus limiting its need for foreign imports.

A **quota** limits the number of units of a particular product that can be imported into a country. A quota may be established by voluntary agreement or by government decree. The United States imposes quotas on certain goods, such as garments produced in Vietnam and China. Quotas are designed to protect the industries and jobs of the country imposing the quota. Quotas help domestic suppliers but will lead to higher prices for consumers.

Due to the U.S. embargo against Cuba, many Cubans drive older automobiles.

Horizon Images/Motion/Alamy Stock Photo

An **embargo** prohibits trade in a particular product. Embargoes are generally directed at specific goods or countries and may be established for political, economic, health, or religious reasons. The United States currently maintains a trade embargo with Cuba. While the Obama administration reestablished trade and diplomatic relations between Cuba and the United States, the Trump administration tightened the embargo by restricting access to hotels and stores tied to the Cuban military from Americans. It is much easier to travel to Cuba than in previous decades, and U.S. citizens can bring back Cuban cigars and rum. The government also approved the building of a U.S. factory in Cuba, the first time in more than 50 years.[21] It may be surprising to know that U.S. farmers export hundreds of millions of dollars' worth of commodities to Cuba each year, based on a 2000 law that provided permission for some trade to the embargoed country.[22] Health embargoes prevent the importing of various pharmaceuticals, animals, plants, and agricultural products. Muslim nations forbid the importation of alcoholic beverages on religious grounds.

quota
a restriction on the number of units of a particular product that can be imported into a country.

embargo
a prohibition on trade in a particular product.

One common reason for setting quotas or tariffs is to prohibit **dumping,** which occurs when a country or business sells products at less than what it costs to produce them. A company may dump its products for several reasons. Dumping permits quick entry into a market. For example, exporters from China dumped mattresses in the United States, flooding the market with low-cost mattresses to gain market share.[23] The dumping of mattresses along with new competition from companies such as Casper caused Mattress Firm to file for bankruptcy. Sometimes, dumping occurs when the domestic market for a firm's product is too small to support an efficient level of production. In other cases, technologically obsolete products that are no longer salable in the country of origin are dumped overseas. Dumping is relatively difficult to prove, but even the suspicion of dumping can lead to the imposition of quotas or tariffs. China instituted anti-dumping duties on EU and Japanese imports.[24] As with other trade restrictions, dumping quotas or tariffs result in higher prices for consumers.

dumping
the act of a country or business selling products at less than what it costs to produce them.

Political instability in many nations has led to an influx of refugees. The potential for political turmoil is a substantial risk businesses face when expanding overseas.

Sk Hasan Ali/Shutterstock

Political Barriers. Unlike legal issues, political considerations are seldom written down and often change rapidly. Nations that have been subject to economic sanctions for political reasons in recent years include Cuba, Iran, Syria, and North Korea. While these were dramatic events, political considerations affect international business daily as governments enact tariffs, embargoes, or other types of trade restrictions in response to political events.

Businesses engaged in international trade must consider the relative instability of countries such as Iraq, Ukraine, and Venezuela. Political unrest in countries such as Pakistan, Somalia, and the Democratic Republic of the Congo may create a hostile or even dangerous environment for foreign businesses. Natural disasters can cripple a country's government, making the region even more unstable. Finally, a sudden change in power can result in a regime that is hostile to foreign investment. Some businesses have been forced out of a country altogether, as when Hugo Chavez conducted a socialist revolution in Venezuela to force out or take over American oil companies. Whether they like it or not, companies are often involved directly or indirectly in international politics. Today, Venezuela has a sinking economy with shortages of products and political unrest.

cartel
a group of firms or nations that agrees to act as a monopoly and not compete with each other, in order to generate a competitive advantage in world markets.

Political concerns may lead a group of nations to form a **cartel,** a group of firms or nations that agrees to act as a monopoly and not compete with each other, to generate a competitive advantage in world markets. Probably the most famous cartel is OPEC, the Organization of Petroleum Exporting Countries, founded in the 1960s to increase the price of petroleum throughout the world and to maintain high prices. By working to ensure stable oil prices, OPEC hopes to enhance the economies of its member nations.

Social and Cultural Barriers

Most businesspeople engaged in international trade underestimate the importance of social and cultural differences, but these differences can derail an important transaction. Tiffany & Co. learned that more attentive customer service was necessary in order to succeed in Japan, and bold marketing and advertising served as the recipe for success in China.[25] And in Europe, Starbucks took the unprecedented step of allowing its locations to be franchised in order to reach smaller markets that are less familiar with its products. This way, Starbucks reduced some of the cultural and social risks involved in entering such markets.[26] For example, Starbucks waited to enter Italy because it needed to understand the coffee culture there.[27] Unfortunately, cultural norms are rarely written down, and what is written down may well be inaccurate.

Cultural differences include differences in spoken and written language. Although it is certainly possible to translate words from one language to another, the true meaning is sometimes misinterpreted or lost. Consider some translations that went awry in foreign markets:

- Scandinavian vacuum manufacturer Electrolux used the following in an American campaign: "Nothing sucks like an Electrolux."
- The Coca-Cola name in China was first read as "Ke-kou-ke-la," meaning "bite the wax tadpole."
- In Italy, a campaign for Schweppes Tonic Water translated the name into Schweppes Toilet Water.[28]

Translators cannot just translate slogans, advertising campaigns, and website language; they must know the cultural differences that could affect a company's success. That's why Netflix partners with local vendors to translate its content.[29]

Differences in body language and personal space also affect international trade. Body language is nonverbal, usually unconscious communication through gestures, posture, and facial expression. Personal space is the distance at which one person feels comfortable talking to another. Americans tend to stand a moderate distance away from the person with whom they are speaking. Arab businessmen tend to stand face-to-face with the object of their conversation. Additionally, gestures vary from culture to culture, and gestures considered acceptable in American society—pointing, for example—may be considered rude in others. Table 3.3 shows some gestures considered rude or unacceptable in other countries. Such cultural differences may generate uncomfortable feelings or misunderstandings when businesspeople of different countries negotiate with each other.

Sociocultural differences can create challenges for businesses that want to invest in other countries.

LEE SNIDER PHOTO IMAGES/Shutterstock

Family roles also influence marketing activities. Many countries do not allow children to be used in advertising, for example. Advertising that features people in nontraditional social roles may or may not be successful either. Companies should also guard against marketing that could be perceived as reinforcing negative stereotypes. Chinese online retailers pulled Dolce & Gabbana products following an ad campaign that featured an Asian model eating Italian food with chopsticks. Critics called the advertisements disrespectful and racist. In response, Dolce & Gabbana pulled the ads and canceled its Shanghai fashion show, which the advertisements promoted.[30]

People from other countries quite often have a different perception of time as well. Americans value promptness; a business meeting scheduled for a specific time seldom starts more than a few minutes late. In Mexico and Spain, however, it is not unusual for a meeting to be delayed half an hour or more. Such a late start might produce resentment in an American negotiating in Spain for the first time.

Companies engaged in foreign trade must observe the national and religious holidays and local customs of the host country. In many Islamic countries, for example, workers expect to take a break at certain times of the day to observe religious rites. A Tesco supermarket chain a mile away from one of London's biggest mosques was forced to apologize after displaying bacon-flavored Pringles as part of a Ramadan promotion. Muslims are forbidden from eating pork products, and the display was considered offensive due to the high concentration of Muslim customers in the area.[31] Companies also must monitor their advertising to guard against offending customers.

TABLE 3.3
Common Hand Gestures That Are Rude in Other Countries

Country	Gesture
Iran	Thumbs-up
United Kingdom	Backwards peace sign
Malaysia	Pointing with your index finger
Brazil	The "OK" sign
Italy and Spain	"Hang loose" sign

Source: Meghan Jones, "10 Common Hand Gestures That Are Rude in Other Countries," Reader's Digest, *March 2, 2020, https://www.rd.com/article/common-hand-gestures-rude-in-other-countries/ (accessed February 14, 2021).*

Though U.S. growth of Ireland-based retailer Primark was initially slow, U.S. shoppers warmed to the retailer's store-only shopping strategy.

Helen89/Shutterstock

In Thailand and many other countries, public displays of affection are unacceptable in advertising messages; in many Middle Eastern nations, it is unacceptable to show the soles of one's feet.[32] In Russia, smiling is considered appropriate only in private settings, not in business.

With the exception of the United States, most countries use the metric system. This lack of uniformity creates problems for both buyers and sellers in the international marketplace. American sellers, for instance, must package goods destined for foreign markets in liters or meters, and Japanese sellers must convert to the English system if they plan to sell a product in the United States. Tools also must be calibrated in the correct system if they are to function correctly. Hyundai and Honda service technicians need metric tools to make repairs on those cars.

The literature dealing with international business is filled with accounts of sometimes humorous but often costly mistakes that occurred because of a lack of understanding of the social and cultural differences between buyers and sellers. Such problems cannot always be avoided, but they can be minimized through research on the cultural and social differences of the host country.

Technological Barriers

Many countries lack the technological infrastructure found in the United States, and some marketers are viewing such barriers as opportunities. For instance, marketers are targeting many countries such as India and China and some African countries where there are few private phone lines. Citizens of these countries are turning instead to wireless communication through cell phones. Technological advances are creating additional global marketing opportunities. Along with opportunities, changing technologies also create new challenges and competition. The U.S. market share of the personal computer market is dropping as new competitors emerge that are challenging U.S. PC makers. In fact, out of the top five global PC companies—Lenovo, Hewlett-Packard, Dell, Asus, and Acer Group—three are from Asian countries. On the other hand, Apple Inc.'s iPad and other tablet computer makers have significantly eroded the market share of traditional personal computers, placing the industry in the maturity stage of the product life cycle.[33]

LO 3-3

Specify some of the agreements, alliances, and organizations that may encourage trade across international boundaries.

Trade Agreements, Alliances, and Organizations

Although these economic, political, legal, and sociocultural issues may seem like daunting barriers to international trade, there are also organizations and agreements—such as the General Agreement on Tariffs and Trade, the World Bank, and the International Monetary Fund—that foster international trade and can help companies get involved in and succeed in global markets. Various regional trade agreements, such as the United States–Mexico–Canada Agreement and the EU, also promote trade among member nations by eliminating tariffs and trade restrictions. In this section, we'll look briefly at these agreements and organizations.

Business Disruption

Chinese Airlines Soaring to Great Heights

In 1979, China started economic reforms that gave rise to the growth of Chinese airlines. Previously, flying was seen as a luxury that only the rich could afford. In the early 2000s, as more people could afford to fly, Chinese airlines began growing at a rapid rate. China's three largest airlines emerged: Air China, China Southern Airlines, and China Eastern Airlines. By 2029, China will surpass the U.S. with the world's largest passenger market.

This growth is accompanied by its share of issues. Currently, Chinese airlines do not have the infrastructure to handle all the flights, leading to significant layovers, delays, and cancellations. China also needs more airports. The United States has 500 commercial airports compared to China's 210. China is overcoming this challenge by constructing more airports. The added infrastructure could help Chinese airlines match the profits of U.S. airlines. Air China currently makes one-sixth the profit of American Airlines.

Given these low profits, it is surprising Chinese airlines have been able to grow so quickly. The answer is behind the governmental subsidies. Local Chinese governments are paying so airlines will come to their cities. These subsidies are allowing China's airlines to grab market share, negatively affecting nearby countries. For example, Hong Kong's Cathay Pacific saw its net income drop 82 percent in six months. Other countries are taking notice. In Europe, many companies are proposing sanctions against airlines receiving subsidies. Additionally, Chinese airlines were hard hit by the COVID-19 pandemic as both local and international travel were stunted from 2019 to 2021. Recovery will be impacted by uncertain changes to business and international travel. Chinese airlines must overcome these obstacles to continue their status as a major player among global airlines.[d]

Critical Thinking Questions

1. What advantages do U.S. airlines have over Chinese airlines? What advantages do Chinese airlines have over U.S. airlines?
2. What barriers are Chinese airlines facing as they rapidly grow as a global player?
3. How do you think China's subsidies of its airlines will impact its relations with airlines in other countries? Explain your answer.

General Agreement on Tariffs and Trade

The **General Agreement on Tariffs and Trade (GATT),** originally signed by 23 nations in 1947, provided a forum for tariff negotiations and a place where international trade problems could be discussed and resolved. GATT sponsored rounds of negotiations aimed at reducing trade restrictions. The Uruguay Round (1988–1994) further reduced trade barriers for most products and provided new rules to prevent dumping. Tariff level for most participants was 22 percent in 1947 and decreased to 5 percent after the Uruguay Round.

General Agreement on Tariffs and Trade (GATT) a trade agreement, originally signed by 23 nations in 1947, that provided a forum for tariff negotiations and a place where international trade problems could be discussed and resolved.

The **World Trade Organization (WTO),** an international organization dealing with the rules of trade between nations, was created in 1995 by the Uruguay Round. Key to the World Trade Organization is the WTO agreements, which are the legal ground rules for international commerce. The agreements were negotiated and signed by most of the world's trading nations and ratified by their parliaments. The goal is to help producers of goods and services and exporters and importers conduct their business. In addition to administering the WTO trade agreements, the WTO presents a forum for trade negotiations, monitors national trade policies, provides technical assistance and training for developing countries, and cooperates with other international organizations. Based in Geneva, Switzerland, the WTO has also adopted a leadership role in negotiating trade among its 164 members.[34] But the organization has struggled to deal with trade disputes among a number of countries, especially China and the United States. It focuses on health issues as well as economic development. During the COVID-19 pandemic, the focus was on vaccine access and equity.

World Trade Organization (WTO) international organization dealing with the rules of trade between nations.

USMCA replaced NAFTA as the trade agreement among Mexico, the United States, and Canada.

Lars Hagberg/AFP/Getty Images

The United States–Mexico–Canada Agreement

The North American Free Trade Agreement (NAFTA), which went into effect on January 1, 1994, effectively merged Canada, the United States, and Mexico into one market of nearly 450 million consumers. NAFTA virtually eliminated all tariffs on goods produced and traded among Canada, Mexico, and the United States to create a free trade area.[35] NAFTA made it easier for U.S. businesses to invest in Mexico and Canada; provided protection for intellectual property (of special interest to high-technology and entertainment industries); expanded trade by requiring equal treatment of U.S. firms in both countries; and simplified country-of-origin rules. NAFTA was replaced by the **United States–Mexico–Canada Agreement (USMCA)**, which includes major changes on auto manufacturing and new policies on labor and environmental standards, intellectual property protections, and some digital trade provisions. Qualifying products are exempt from tariffs and quotas when exported among the three countries. Labor agreements among the countries require more vehicle parts to be made by workers earning at least $16 an hour.

United States–Mexico–Canada Agreement (USMCA) agreement that eliminates most tariffs and trade restrictions to encourage trade among the United States, Mexico, and Canada

Canada's nearly 38 million consumers are relatively affluent, with a per capita GDP of $51,588.[36] The United States exports more than $255 billion in goods to Canada while importing more than $270 billion.[37] In fact, Canada is the single largest trading partner of the United States. These trade agreements have also increased trade between Canada and Mexico. Mexico is Canada's third largest trading partner.[38]

With a per capita GDP of $19,700, Mexico's 127 million consumers are less affluent than Canadian consumers.[39] However, trade between the United States and Mexico has tripled since NAFTA was initiated. Mexico purchases more than $212 billion in U.S. products annually.[40] Millions of Americans cite their heritage as Mexican, making them the most populous Hispanic group in the country. These individuals often have close ties to relatives in Mexico and assist in Mexican–U.S. economic development and trade. Mexico is on a course of a market economy, rule of law, respect for human rights, and responsible public policies. There is also a commitment to the environment and sustainable human development. Many U.S. companies have taken advantage of Mexico's low labor costs and proximity to the United States to set up production facilities, sometimes called *maquiladoras.* Mexico is also attracting major technological industries, including electronics, software, and aerospace. Investors see many growth opportunities in Mexico, particularly in light of recent reforms. For instance, Mexico passed legislation to open up its state-controlled oil reserves to foreign companies. Mexico is the largest source of all agricultural imports for the United States.

While many Americans feared NAFTA would erase jobs in the United States, Mexicans were disappointed that the agreement failed to create more jobs. USMCA, however, has the goal to have more car and truck parts made in North America. Cars or trucks with 75 percent of its components made in Canada, Mexico, or the U.S. will qualify for zero tariffs. USMCA makes improvements to environmental and labor regulations that will benefit Mexico in particular. Additionally, the agreement created changes for agricultural products, intellectual property, copyrights, and digital trade between the three countries.[41]

The European Union

European Union (EU)
a union of European nations established in 1958 to promote trade among its members; one of the largest single markets today.

The **European Union (EU),** also called the *European Community* or *Common Market*, was established in 1958 to promote trade among its members, which initially included Belgium, France, Italy, West Germany, Luxembourg, and the Netherlands.

Today, EU countries include Spain, Denmark, Greece, Portugal, Ireland, Austria, Finland, Sweden, Cyprus, Poland, Hungary, the Czech Republic, Slovenia, Estonia, Latvia, Lithuania, Slovakia, Malta, Romania, Bulgaria, Belgium, France, Germany, Italy, Luxembourg, the Netherlands, and Croatia. Albania, North Macedonia, Montenegro, Serbia, and Turkey are candidate countries that hope to join the European Union in the near future.[42] Until 1993, each nation functioned as a separate market, but at that time members officially unified into one of the largest single world markets, which today has more than half a billion consumers with a GDP of more than $15 trillion.[43]

To facilitate free trade among members, the EU is working toward standardization of business regulations and requirements, import duties, and value-added taxes; the elimination of customs checks; and the creation of a standardized currency for use by all members. Many European nations (Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and Slovenia) link their exchange rates to a common currency, the *euro;* however, some EU members have rejected use of the euro in their countries. Although the common currency requires many marketers to modify their pricing strategies and will subject them to increased competition, the use of a single currency frees companies that sell goods among European countries from the nuisance of dealing with complex exchange rates.[44] The long-term goals are to eliminate all trade barriers within the EU, improve the economic efficiency of the EU nations, and stimulate economic growth, thus making the union's economy more competitive in global markets, particularly against Japan and other Pacific Rim nations, and in North America. However, several disputes and debates still divide the member-nations, and many barriers to completely free trade remain. Consequently, it may take many years before the EU is truly one deregulated market.

The EU has also enacted some of the world's strictest laws concerning antitrust issues, which have had unexpected consequences for some non-European firms. The European Parliament is also encouraging the breakup of Google's search engine business from its other businesses.[45] The EU passed the General Data Protection Regulation (GDPR) privacy law after years of debate. The very complex 2,000-page law attempts to make data privacy clear with one's personal data a fundamental human right.[46] Consent to collect and use personal data now has to be "unambiguous." Individuals have the right to demand to view their data and have their data deleted, and have to give permission to have data transferred to another service.

The United Kingdom exited the EU in 2020. There remain many questions about the impact of the exit on trade relationships with other countries.[47] The government's priority appears to be first reaching trade agreements with EU members.[48] A trade agreement with Canada went into effect in 2021. The United States is the United Kingdom's largest trading partner by country. The Biden administration is negotiating a free trade agreement with the United Kingdom.

Asia-Pacific Economic Cooperation (APEC)
an international trade alliance that promotes open trade and economic and technical cooperation among member nations.

Asia-Pacific Economic Cooperation

The **Asia-Pacific Economic Cooperation (APEC),** established in 1989, promotes open trade and economic and technical cooperation among member economies, which initially included Australia, Brunei Darussalam, Canada, Indonesia, Japan, South Korea,

Technology and the Economy

Data Privacy Concerns Take the World by Storm

A privacy law in the EU caused major changes to the way companies like Facebook and Google collected and used user data. The law, called General Data Protection Regulation (GDPR), allows people to request data that have been collected about them and restricts businesses on how they can use those data. It also forces companies to notify users of how data collected about them will be used. If companies don't comply with this regulation, they could face up to $1 billion in fines.

Not only has GDPR had a major impact on companies doing business in Europe, but Brazil, Japan, and South Korea are following Europe's lead. The EU is encouraging other countries to develop tougher online privacy regulations by making data protection a part of trade deals. Even companies not based in the EU are subject to the regulation if they process the personal data of EU citizens. These requirements are making privacy protection a globalized issue. Conversely, the United States continues to have fewer privacy regulations on internet data collection.

These regulatory barriers could have a profound impact on large companies like Facebook, where data collection used for behavioral advertising is worth billions of dollars annually. Facebook claims that user data are crucial to perform the functions that it contracts with users to do. The battle between what data are necessary and what are not is a battle that could loom for a long time.[e]

Critical Thinking Questions

1. What type of international barriers are companies like Facebook and Google facing in the realm of user privacy?
2. Describe the global implications of the GDPR law.
3. How might tougher regulations make it harder for users in Europe to utilize online services?

Malaysia, New Zealand, the Philippines, Singapore, Thailand, and the United States. Since then, the alliance has grown to include Chile; China; Hong Kong, China; Mexico; Papua New Guinea; Peru; Russia; Chinese Taipei; and Vietnam. The 21-member alliance represents approximately 38 percent of the world's population, 60 percent of the world's GDP, and nearly 47 percent of global trade.[49] APEC differs from other international trade alliances in its commitment to facilitating business and its practice of allowing the business/private sector to participate in a wide range of APEC activities.[50]

Companies of the APEC have become increasingly competitive and sophisticated in global business in the past three decades. The Japanese and South Koreans, in particular, have made tremendous inroads on world markets for vehicles, machinery, and electrical machinery. Products from Samsung, Sony, Toyota, Daewoo, Mitsubishi, Suzuki, and Lenovo are sold all over the world and have set standards of quality by which other products are often judged. The People's Republic of China, a country of more than 1.3 billion people, has launched a program of economic reform to stimulate its economy by privatizing many industries, restructuring its banking system, and increasing public spending on infrastructure (including railways and telecommunications). For many years, China was a manufacturing powerhouse with 10 percent growth at its height. However, in recent years, growth has slowed to 6 percent.[51] China's export market has consistently outpaced its import growth in recent years and its GDP represents the world's second-largest economy, behind the United States. In fact, China has overtaken the United States as the world's largest trader.[52] The global internet retailer Alibaba is one of the world's most valuable companies.[53]

Increased industrialization has also caused China to become the world's largest emitter of greenhouse gases. China has overtaken the United States to become the world's largest oil importer.[54] On the other hand, China has also begun a quest to become a world leader in green initiatives and renewable energy. This is an increasingly important quest as the country becomes more polluted.

Another risk area for China is the fact that the government owns or has stakes in so many enterprises. On the one hand, China's system of state-directed capitalism has benefited the country because reforms and decisions can be made more quickly. On the other hand, state-backed companies lack many of the competitors that private industries have. Remember that competition often spurs innovation and lowers costs. If China's firms lack sufficient competition, their costs may very likely increase.[55] China's growing debt liabilities have also caused concern among foreign investors.[56] The U.S.–China trade war has negatively impacted economic growth in both China and the United States. The trade war continues with China agreeing to buy more soybeans and other agricultural crops from the United States. The United States is still looking for more equity in the trade relationships.

Other visible Pacific Rim regions, such as Thailand, Singapore, Taiwan, Vietnam, and Hong Kong, have also become major manufacturing and financial centers. Vietnam, with one of the world's most open economies, has bypassed its communist government with private firms moving ahead despite bureaucracy, corruption, and poor infrastructure. In a country of 96 million people, Vietnamese firms now compete internationally due to an agricultural miracle, making the country one of the world's main providers of farm produce.[57] As China's labor costs continue to grow, more businesses are turning toward Vietnam to open factories.[58] The United States has expressed concern about fair competition in the region.

Association of Southeast Asian Nations

The **Association of Southeast Asian Nations (ASEAN),** established in 1967, promotes trade and economic integration among member nations in Southeast Asia, including Malaysia, the Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Laos, Indonesia, Myanmar, and Cambodia. The 10-member alliance represents 650 million people with a GDP of $2.9 trillion.[59] ASEAN's goals include the promotion of free trade, peace, and collaboration between its members.[60]

Association of Southeast Asian Nations (ASEAN) a trade alliance that promotes trade and economic integration among member nations in Southeast Asia.

However, ASEAN is facing challenges in becoming a unified trade bloc. Unlike members of the EU, the economic systems of ASEAN members are quite different, with political systems including democracies (the Philippines and Malaysia), constitutional monarchies (Cambodia), and communism (Vietnam).[61] Major conflicts have also occurred between member nations. Unlike the EU, ASEAN will not have a common currency or fully free labor flows between member nations. In this way, ASEAN plans to avoid some of the pitfalls that occurred among nations in the EU during the latest worldwide recession.[62]

World Bank

The **World Bank,** more formally known as the International Bank for Reconstruction and Development, was established by the industrialized nations, including the United States, in 1946 to loan money to underdeveloped and developing countries. It loans its own funds or borrows funds from member countries to finance projects ranging from road and factory construction to the building of medical and educational facilities. The World Bank and other multilateral development banks (banks with international support that provide loans to developing countries) are the largest source of advice and assistance for developing nations. The International Development Association and the International Finance Corporation are associated with the World Bank and provide loans to private businesses and member countries. The World Bank responded to the COVID-19 pandemic with financial support for debt service suspension, vaccines, and additional support of economic development.

World Bank an organization established by the industrialized nations in 1946 to loan money to underdeveloped and developing countries; formally known as the International Bank for Reconstruction and Development.

International Monetary Fund

International Monetary Fund (IMF)
an organization established in 1947 to promote trade among member nations by eliminating trade barriers and fostering financial cooperation.

The **International Monetary Fund (IMF)** was established in 1947 to promote trade among member nations by eliminating trade barriers and fostering financial cooperation. It also makes short-term loans to member countries that have balance-of-payment deficits and provides foreign currencies to member nations. The IMF tries to avoid financial crises and panics by alerting the international community about countries that will not be able to repay their debts. The IMF's internet site provides additional information about the organization, including news releases, frequently asked questions, and members.

The IMF is the closest thing the world has to an international central bank. If countries get into financial trouble, they can borrow from the World Bank. However, global economic crises create many challenges for the IMF as it is forced to significantly increase loans to both emerging economies and more developed nations. The usefulness of the IMF for developed countries is limited because these countries use private markets as a major source of capital.[63] The IMF responded to the COVID-19 pandemic by quickly deploying financial assistance and developing policy advice and special tools to assist member nations. The IMF also provides data about the world economic outlook, regional economic outlook, and global debt.

LO 3-4

Summarize the different levels of organizational involvement in international trade.

Getting Involved in International Business

Businesses may get involved in international trade at many levels—from a small Kenyan firm that occasionally exports African crafts to a huge multinational corporation such as Shell Oil that sells products around the globe. The degree of commitment of resources and effort required increases according to the level at which a business involves itself in international trade. This section examines exporting and importing, trading companies, licensing and franchising, contract manufacturing, joint ventures, direct investment, and multinational corporations.

Exporting and Importing

Many companies first get involved in international trade when they import goods from other countries for resale in their own businesses. For example, a grocery store chain may import bananas from Honduras and coffee from Colombia. A business may get involved in exporting when it is called upon to supply a foreign company with a particular product. For example, the U.S. has become a net petroleum exporter.[64] Such exporting enables enterprises of all sizes to participate in international business. Exporting to other countries becomes a necessity for established countries that seek to grow continually. Products often have higher sales growth potential in foreign countries than they have in the parent country. For instance, Cadillac has experienced record sales in China where it has a long heritage and pedigree.[65] Table 3.4 shows the U.S.'s top 10 trading partners.

countertrade agreements
foreign trade agreements that involve bartering products for other products instead of for currency.

Exporting sometimes takes place through **countertrade agreements,** which involve bartering products for other products instead of for currency. Such arrangements are fairly common in international trade, especially between Western companies and eastern European nations. An estimated 40 percent or more of all international trade agreements contain countertrade provisions.

Although a company may export its products overseas directly or import products directly from their manufacturer, many choose to deal with an intermediary, commonly called an *export agent.* Export agents seldom produce products themselves;

TABLE 3.4
U.S. Top Trading Partners

Rank	Country	Exports	Imports	Total Trade	Percent of Total Trade
1	China	124.6	435.4	560.1	14.9%
2	Mexico	212.7	325.4	538.1	14.3%
3	Canada	255.4	270.4	525.8	14.0%
4	Japan	64.1	119.5	183.6	4.9%
5	Germany	57.8	115.1	172.9	4.6%
6	Korea, South	51.2	76.0	127.2	3.4%
7	United Kingdom	59.0	50.2	109.2	2.9%
8	Switzerland	18.0	74.8	92.8	2.5%
9	Taiwan	30.5	60.4	90.9	2.4%
10	Vietnam	10.0	79.6	89.6	2.4%

Source: U.S. Census Bureau, "Top Trading Partners—December 2020," https://www.census.gov/foreign-trade/statistics/highlights/top/top2012yr.html (accessed February 14, 2021).

instead, they usually handle international transactions for other firms. The export agent provides services for a commission. They usually do not take ownership of products but maintain control. In some cases, they may assume ownership and act as a merchant marking up the product for a profit. They are also often responsible for storage and transportation.

Trading Companies

A **trading company** buys goods in one country and sells them to buyers in another country. Trading companies handle all activities required to move products from one country to another, including consulting, marketing research, advertising, insurance, product research and design, warehousing, and foreign exchange services to companies interested in selling their products in foreign markets. Trading companies can produce and manufacture products or buy finished products from national producers and then export to earn a profit. By linking sellers and buyers of goods in different countries, trading companies promote international trade. WTSC offers a 24-hour-per-day online world trade system that connects 20 million companies in 245 countries, offering more than 60 million products.[66] Some of its customers include Amazon, DocuSign, and Intel.

trading company
a firm that buys goods in one country and sells them to buyers in another country.

Licensing and Franchising

Licensing is a trade arrangement in which one company—the *licensor*—allows another company—the *licensee*—to use its company name, products, patents, brands, trademarks, raw materials, and/or production processes in exchange for a fee or royalty.

licensing
a trade agreement in which one company—the licensor—allows another company—the licensee—to use its company name, products, patents, brands, trademarks, raw materials, and/or production processes in exchange for a fee or royalty.

The Coca-Cola Company and PepsiCo frequently use licensing as a means to market their soft drinks, apparel, and other merchandise in other countries. Licensing is an attractive alternative to direct investment when the political stability of a foreign country is in doubt or when resources are unavailable for direct investment. Licensing is especially advantageous for small manufacturers wanting to launch a well-known brand internationally. Yoplait is a French yogurt that is licensed for production in the United States.

franchising
a form of licensing in which a company—the franchiser—agrees to provide a franchisee a name, logo, methods of operation, advertising, products, and other elements associated with a franchiser's business in return for a financial commitment and the agreement to conduct business in accordance with the franchiser's standard of operations.

Franchising is a form of licensing in which a company—the *franchiser*—agrees to provide a *franchisee* the name, logo, methods of operation, advertising, products, and other elements associated with the franchiser's business, in return for a financial commitment and the agreement to conduct business in accordance with the franchiser's standard of operations. Wendy's, McDonald's, H&R Block, and Holiday Inn are well-known franchisers with international visibility. Table 3.5 lists the top 10 global franchises.

Licensing and franchising enable a company to enter the international marketplace without spending large sums of money abroad or hiring or transferring personnel to handle overseas affairs. They also minimize problems associated with shipping costs, tariffs, and trade restrictions, and they allow the firm to establish goodwill for its products in a foreign market, which will help the company if it decides to produce or market its products directly in the foreign country at some future date. However, if the licensee (or franchisee) does not maintain high standards of quality, the product's image may be hurt; therefore, it is important for the licensor to monitor its products overseas and to enforce its quality standards.

Contract Manufacturing

contract manufacturing
the hiring of a foreign company to produce a specified volume of the initiating company's product to specification; the final product carries the domestic firm's name.

Contract manufacturing occurs when a company hires a foreign company to produce a specified volume of the firm's product to specification; the final product carries the domestic firm's name. Foxconn Technology Group in Taiwan is the world's largest electronics contract manufacturer and makes products for other companies. Its clients include Sony Corp., Apple Inc., and Nintendo Co. In fact, Foxconn is the largest iPhone assembler.[67]

Outsourcing

Earlier, we defined *outsourcing* as transferring manufacturing or other tasks (such as information technology operations) to companies in countries where labor and supplies are less expensive. Many U.S. firms have outsourced tasks to India, Ireland, Mexico,

TABLE 3.5
Top 10 Global Franchises

Ranking	Franchise
1	McDonald's
2	KFC
3	Burger King
4	7-Eleven
5	Domino's
6	Ace Hardware Corporation
7	Century 21
8	Papa John's
9	Taco Bell
10	Pizza Hut

Source: "Top 100 Franchises 2021," Franchise Direct, https://www.franchisedirect.com/top100globalfranchises/rankings/ (accessed February 14, 2021).

and the Philippines, where there are many well-educated workers and significantly lower labor costs. Services, such as taxes or customer service, can also be outsourced.

Although outsourcing has become politically controversial in recent years amid concerns over jobs lost to overseas workers, foreign companies transfer tasks and jobs to U.S. companies—sometimes called *insourcing*—far more often than U.S. companies outsource tasks and jobs abroad.[68] However, some firms are bringing their outsourced jobs back after concerns that foreign workers were not adding enough value. Companies such as General Electric and Caterpillar are returning to the United States due to increasing labor costs in places such as China, the expense of shipping products across the ocean, and fears of fraud or intellectual property theft. Companies from other countries have also been moving some of their production to the United States; Caterpillar and Ford brought production of some of their excavators and medium-duty commercial trucks back to the United States.[69]

Offshoring

Offshoring is the relocation of a business process by a company, or a subsidiary, to another country. Offshoring is different than outsourcing: The company retains control of the process because it is not subcontracting to a different company. Companies may choose to offshore for a number of reasons, ranging from lower wages, skilled labor, or taking advantage of time zone differences in order to offer services around the clock. Some banks have chosen not to outsource because of concerns about data security in other countries. These institutions may, instead, engage in offshoring, which allows a company more control over international operations because the offshore office is an extension of the company. Shell, for example, opened a delivery center in India and moved its global IT jobs to that area.[70] General Motors resumed production of the Chevy Blazer, produced exclusively at the GM plant located in Mexico.[71]

offshoring
the relocation of business processes by a company or subsidiary to another country; offshoring is different than outsourcing.

Joint Ventures and Alliances

Many countries, particularly LDCs, do not permit direct investment by foreign companies or individuals. A company may also lack sufficient resources or expertise to operate in another country. In such cases, a company that wants to do business in another country may set up a **joint venture** by finding a local partner (occasionally, the host nation itself) to share the costs and operation of the business. Ford formed a joint venture with Mahindra & Mahindra Ltd., an Indian car manufacturer, to pool resources with the goal of developing low-cost SUVs.[72]

joint venture
a partnership established for a specific project or for a limited time.

strategic alliance
a partnership formed to create competitive advantage on a worldwide basis.

In some industries, such as automobiles and computers, strategic alliances are becoming the predominant means of competing. A **strategic alliance** is a partnership formed to create competitive advantage on a worldwide basis. In such industries, international competition is so fierce and the costs of competing on a global basis are so high that few firms have the resources to go it alone, so they collaborate with other companies. An example of a strategic alliance is the partnership between LinkedIn and accounting firm Ernst & Young. The companies hope to use their combined expertise to assist other companies in using technology, social networking, and sales effectively.[73]

IBM has more employees in India than in the United States.
Ramesh Pathania/Mint/Getty Images

Direct Investment

direct investment the ownership of overseas facilities.

multinational corporation (MNC) a corporation that operates on a worldwide scale, without significant ties to any one nation or region.

Companies that want more control and are willing to invest considerable resources in international business may consider **direct investment,** the ownership of overseas facilities. Direct investment may involve the development and operation of new facilities—such as when Starbucks opens a new coffee shop in Japan—or the purchase of all or part of an existing operation in a foreign country. Tesla opened a factory in Berlin, Germany, its strongest market in Europe.[74]

The highest level of international business involvement is the **multinational corporation (MNC),** a corporation, such as IBM or ExxonMobil, that operates on a worldwide scale, without significant ties to any one nation or region. Table 3.6 lists 10 well-known multinational corporations. MNCs are more than simple corporations. They often have greater assets than some of the countries in which they do business. Nestlé, with headquarters in Switzerland, operates more than 400 factories around the world and receives revenues from Europe; North, Central, and South America; Africa; and Asia.[75] The Royal Dutch/Shell Group, one of the world's major oil producers, is another MNC. Its main offices are located in The Hague and London. Other MNCs include BASF, British Petroleum, Matsushita, Mitsubishi, Siemens, Toyota, and Unilever. Many MNCs have been targeted by anti-globalization activists at global business forums, and some protests have turned violent. The activists contend that MNCs increase the gap between rich and poor nations, misuse and misallocate scarce resources, exploit the labor markets in LDCs, and harm their natural environments.[76]

CEO Sonia Cheng has led the Rosewood Hotel Group's aggressive international expansion.

Nora Tam/South China Morning Post/Getty Images

TABLE 3.6
Large Multinational Companies

Company	Country	Description
Royal Dutch Shell	Netherlands	Oil and gas; largest company in the world in terms of revenue
Toyota	Japan	Largest automobile manufacturer in the world
Walmart	United States	Largest retailer in the world; largest private employer in the world
Siemens	Germany	Engineering and electronics; largest engineering company in Europe
Nestlé	Switzerland	Nutritional, snack-food, and health-related consumer goods
Samsung	South Korea	Subsidiaries specializing in electronics, electronic components, telecommunications equipment, medical equipment, and more
Unilever	United Kingdom	Consumer goods including cleaning and personal care, foods, beverages
Boeing	United States	Aerospace and defense; largest U.S. exporter
Lenovo	China	Computer technology; highest share of PC market
Subway	United States	Largest fast-food chain; fastest-growing franchises in 105 countries

International Business Strategies

LO 3-5

Contrast two basic strategies used in international business.

Planning in a global economy requires businesspeople to understand the economic, legal, political, and sociocultural realities of the countries in which they will operate. These factors will affect the strategy a business chooses to use outside its own borders.

Developing Strategies

Companies doing business internationally have traditionally used a **multinational strategy,** customizing their products, promotion, and distribution according to cultural, technological, regional, and national differences. When McDonald's opened its first restaurant in Vietnam, it offered its traditional menu items as well as McPork sandwiches specifically targeted toward Vietnam consumers.[77] Many soap and detergent manufacturers have adapted their products to local water conditions, washing equipment, and washing habits. For customers in some LDCs, Colgate-Palmolive Co. has developed an inexpensive, plastic, hand-powered washing machine for use in households that have no electricity. Even when products are standardized, advertising often has to be modified to adapt to language and cultural differences. For example, Mars has been in the China pet food market for more than two decades with brands like Royal Canin, Whiskies, and Pedigree. U.S.-based Mars has competitive advantage because in China people are concerned about the safety of locally produced pet food.

multinational strategy
a plan, used by international companies, that involves customizing products, promotion, and distribution according to cultural, technological, regional, and national differences.

global strategy (globalization)
a strategy that involves standardizing products (and, as much as possible, their promotion and distribution) for the whole world, as if it were a single entity.

More and more companies are moving from this customization strategy to a **global strategy (globalization),** which involves standardizing products (and, as much as possible, their promotion and distribution) for the whole world, as if it were a single entity. Examples of globalized products are American clothing, movies, music, and cosmetics. In the advertisement, which appeared in an American magazine, Air France promotes the features and benefits of its mobile app. The tagline "France is in the air" is used in its advertisements worldwide. Social media sites are important channels that brands are using to connect with their global customers. According to AdAge, Fashion Nova, Huda Beauty, and Victoria's Secret are the most engaging consumer brands on social media.[78]

Air France uses the tagline "France is in the air" globally.
Source: Air France

Before moving outside their own borders, companies must conduct environmental analyses to evaluate the potential of and problems associated with various markets and to determine what strategy is best for doing business in those markets. Failure to do so may result in losses and even negative publicity. Some companies rely on local managers to gain greater insights and faster response to changes within a country. Astute businesspeople today "think globally, act locally." That is, while constantly being aware of the total picture, they adjust their firms' strategies to conform to local needs and tastes.

Managing the Challenges of Global Business

As we've pointed out in this chapter, many past political barriers to trade have fallen or been minimized, expanding and opening new market opportunities. Managers who can meet the challenges of creating and implementing effective and sensitive business strategies for the global marketplace can help lead their companies to success. For example, the Commercial Service is the global business solutions unit of the U.S. Department of Commerce that offers U.S. firms wide and deep practical knowledge of international markets and industries, a unique global network, inventive use of information technology, and a focus on small and mid-sized businesses. Another example is the benchmarking of best international practices that benefits U.S. firms, which is conducted by the network of CIBERs (Centers for International Business Education and Research) at leading business schools in the United States. These CIBERs are funded by the U.S. government to help U.S. firms become more competitive globally. A major element of the assistance that these governmental organizations can provide firms (especially for small and medium-sized firms) is knowledge of the internationalization process.[79]

Small businesses, too, can succeed in foreign markets when their managers have carefully studied those markets and prepared and implemented appropriate strategies. Being globally aware is therefore an important quality for today's managers and will remain a critical attribute for managers of the 21st century.

So You Want a Job in Global Business

Have you always dreamt of traveling the world? Whether backpacking your way through Central America or sipping espressos at five-star European restaurants is your style, the increasing globalization of business might just give you your chance to see what the world has to offer. Most new jobs will have at least some global component, even if located within the United States, so being globally aware and keeping an open mind to different cultures are vital in today's business world. Think about the billions of consumers in China who have already purchased mobile phones. In the future, some of the largest markets will be in Asia.

Many jobs discussed in chapters throughout this text tend to have strong international components. For example, product management and distribution management are discussed as marketing careers in the chapter "Dimensions of Marketing Strategy." As more and more companies sell products around the globe, their function, design, packaging, and promotions need to be culturally relevant to many different people in many different places. Products very often cross multiple borders before reaching the final consumer, both in their distribution and through the supply chain to produce the products.

Jobs exist in export and import management, product and pricing management, distribution and transportation, and advertising. Many "born global" companies such as Google operate virtually and consider all countries their market. Many companies sell their products through eBay and other internet sites and never leave the United States. Today, communication and transportation facilitate selling and buying products worldwide with delivery in a few days. You may have sold or purchased a product on eBay outside the United States without thinking about how easy and accessible international markets are to business. If you have, welcome to the world of global business.

To be successful, you must have an idea not only of differing regulations from country to country, but of different language, ethics, and communication styles and varying needs and wants of international markets. From a regulatory side, you may need to be aware of laws related to intellectual property, copyrights, antitrust, advertising, and pricing in every country. Translating is never only about translating the language. Perhaps even more important is ensuring that your message gets through. Whether on a product label or in advertising or promotional materials, the use of images and words varies widely across the globe.

Review Your Understanding

Explore some of the factors within the international trade environment that influence business.

International business is the buying, selling, and trading of goods and services across national boundaries. Importing is the purchase of products and raw materials from another nation; exporting is the sale of domestic goods and materials to another nation. A nation's balance of trade is the difference in value between its exports and imports; a negative balance of trade is a trade deficit. The difference between the flow of money into a country and the flow of money out of it is called the balance of payments. An absolute or comparative advantage in trade may determine what products a company from a particular nation will export.

Assess some of the economic, ethical, legal, political, social, cultural, and technological barriers to international business.

Companies engaged in international trade must consider the effects of economic, ethical, legal, political, social, and cultural differences among nations. Economic barriers are a country's level of development (infrastructure) and exchange rates. Wide-ranging legal and political barriers include differing laws (and enforcement), tariffs, exchange controls, quotas, embargoes, political instability, and war. Ambiguous cultural and social barriers involve differences in spoken and body language, time, holidays and other observances, and customs.

Specify some of the agreements, alliances, and organizations that may encourage trade across international boundaries.

Among the most important promoters of international business are the General Agreement on Tariffs and Trade, the World Trade Organization, the United States–Mexico–Canada Agreement, the European Union, the Asia-Pacific Economic Cooperation, the Association of Southeast Asian Nations, the World Bank, and the International Monetary Fund.

Summarize the different levels of organizational involvement in international trade.

A company may be involved in international trade at several levels, each requiring a greater commitment of resources and effort, ranging from importing/exporting to multinational corporations. Countertrade agreements occur at the import/export level and involve bartering products for other products instead of currency. At the next level, a trading company links buyers and sellers in different countries to foster trade. In licensing and franchising, one company agrees to allow a foreign company the use of its company name, products, patents, brands, trademarks, raw materials, and production processes in exchange for a flat fee or royalty. Contract manufacturing occurs when a company hires a foreign company to produce a specified volume of the firm's product to specification; the final product carries the domestic firm's name. A joint venture is a partnership in which companies from different countries agree to share the costs and operation of the business. The purchase of overseas production and marketing facilities is direct investment. Outsourcing, a form of direct investment, involves transferring manufacturing to countries where labor and supplies are cheap. Offshoring is the relocation of business processes by a company or subsidiary to another country; it differs from outsourcing because the company retains control of the offshored processes. A multinational corporation is one that operates on a worldwide scale, without significant ties to any one nation or region.

Contrast two basic strategies used in international business.

Companies typically use one of two basic strategies in international business. A multinational strategy customizes products, promotion, and distribution according to cultural, technological, regional, and national differences. A global strategy (globalization) standardizes products (and, as much as possible, their promotion and distribution) for the whole world, as if it were a single entity.

Assess the opportunities and problems facing a small business that is considering expanding into international markets.

The "Solve the Dilemma" feature near the end of this chapter presents a small business considering expansion into international markets. Based on the material provided in the chapter, analyze the business's position, evaluating specific markets, anticipating problems, and exploring methods of international involvement.

Learn the Terms

absolute advantage 75
Asia-Pacific Economic Cooperation (APEC) 87
Association of Southeast Asian Nations (ASEAN) 89
balance of payments 76
balance of trade 76
cartel 82
comparative advantage 75
contract manufacturing 92
countertrade agreements 90
direct investment 94
dumping 81
embargo 81
European Union (EU) 87
exchange controls 80
exchange rate 78
exporting 75
franchising 92
General Agreement on Tariffs and Trade (GATT) 85
global strategy (globalization) 95
import tariff 80
importing 75
infrastructure 78
international business 74
International Monetary Fund (IMF) 90
joint venture 93
licensing 91
multinational corporation (MNC) 94
multinational strategy 95
offshoring 93
outsourcing 75
quota 81
strategic alliance 93
trade deficit 76
trading company 91
United States–Mexico–Canada Agreement (USMCA) 86
World Bank 89
World Trade Organization (WTO) 85

Check Your Progress

1. Distinguish between an absolute advantage and a comparative advantage. Cite an example of a country that has an absolute advantage and one with a comparative advantage.
2. What effect does devaluation have on a nation's currency? Can you think of a country that has devaluated or revaluated its currency? What have been the results?
3. What effect does a country's economic development have on international business?
4. How do political issues affect international business?
5. What is an import tariff? A quota? Dumping? How might a country use import tariffs and quotas to control its balance of trade and payments? Why can dumping result in the imposition of tariffs and quotas?
6. How do social and cultural differences create barriers to international trade? Can you think of any additional social or cultural barriers (other than those mentioned in this chapter) that might inhibit international business?
7. Explain how a countertrade agreement can be considered a trade promoter. How does the World Trade Organization encourage trade?
8. At what levels might a firm get involved in international business? What level requires the least commitment of resources? What level requires the most?
9. Compare and contrast licensing, franchising, contract manufacturing, and outsourcing.
10. Compare multinational and global strategies. Which is better? Under what circumstances might each be used?

Get Involved

1. If the United States were to impose additional tariffs on cars imported from Japan, what would happen to the price of Japanese cars sold in the United States? What would happen to the price of American cars? What action might Japan take to continue to compete in the U.S. automobile market?
2. The United States–Mexico–Canada Agreement has been positive for U.S. firms desiring to engage in international business. What industries and specific companies have the greatest potential for opening stores in Canada and Mexico? What opportunities exist for small businesses that cannot afford direct investment in Mexico and Canada?
3. Identify a local company that is active in international trade. What is its level of international business involvement and why? Analyze the threats and opportunities it faces in foreign markets, as well as its strengths and weaknesses in meeting those challenges. Based on your analysis, make some recommendations for the business's future involvement in international trade. (Your instructor may ask you to share your report with the class.)

Build Your Skills

Global Awareness

Background

As American businesspeople travel the globe, they encounter and must quickly adapt to a variety of cultural norms quite different from those in the United States. When encountering individuals from other parts of the world, the best attitude to adopt is, "Here is my way. Now what is yours?" The more you see that you are part of a complex world and that your culture is different from, not better than, others, the better you will communicate and the more effective you will be in a variety of situations. It takes time, energy, understanding, and tolerance to learn about and appreciate other cultures. Naturally you're more comfortable doing things the way you've always done them. Remember, however, that this fact will also be true of the people from other cultures with whom you are doing business.

Task

You will "travel the globe" by answering questions related to some of the cultural norms that are found in other countries. Form groups of four to six class members and determine the answers to the following questions. Your instructor has the answer key, which will allow you to determine your group's Global Awareness IQ, which is based on a maximum score of 100 points (10 points per question).

Match the country with the cultural descriptor provided:

A. Saudi Arabia
B. Japan
C. The United Kingdom
D. Germany
E. Venezuela
F. China
G. Greece
H. Korea
I. India
J. Mexico

_____ **1.** When people in this country table a motion, they want to discuss it. In America, "to table a motion" means to put off discussion.

_____ **2.** In this country, special forms of speech called *keigo* convey status among speakers. When talking with a person in this country, one should know the person's rank. People from this country typically will not initiate a conversation without a formal introduction.

_____ **3.** People from this country often pride themselves on enhancing their image by keeping others waiting.

_____ **4.** When writing a business letter, people in this country like to provide a great deal of background information and detail before presenting their main points.

_____ **5.** For a man to inquire about another man's wife (even a general question about how she is doing) is considered very offensive in this country.

_____ **6.** When in this country, you are expected to negotiate the price on goods you wish to purchase.

_____ **7.** While North Americans want to decide the main points at a business meeting and leave the details for later, people in this country need to have all details decided before the meeting ends to avoid suspicion and distrust.

_____ **8.** Children in this country learn from a very early age to look down respectfully when talking to those of higher status.

_____ **9.** Until recently in this country, the eldest male was legally the ruler of the household, and the custom was to keep the women hidden.

_____ **10.** Many businesspeople from the United States experience frustration because yes does not always mean the same thing in other cultures. For example, the word *yes* in this country means, "OK, I want to respect you and not offend you." It does not necessarily show agreement.

Solve the Dilemma

Global Expansion or Business as Usual?

LO 3-6

Assess the opportunities and problems facing a small business that is considering expanding into international markets.

Audiotech Electronics, founded in 1959 by a father and son, currently operates a 35,000-square-foot factory with 75 employees. The company produces control consoles for television and radio stations and recording studios. It is involved in every facet of production—designing the systems, installing the circuits in its computer boards, and even manufacturing and painting the metal cases housing the consoles. The company's products are used by all the major broadcast and cable networks. The firm's newest products allow television correspondents to simultaneously hear and communicate with their counterparts in different geographic locations. Audiotech has been very successful meeting its customers' needs efficiently.

Audiotech sales have historically been strong in the United States, but recently, growth is stagnating. Even though Audiotech is a small, family-owned firm, it believes it should evaluate and consider global expansion.

Critical Thinking Questions

1. What are the key issues that need to be considered in determining global expansion?
2. What are some of the unique problems that a small business might face in global expansion that larger firms would not?
3. Should Audiotech consider a joint venture? Should it hire a sales force of people native to the countries it enters?

Build Your Business Plan

Business in a Borderless World

Think about the good/service you are contemplating for your business plan. If it is an already-established good or service, try to find out if the product is currently being sold internationally. If not, can you identify opportunities to do so in the future? What countries do you think would respond most favorably to your product? What problems would you encounter if you attempted to export your product to those countries?

If you are thinking of creating a new good or service for your business plan, think about the possibility of eventually marketing that product in another country. What countries or areas of the world do you think would be most responsive to your product?

Are there countries the United States has trade agreements or alliances with that would make your entry into the market easier? What would be the economic, social, cultural, and technological barriers you would have to recognize before entering the prospective country(ies)? Think about the specific cultural differences that would have to be taken into consideration before entering the prospective country.

Visit Connect to practice building your business plan with the Business Plan Prep Exercises.

See for Yourself Case

Why McDonald's Fast Food Had Slow Growth in Vietnam

In 2014, McDonald's capitalized on the opportunity that was presented when Vietnam opened trade to outsiders. At first, it appeared that McDonald's move into the country was a huge success, with more than 400,000 customers visiting the restaurant within its first month of operation. Originally, McDonald's planned to open more than 100 stores in a 10-year period. However, nearly six years later, McDonald's only had 22 stores in the entire country. Many have found this odd considering McDonald's had been previously successful in entering other Asian countries such as China and Japan.

McDonald's failed for the same reason that it is successful everywhere else. Known for being fast and cheap, the famous chain learned the hard way that Vietnamese culture and native food options weren't easy to compete against. The concept of fast food has existed for a long time among traditional Vietnamese food outlets, and Vietnamese restaurants are often faster than McDonald's. To make matters worse, local vendors had the overwhelming majority of food outlets in Vietnam, with 430,000 vendors out of 540,000 being local. This was the result of the Vietnam War, which closed off access to American companies and allowed for local vendors to fill gaps in the market.

McDonald's made a miscalculation from a marketing perspective by trying to use the Western pricing strategy in the Eastern market. In the United States, McDonald's is known as one of the cheaper food options, but in Vietnam it is viewed as a luxury because monthly income is lower in Vietnam compared to the United States. The vast majority of customers aren't able to visit McDonald's frequently and would much rather opt for a complete meal from a local vendor. In addition to pricing issues, McDonald's was perceived as having a limited menu in comparison to local vendors who offered more diverse and less expensive options.

Another major issue in terms of McDonald's success is the style of eating in Vietnam. Locals are known to enjoy meals in a "family-style" atmosphere, which is common in Asian countries. This is the concept of having dishes and sides all at the disposal of those who have gathered to eat rather than each person having their own respective meal. Food needs to be shareable, and preferably chicken, in order to be successful in Vietnam, which is the exact opposite of McDonald's trademark menu items.

It's interesting to see that McDonald's isn't alone in failing to thrive in the Vietnamese market, as Burger King and Starbucks have also failed to be as successful as people originally thought they would be. Burger King, which entered the market in 2011, only has 13 stores in the entire country. A good example of a fast-food chain that successfully changed directions is KFC. In 1997, KFC was one of the first American brands to open in Vietnam. It took seven years for KFC to open just 10 stores, so the fast-food chain changed directions and adjusted its menu to better fit local tastes, introducing chicken rice and a shrimp burger. KFC has more than 135 stores in Vietnam.

McDonald's and Burger King have both tried to introduce new menu items to better reflect local cuisine, such as McDonald's grilled pork rice with egg and Burger King's fish rice combo. It's hard to say whether revamping the menu will be enough to turn the tide in Vietnam. Fast-food outlets in general have declined over recent years, and local vendors have continued to grow in popularity. McDonald's may be fighting a losing battle.[80]

Critical Thinking Questions

1. In the United States, McDonald's competes on speed of service. Why was this not a competitive advantage in Vietnam?
2. Why did McDonald's pricing strategy not work in Vietnam?
3. Describe family-style dining, and explain why McDonald's menu is at odds with this concept.

Team Exercise

Visit Transparency International's Country Corruption Index website: https://www.transparency.org/en/cpi. Form groups and select two countries. Research some of the economic, ethical, legal, regulatory, and political barriers that would have an impact on international trade. Be sure to pair a country with a high level of perceived corruption (lower scores) with a country that has a low level of perceived corruption (higher scores). Report your findings.

Ask your instructor about the role-play exercises available with this book to practice working with a business team.

Notes

1. BMW Group, "The BMW Group—A Global Company," https://www.bmwgroup.com/en/company/locations.html (accessed February 14, 2021).
2. Deloitte, "2016 Global Manufacturing Competitiveness Index," 2016, http://www2.deloitte.com/global/en/pages/about-deloitte/articles/global-manufacturing-competitiveness-index.html (accessed May 3, 2017).
3. YouTube Official Blog, "YouTube for Press," https://blog.youtube/press (accessed February 14, 2021).
4. Starbucks, "Starbucks Coffee International," https://www.starbucks.com/business/international-stores (accessed February 14, 2021).
5. Elisabeth Sullivan, "Choose Your Words Wisely," *Marketing News,* February 15, 2008, p. 22.
6. James Crabtree, "Apple Has Found Itself Caught between China and the US," *Wired,* May 24, 2020, https://www.wired.co.uk/article/apple-china (accessed February 14, 2021).
7. Worldometers, "Current World Population," www.worldometers.info/world-population/ (accessed April 1, 2018).
8. U.S. Bureau of the Census, Foreign Trade Division, "U.S. Trade in Goods and Services—Balance of Payments (BOP) Basis," www.census.gov/foreign-trade/statistics/historical/gands.pdf (accessed February 14, 2021).
9. Ibid.
10. Ibid.
11. Kimberly Amadeo, "Why the U.S. Dollar Is the Global Currency," *The Balance*, July 23, 2020, https://www.thebalance.com/world-currency-3305931 (February 14, 2021).
12. "Black Market Trade Slows as Sudanese Try Banks after Devaluation," *Reuters,* February 22, 2021, https://www.reuters.com/article/uk-sudan-economy-currency/black-market-trade-slows-as-sudanese-try-banks-after-devaluation-idUSKBN2AM2D5 (accessed February 22, 2021).
13. Thomas Grove, "In Russia, McDonald's Serves Local Fries and a Side of Realpolitik," *The Wall Street Journal,* November 8, 2018, www.wsj.com/articles/in-russia-mcdonalds-serves-local-fries-and-a-side-of-realpolitik-1541678402 (accessed November 26, 2018).

14. Andy Pasztor, "U.S. Drone Deliveries Ready for Takeoff," *The Wall Street Journal,* March 12, 2018, p. B1.
15. Lujie Chen, Tao Yue, and Xiande Zhao, "8 Ways Brands Can Fight Counterfeits in China," *Harvard Business Review,* May 10, 2018, https://hbr.org/2018/05/8-ways-brands-can-fight-counterfeits-in-china (accessed February 14, 2021).
16. BSA, "Security Threats Rank as Top Reason Not to Use Unlicensed Software," http://globalstudy.bsa.org/2013/ (accessed May 3, 2017).
17. Sonja Elmquist, "U.S. Calls for 256% Tariff on Imports of Steel from China," *Bloomberg Business,* December 22, 2015, www.bloomberg.com/news/articles/2015-12-22/u-s-commerce-department-to-put-256-tariff-on-chinese-steel (accessed May 3, 2017).
18. Andrew Tangel, Bob Tita, and Josh Zumbrun, "Metal Users Harden on Levy," *The Wall Street Journal,* March 10–11, 2018, p. B5; Ana Swanson and Peter Eavis, "Trump Expands Steel Tariffs, Saying They Are Short of Aim," *The New York Times*, January 27, 2020, https://www.nytimes.com/2020/01/27/business/economy/trump-steel-tariffs.html (accessed May 26, 2020).
19. Andrea Thomas, Paul Vieira, and David Winning, "U.S. Allies Weigh Response to Tariffs," *The Wall Street Journal,* March 13, 2018, pp. 4–7.
20. Simon Goodley and Dan Sabbagh, "China Raises US Trade Tensions with Warning of 'New Cold War'," *The Guardian*, May 24, 2020, https://www.theguardian.com/world/2020/may/24/china-raises-us-trade-tensions-with-warning-of-new-cold-war (accessed May 26, 2020); "Timeline: Key Dates in the U.S.-China Trade War," *Reuters*, January 15, 2020, https://www.reuters.com/article/us-usa-trade-china-timeline/timeline-key-dates-in-the-u-s-china-trade-war-idUSKBN1ZE1AA (accessed May 26, 2020).
21. Kitty Bean Yancey, "Back to Cuba: People-to-People Trips Get the Green Light," *USA Today,* August 4, 2011, p. 4A; Alan Gomez, "Feds Approve First U.S. Factory in Cuba," *USA Today,* February 16, 2016, p. 1B.
22. Kitty Bean Yancey and Laura Bly, "Door May Be Inching Open for Tourism," *USA Today,* February 20, 2008, p. A5; Sue Kirchhoff and Chris Woodyard, "Cuba Trade Gets New Opportunity,'" *USA Today,* February 20, 2008, p. B1; Gardiner Harris, "Trump Tightens Cuba Embargo, Restricting Access to Hotels and Businesses," *The New York Times,* November 8, 2017, https://www.nytimes.com/2017/11/08/us/politics/trump-tightens-cuba-embargo-restricting-access-to-hotels-businesses.html (accessed April 1, 2018).
23. U.S. Department of Commerce, "U.S. Department of Commerce Finds Dumping of Imports of Mattresses from China," October 18, 2019, https://www.commerce.gov/news/press-releases/2019/10/us-department-commerce-finds-dumping-imports-mattresses-china (accessed February 14, 2021).
24. European Commission, "EU Wins a WTO Dispute on Chinese Anti-Dumping Duties," February 13, 2015, http://trade.ec.europa.eu/doclib/press/index.cfm?id-1257 (accessed May 3, 2017).
25. Laurie Burkitt, "Tiffany Finds Sparkle in Overseas Markets," *The Wall Street Journal,* December 26, 2013, p. B4.
26. Julie Jargon, "Starbucks Shifts in Europe," *The Wall Street Journal,* November 30–December 1, 2013, p. B3.
27. Jenna Wang, "Why It Took Starbucks 47 Years to Open a Store in Italy," *Forbes*, September 13, 2018, https://www.forbes.com/sites/jennawang/2018/09/13/why-it-took-starbucks-47-years-to-open-a-store-in-italy/#1aefdfc7fc00 (accessed November 24, 2018).
28. "Slogans Gone Bad," Joe-ks, www.joe-ks.com/archives_apr2004/slogans_gone_bad.htm (accessed May 3, 2017).
29. Esther Bond, "Why Netflix Shut Down Its Translation Portal Hermes," *Slator,* October 19, 2018, https://slator.com/demand-drivers/why-netflix-shut-down-its-translation-portal-hermes/ (accessed February 14, 2021).
30. Danielle Wiener-Bronner, "Why Dolce & Gabbana's China Blunder Could Be Such a Disaster," *CNN,* November 24, 2018, https://www.cnn.com/2018/11/24/business/dolce-gabbana-china/index.html (accessed November 24, 2018).
31. David Millward, "Tesco under Attack for Offering Bacon Flavoured Pringles as Part of Ramadan Promotion," *The Telegraph,* June 25, 2015, https://www.telegraph.co.uk/news/uknews/11697716/Tesco-under-attack-for-offering-bacon-flavoured-Pringles-as-part-of-Ramadan-promotion.html (accessed November 26, 2018).
32. J. Bonasia, "For Web, Global Reach Is Beauty—and Challenge," *Investor's Business Daily,* June 13, 2001, p. A6.
33. Gartner, "Gartner Says Worldwide PC Shipments Declined 9.5 Percent in Second Quarter of 2015," July 9, 2015, www.gartner.com/newsroom/id/3090817 (accessed May 3, 2017).
34. "What Is the WTO," World Trade Organization (n.d.), www.wto.org/english/thewto_e/whatis_e/whatis_e.htm (accessed May 3, 2017).
35. Kimberly Amadeo, "Why NAFTA's Six Advantages Outweigh Its Six Disadvantages," *The Balance,* March 6, 2018, https://www.thebalance.com/nafta-pros-and-cons-3970481 (accessed April 1, 2018).
36. "Canada GDP per Capita," *Trading Economics*, https://tradingeconomics.com/canada/gdp-per-capita (accessed February 14, 2021).
37. U.S. Census Bureau, "Trade in Goods with Canada," https://www.census.gov/foreign-trade/balance/c1220.html (accessed February 14, 2021).
38. Government of Canada, "Canada–Mexico Relations," https://www.canadainternational.gc.ca/mexico-mexique/canmex.aspx (accessed February 14, 2021).
39. "Mexico GDP per Capita PPP," *Trading Economics*, https://tradingeconomics.com/mexico/gdp-per-capita-ppp (accessed February 14, 2021).
40. U.S. Census Bureau, "Trade in Goods with Mexico," *Foreign Trade,* https://www.census.gov/foreign-trade/balance/c2010.html (accessed February 14, 2021).
41. U.S. Census Bureau, "Top Trading Partners—December 2013: Year-to-Date Total Trade," www.census.gov/foreign-trade/statistics/highlights/top/top1312yr.html (accessed May 3, 2017); Heather Long, "U.S., Canada and Mexico Just Reached a Sweeping New NAFTA Deal. Here's What's in It," *The Washington Post,* October 1, 2018, https://www.washingtonpost.com/business/2018/10/01/us-canada-mexico-just-reached-sweeping-new-nafta-deal-heres-whats-it/?noredirect=on&utm_term=.a0f83040eba0 (accessed October 6, 2018).

42. European Union, "Countries," https://europa.eu/european-union/about-eu/countries_en (accessed February 14, 2021).

43. The World Bank, "European Union," https://data.worldbank.org/region/european-union (acccessed February 14, 2021).

44. Stanley Reed, with Ariane Sains, David Fairlamb, and Carol Matlack, "The Euro: How Damaging a Hit?" *BusinessWeek,* September 29, 2003, p. 63; Irene Chapple, "How the Euro Became a Broken Dream," *CNN,* November 3, 2011, www.cnn.com/2011/09/23/business/europe-euro-creation-maastricht-chapple/ (accessed May 3, 2017).

45. Julia Fioretti, "EU Watchdogs to Apply 'Right to Be Forgotten' Rule on Web Worldwide," *Reuters,* November 26, 2014, www.reuters.com/article/2014/11/26/us-google-eu-privacy-idUSKCN0JA1HU20141126 (accessed May 3, 2017); "Drawing the Line," *The Economist,* October 4, 2014, www.economist.com/news/international/21621804-google-grapples-consequences-controversial-ruling-boundary-between (accessed May 3, 2017); Samuel Gibbs, "European Parliament Votes Yes on Google Breakup Motion," *The Guardian,* November 27, 2014, www.theguardian.com/technology/2014/nov/27/european-parliament-votes-yes-google-breakup-motion (accessed May 3, 2017).

46. Ludwig Siegele, "The Dodd-Frank of Data," *The Economist,* The World in 2018, p. 123.

47. Alex Hunt and Brian Wheeler, "Brexit: All You Need to Know about the UK Leaving the EU," *BBC,* March 26, 2018, www.bbc.com/news/uk-politics-32810887 (accessed April 1, 2018).

48. "Negotiating Post-Brexit Deals: Trading Places," *The Economist,* February 4, 2017, p. 48.

49. Asia-Pacific Economic Cooperation, "About APEC," www.apec.org/About-Us/About-APEC.aspx (accessed May 26, 2020); "U.S.-APEC Trade Facts," Office of the United States Trade Representative, https://ustr.gov/trade-agreements/other-initiatives/asia-pacific-economic-cooperation-apec/us-apec-trade-facts (accessed May 26, 2020).

50. Asia-Pacific Economic Cooperation, "About APEC."

51. "China GDP Annual Growth Rate," *Trading Economics,* 2017, www.tradingeconomics.com/china/gdp-growth-annual (accessed May 26, 2020).

52. Charles Riley and Feng Ke, "China to Overtake U.S. as World's Top Trader," *CNN,* January 10, 2014, http://money.cnn.com/2014/01/10/news/economy/china-us-trade/ (accessed May 3, 2017).

53. "Retail Sales," *The Economist,* The World in 2018, p. 12.

54. U.S. Environmental Protection Agency, "Global Greenhouse Gas Emissions Data," www.epa.gov/climatechange/ghgemissions/global.html (accessed February 29, 2016); Joshua Keating, "China Passes U.S. as World's Largest Oil Importer," *Slate,* October 11, 2013, www.slate.com/blogs/the_world_/2013/10/11/china_now_world_s_largest_net_oil_importer_surpassing_united_states.html (accessed May 3, 2017).

55. "The Rise of Capitalism," *The Economist,* January 21, 2012, p. 11.

56. Dexter Roberts, "Corporate China's Black Hole of Debt," *Bloomberg Businessweek,* November 19–22, 2012, pp. 15–16.

57. Central Intelligence Agency, "Guide to Country Comparisons," https://www.cia.gov/the-world-factbook/references/guide-to-country-comparisons/ (accessed July 26, 2021).

58. Kathy Chu, "China Loses Edge on Labor Costs," *The Wall Street Journal,* December 3, 2015, pp. B1, B4.

59. Office of the United States Trade Representative, "Association of Southeast Asian Nations (ASEAN)," https://ustr.gov/issue-areas/trade-organizations/association-southeast-asian-nations-asean (accessed February 14, 2021).

60. Simon Long, "Safety in Numbers," *The Economist,* The World in 2015 Edition, p. 68.

61. R.C., "No Brussels Sprouts in Bali," *The Economist,* November 18, 2011, www.economist.com/blogs/banyan/2011/11/asean-summits (accessed May 3, 2017).

62. Eric Bellman, "Asia Seeks Integration Despite EU's Woes," *The Wall Street Journal,* July 22, 2011, p. A9.

63. David J. Lynch, "The IMF Is . . . Tired. Fund Struggles to Reinvent Itself," *USA Today,* April 19, 2006, p. B1.

64. U.S. Energy Information Administration, "Despite the U.S. Becoming a Net Petroleum Exporter, Most Regions Are Still Net Importers," February 6, 2020, https://www.eia.gov/todayinenergy/acdetail.php?id=42735 (accessed May 26, 2020).

65. David Welch and Yon Zhang, "Where Cadillac Is Still Praised," *Bloomberg Businessweek,* February 6–12, 2017, p. 16.

66. WTSC Industrial Group website, http://wtscf.com/associates/index.htm?commerce.htm~index2 (accessed May 26, 2020).

67. Takashi Mochizuki and Eva Don, "TV Snag Blunts FoxConn's Plan for Sharp," *The Wall Street Journal,* January 5, 2017.

68. Walter B. Wriston, "Ever Heard of Insourcing?" Commentary, *The Wall Street Journal,* March 24, 2004, p. A20.

69. James Hagerty and Mark Magnier, "Companies Tiptoe Back toward 'Made in U.S.A.,'" *The Wall Street Journal,* January 13, 2015, www.wsj.com/articles/companies-tiptoe-back-toward-made-in-the-u-s-a-1421206289 (accessed May 3, 2017).

70. Sobia Khan, "Shell to Open Largest Offshore Delivery Centre Globally in Bengaluru," *Economic Times,* June 5, 2015, http://economictimes.indiatimes.com/jobs/shell-to-open-largest-offshore-delivery-centre-globally-in-bengaluru/articleshow/47548572.cms (accessed May 3, 2017).

71. Kyndal Sowers, "GM Is Cruising from Ohio to Mexico," Alliance for American Manufacturing, July 3, 2018, www.americanmanufacturing.org/blog/entry/GM-Cruising-from-Ohio-to-Mexico (accessed November 26, 2018).

72. Mike Colias and Patrick Thomas, "Ford, Retrenching in India, Sets Up Joint Venture with Mahindra," *The Wall Street Journal,* October 1, 2019, https://www.wsj.com/articles/ford-sets-up-jomt-venture-with-mahindra-11569930166 (accessed February 14, 2021).

73. Calum Fuller, "EY and LinkedIn Announce Strategic Alliance," *Accountancy Age,* October 30, 2015, www.accountancyage.com/aa/news/2432737/ey-and-linkedin-announce-strategic-alliance (accessed May 3, 2017).

74. Tesla, "Gigafactory Berline-Brandenburg," https://www.tesla.com/gigafactory-berlin (accessed February 14, 2021).

75. Guo Changdong and Ren Ruqin, "Nestle CEO Visits Tianjin," *China Daily,* August 12, 2010, www.chinadaily.com.cn/m/tianjin/e/2010-08/12/content_11146560.htm (accessed May 3, 2017); Nestlé, "How Many Factories Do You Have," www.nestle.com/ask-nestle/our-company/answers/how-many-factories-do-you-have (accessed May 3, 2017).

76. O. C. Ferrell, John Fraedrich, and Linda Ferrell, *Business Ethics,* 6th ed. (Boston: Houghton Mifflin, 2005), pp. 227–230.
77. Vu Trong Khanh, "Vietnam Gets Its First McDonald's," *The Wall Street Journal,* February 11, 2014, p. B4.
78. Jack Neff, "Most Engaging Media and Consumer Brands on Social Media," *AdAge*, December 19, 2019, https://adage.com/article/digital/most-engaging-media-and-consumer-brands-social-media/2222471 (accessed May 26, 2020).
79. Export.gov, www.export.gov/about/index.asp (accessed May 3, 2017); CIBER Web, http://CIBERWEB.msu.edu (accessed May 3, 2017).
80. Leo Saini, "Why McDonald's Failed in Vietnam," *BetterMarketing,* December 20, 2019, https://medium.com/better-marketing/why-mcdonalds-failed-in-vietnam-35dc27edcaa (accessed February 12, 2021); Ashley Turner, "Why McDonald's and Burger King Flopped in Vietnam," *CNBC,* September 13, 2018, https://www.cnbc.com/2018/09/13/mcdonalds-burger-king-vietnam-fast-food.html (accessed February 12, 2021); "Vietnamese Consumers Hungry for Their First Taste of McDonald's," *Vietnam Briefing,* February 10, 2014, http://www.vietnam-briefing.com/news/vietnamese-consumers-hungry-for-their-first-taste-of-mcdonalds.html/ (accessed February 15, 2021).

a. Spotify, "Company Info," https://newsroom.spotify.com/company-info/ (accessed July 27, 2021); David Trainer, "It Sounds Like Spotify Is in Trouble," *Forbes,* October 13, 2020, https://www.forbes.com/sites/greatspeculations/2020/10/13/it-sounds-like-spotify-is-in-trouble (accessed February 14, 2021); Kenneth Li and Supantha Mukherjee, "Spotify Expands to Russia and 12 Other Countries," *Reuters,* July 14, 2020, https://www.reuters.com/article/us-spotify-russia/spotify-expands-to-russia-and-12-other-countries-idUSKCN24F2AH (accessed February 14, 2021); Sarah Perez, "Spotify CEO Says Company Will 'Further Expand Price Increases,'" *TechCrunch,* October 29, 2020, https:// techcrunch.com/2020/10/29/spotify-ceo-says-company-will-further-expand-price-increases (accessed February 14, 2021).

b. Abby Narishkin and Steve Cameron, "The Rise and Fall of Subway, the World's Largest Fast-Food Chain," *Business Insider,* October 26, 2020, https://www.businessinsider.com/subway-fast-food-chain-locations-franchise-rise-fall-2019-8 (accessed February 14, 2021).

c. Oliver Smith, "Mapped: The World's Most Eco-Friendly Countries—Where Does the UK Rank?" *The Telegraph,* April 22, 2017, https://www.telegraph.co.uk/travel/maps-and-graphics/most-and-least-environmentally-friendly-countries/ (accessed September 22, 2018); Claire Suddath, "Harley-Davidson Needs a New Generation of Riders," *Bloomberg,* August 23, 2018, https://www.bloomberg.com/news/features/2018-08-23/harley-davidson-needs-a-new-generation-of-riders (accessed September 10, 2018); Tim Studt, "Harley-Davidson to Open Electric Motorcycle R&D Center," *R&D Magazine,* September 10, 2018, https://www.rdmag.com/article/2018/09/harley-davidson-open-electric-motorcycle-r-d-center (accessed September 10, 2018); Rich Duprey, "Is Harley-Davidson's Vision for the Future Realistic?" *The Motley Fool,* September 2, 2018, https://www.fool.com/investing/2018/09/02/is-harley-davidsons-vision-for-the-future-realisti.aspx (accessed September 10, 2018); Joe Taschler, "Harley-Davidson Takes Steps to Deal with Sagging Sales as Pandemic Slams Motorcycle Business Worldwide," *USA Today*, April 28, 2020, https://www.usatoday.com/story/money/2020/04/28/harley-davidson-coronavirus-forces-strategy-changes-sales-sag/3042764001/ (accessed May 26, 2020).

d. Tom Nunlist, "Flying High: China's Aviation Industry Is Becoming a Global Force," *CKGSB Knowledge,* July 14, 2017, knowledge.ckgsb.edu.cn/2017/04/17/airline-industry/china-aviation-industry-becoming-global-force/ (accessed September 12, 2018); Hugh Morris, "China Southern, the Airline Poised to Take on the World (and They're Offering Free Upgrades)," *The Telegraph,* May 2, 2018, www.telegraph.co.uk/travel/news/china-southern-london-to-china/ (accessed September 12, 2018); Pamela Parker, "Why Your Next Flight May Go via China," *BBC,* August 16, 2018, www.bbc.co.uk/news/business-45168924 (accessed September 12, 2018); "Chinese Carriers Are the New Disrupters in Air Travel," *The Economist,* April 5, 2018, https://www.economist.com/business/2018/04/05/chinese-carriers-are-the-new-disrupters-in-air-travel (accessed September 28, 2018); Michael Boyd, "Chinese Airlines Not Likely to Rebound for at Least Two Years," *Forbes*, May 19, 2020, https://www.forbes.com/sites/mikeboyd/2020/05/19/a-rebound-at-chinas-airlines-is-not-likely-for-at-least-two-years/#3ee492d1520d (accessed May 26, 2020).

e. Sam Schechner, "Agree to Facebook's Terms or Don't Use It," *The Wall Street Journal,* May 11, 2018, https://www.wsj.com/articles/stage-is-set-for-battle-over-data-privacy-in-europe-1526031104 (accessed August 31, 2018); Adam Santariano, "G.D.P.R., a New Privacy Law, Makes Europe World's Leading Tech Watchdog," *The New York Times,* May 24, 2018, https://www.nytimes.com/2018/05/24/technology/europe-gdpr-privacy.html (accessed August 31, 2018); "GDPR Key Changes," EUGDPR.org, https://www.eugdpr.org/the-regulation.html (accessed August 31, 2018).

Credits

Design elements: Business Disruption icon: Sheff/Shutterstock; Consider Ethics and Social Responsibility Issues icon: Design Pics/PunchStock; Entrepreneurship in Action icon: Rusian Grechka/Shutterstock.com; Responding to Business Challenges icon: Olivier Le Moal/Shutterstock; Technology and the Economy icon: Ryzhi/Shutterstock; Build Your Skills icon: Ilya Terentyev/Getty Images; Solve the Dilemma icon: Kae Deezign/Shutterstock.com; Build Your Business Plan icon: ALMAGAMI/Shutterstock; See for Yourself Case icon: MIKHAIL GRACHIKOV/Shutterstock.com