Globalization

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Learning Objectives

- LO1-1: Understand what is meant by the term *globalization*.
- LO1-2: Recognize the main drivers of globalization.
- LO1-3: Describe the changing nature of the global economy.
- LO1-4: Explain the major arguments in the debate over the impact of globalization.
- LO1-5: Understand how the process of globalization is creating opportunities and challenges for management practice.

This chapter introduces the emergence of the globally integrated business world. Globalization has reduced the traditional barriers to cross-border trade and investment (distance, time zones, language, differences in government regulations, culture, and business systems).

To begin the discussion of contemporary issues in international business, macroeconomic and political changes in the last 50 years are reviewed.

Information technology and other technological innovations have put global markets within the reach of even small firms in remote locations. Yet, in spite of all its benefits, globalization has a downside. Critics point out its adverse effects, including those on developing nations.

The opening case explores Apple's decision to outsource production of its iPhone to China. While this decision has drawn criticism, Apple defends the strategy noting that suppliers and subcontractors in China have the ability to respond quickly to changing market conditions giving Apple an advantage in the highly competitive mobile phone market. The closing case explores GM's strategy in China. GM has been serving the Chinese market via a 50/50 joint venture with state-owned SAIC Motors. The joint venture, in place since 1997, has seen sales rise from just half a million in 2006 to nearly 4 million in 2018. For GM, local production offers the opportunity to better understand the local market and avoid export shipping costs.

OUTLINE OF CHAPTER 1: GLOBALIZATION

CLASSROOM DISCUSSION POINT

Ask students to describe how international business has affected them in their day so far. Ask them about who made the clothes they are wearing, what type of food they ate for breakfast or lunch (muesli cereal, sushi, Italian-style coffee), what type of cell phone they have and where it was made, where their car was designed and manufactured, where the components for their computer were manufactured, and so on. Many students will be surprised at just how often international business affects their daily lives. Some will recognize that companies like Nissan have design facilities and manufacturing operations in the United States, but will be surprised to learn that Sodexho, a cafeteria operator for many universities, is a French company, or that many supermarket chains have been acquired by foreign operators (Stop and Shop by the Dutch Ahold, Trader Joe's by the German Albrechts). The point to drive home is that our consumption patterns are already very dependent on international business.

Next, ask students the *why* aspect of this issue: Why, for example, are so many of our clothes made outside North America?

Finally, encourage students to think about the integrated world economy versus distinct national economies by asking about the type of car they own. Drive the discussion toward a consideration of whether talking about the nationality of a car makes sense. Is a Mercedes Benz assembled in Alabama with parts produced in Mexico a German car? Is a Chevrolet assembled in South Korea a Korean car? Volvo is now owned by Geely of China; Jaguar and Land Rover, which had been part of Ford, are now owned by India's Tata Motors; and BMW owns Rolls-Royce. Are there any cars that are truly made in a single country?

OPENING CASE: How the iPhone Is Made: Apple's Global Production System

<u>Summary</u>

The opening case explores Apple's strategy to produce its popular iPhone. While Apple initially depended largely on U.S. producers, since the early 2000s, Apple has increased its reliance on subcontractors and suppliers in China. The company claims that the ability of these suppliers and subcontractors to quickly respond to changing market conditions gives Apple an important competitive advantage in the highly competitive global mobile phone market. Apple has been criticized for its decision with some suggesting that the company is shipping American jobs abroad. Apple has also been negatively affected by the poor working conditions at some of its suppliers. While the company says it has tried to address these concerns, it admits that its efforts have not always generated the outcomes it would like. Discussion of the case can begin with the following questions:

QUESTION 1: How has globalization created opportunities for companies like Apple to optimize their supply chains?

ANSWER 1: Apple, like other multinational companies, has capitalized on the opportunities associated with globalization. Lower barriers to trade and investment associated with globalization have allowed the company to optimize the production of its iconic iPhone. Rather than producing the iPhone in the United States, Apple outsources production to suppliers and subcontractors around the world. The company capitalizes on the efficiency of suppliers and subcontractors regardless of their location in the world. Today, Apple's product design team and marketing are based in the United States. While some parts such as the glass used for the screens are also produced domestically, much of the production takes place in China. In fact, Apple relies on some 1.5 million people outside the United States for the production of the iPhone.

QUESTION 2: What factors make China such an attractive production location for Apple? How does production in China help Apple compete?

ANSWER 2: For Apple, the decision to produce the iPhone in China is simple. The company claims that its suppliers and subcontractors in China can quickly respond to changing market conditions giving the iPhone maker a distinct advantage in the hotly competitive mobile phone market. Unlike its subcontractors and suppliers in other locations, Apple's subcontractors and suppliers in China can quickly adapt their production to adjust to changes in market demand. Another attractive element of producing the iPhone in China is speed. The supplier that cuts the glass for iPhone screens for example, offers 24/7 output thanks to its factory design which includes dormitories for employees. Similarly, Apple was able to hire more than 8,000 industrial engineers in just 15 days in China, a task that would have taken nearly a year in the United States.

QUESTION 3: Why has Apple faced criticism for its decision to produce its iPhone in China? Is the criticism warranted? Explain.

ANSWER 3: Apple has come under significant scrutiny after it was revealed that one of its primary subcontractors treated its employees very poorly. According to critics, workers at Foxconn, the company that produces about 50 percent of the iPhones sold across the world, requires long hours and mandatory overtime from its employees and has a poor safety record. While Apple defends its decision to work with Foxconn saying that it is trying to get improvements in Foxconn worker conditions, many say that Apple has not gone far enough. Apple has also been accused of shipping American jobs abroad to places like China. While Apple points out that it also employs large number of Americans and that its strategy of using Chinese suppliers and subcontractors allows it to price its product more competitively, many remain unconvinced. The negative press associated with these claims is of course, detrimental to Apple's reputation.

Another Perspective: To explore more about Apple, students can go to {https://www.apple.com}. More details on Apple's troubles with Foxconn can be found at {https://www.bloomberg.com/news/articles/2019-09-09/apple-foxconn-broke-a-chinese-labor-law-for-iphone-production} and {https://www.reuters.com/article/us-apple-china-labour/apple-foxconn-say-they-overly-relied-on-temporary-workers-in-china-idUSKCN1VU0JR}.

Teaching Tip: To learn more about Apple's global expansion plans, consider *Apple Set to Meet Indian PM*. To learn more about Apple's production in China, consider *Apple's China Problem Goes Deeper than the iPhone*. Both can be found in the International Business Library at http://bit.ly/MHEIBVideo. Click "Ctrl+F" on your keyboard to search for the video title.

LECTURE OUTLINE

This lecture outline follows the Power Point Presentation (PPT) provided along with this instructor's manual. The following provides a brief overview of each Power Point slide.

Slides 1-3 – 1-5 What Is Globalization?
Globalization is a shift toward a more integrated and interdependent world economy. Globalization has two components: the globalization of markets and the globalization of production.

The Globalization of Markets
The **globalization of markets** refers to the merging of historically distinct and separate national markets into one huge global marketplace. In many markets, the emergence of a global marketplace has begun to occur. There are three causes: falling barriers to cross-border trade have made it easier to sell internationally; consumer tastes and preferences are converging on some global norm helping to create a global market; and firms are facilitating the trend by offering standardized products worldwide, thus creating a global market.

The Globalization of Production
The **globalization of production** refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of **factors of production** (such as labor, energy, land, and capital). By doing this, companies hope to lower their overall cost structure and/or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively.

Economist Robert Reich argues that because firms frequently outsource production, products can now often be considered "global products." However, firms are not always able to produce in the optimal location because of formal and informal barriers to trade between countries, barriers to foreign direct investment, transportation costs, issues associated with economic and political risk, and the sheer managerial challenge of coordinating a globally dispersed supply chain.

Slides 1-6 – 1-11 The Emergence of Global Institutions
Globalization has created the need for institutions to help manage, regulate, and police the global marketplace. Institutions that have been created to help perform these functions are the **General Agreement on Tariffs and Trade (GATT)**, the **World Trade Organization (WTO)**, the **International Monetary Fund (IMF)**, the **World Bank**, the **United Nations (UN)**, and the **Group of Twenty (G20)**.

Another Perspective: A comprehensive overview of GATT is available at {http://www.ciesin.org/TG/PI/TRADE/gatt.html}.

The World Trade Organization (WTO) is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties. The International Monetary Fund (IMF) was created to maintain order in the international monetary system, and the World Bank was set up to promote economic development. The United Nations (UN) was created to preserve peace through international cooperation. The Group of Twenty (G20) is comprised of the finance ministers and central bank governors of the 19 largest economies in the world, plus representatives from the European Union and the European Central Bank. The G20 represents 90 percent of global GDP and 80 percent of international global trade.

Another Perspective: The World Trade Organization maintains an excellent website at {http://www.wto.org}. This site provides information about recent trade disputes, "hot" areas of international trade, and the status current talks.

CONNECT
Click and Drag
Global Institutions

Summary
This activity focuses on the global institutions that shape the international business system. Countries have established these institutions to address the global issues that span their borders. The functions of these organizations have been established in international treaties. International businesses need to be aware of the functions of these organizations as they can have a profound impact on trade and commerce.

Activity
Students are asked to match various global institutions to the functions they perform.

Class Discussion

Global institutions are essential to international business and the movement of goods, services, and capital between nations. Discuss each institution and the role it plays in facilitating international business.

Slides 1-12 – 1-16 Drivers of Globalization
These two macro factors underlie the trend toward greater globalization: the decline in the barriers to free flow of goods, services, and capital; and technological change in communications, information processing, and transportation technologies.

Declining Trade and Investment Barriers
International trade occurs when a firm exports goods or services to consumers in another country.

Foreign direct investment (FDI) occurs when a firm invests resources in business activities outside its home country.

The pressure from customers to make available any goods and services anywhere for their needs and wants has been facilitated by country governments removing restrictions on imports to their countries. However, declining barriers to cross-border trade and investment cannot be taken for granted.

Role of Technological Change
While the lowering of trade barriers made globalization of markets and production a theoretical possibility, technological change made it a tangible reality. Managers today operate in an environment that offers more opportunities, yet is also more complex and competitive than that of a generation ago.

CONNECT
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Drivers of Globalization

Summary
This activity focuses on the drivers of globalization. Two major factors are driving globalization: the decline in barriers to the free flow of goods, services, and capital, and technological change. Business has fueled these trends and has been the beneficiary of these trends.

Activity
Students are asked to match driving forces and their implications for business.

Class Discussion
It is essential that international businesses understand what's driving globalization and its implications for their organization. Ask students to discuss the drivers of globalization as they relate to various types of international businesses.

Slides 1-17 – 1-25 The Changing Demographics of the Global Economy
The Changing World Output and World Trade Picture
In the 1960s: the U.S. dominated the world economy and the world trade picture, U.S. multinationals dominated the international business scene, and about half the world—the centrally planned economies of the communist world—was off limits to Western international business.

The share of world output generated by developing countries has been steadily increasing since the 1960s, while developed countries including the United States, Canada, and several European countries have seen a relative decline. If current growth trends continue, China's economy could soon be larger than that of the United States, with India close behind.

The Changing Foreign Direct Investment Picture
There has been a sustained growth in cross-border flows of foreign direct investment. Developing nations, especially China, have been the recipients of much of the investment.

CONNECT
Click and Drag
Demographics of the Global Economy

Summary
This activity explores the demographics of the global economy. Four factors have played a central role in the changing demographics of the global economy since 1960. They are U.S. dominance in the world economy, U.S. dominance in world foreign direct investment, dominance of large multinational U.S. firms, and lack of trade with centrally planned economies.

Activity
Students are asked to match various issues with the descriptors of change.

Class Discussion
Changes in the demographics of the global economy have important implications for international companies. Discuss the changes, why they are happening, and what they mean for international organizations.

The Changing Nature of the Multinational Enterprise
A **multinational enterprise (MNE)** is any business that has productive activities in two or more countries. In the 1960s, U.S. multinationals dominated the global marketplace, but by 2019, that share had dropped as multinationals from other countries, including developing economies, have emerged as significant players. The global landscape is also changing with the rise of mini-multinationals.

The Changing World Order
Many of the former communist nations of Europe and Asia seem to share a commitment to democratic politics and free market economics, and these nations present a host of export and investment opportunities for Western businesses. However, disturbing signs of growing unrest and totalitarian tendencies in several eastern European and central Asian states, including Russia, make these countries risky.

The economic development of China presents huge opportunities and risks, in spite of its continued Communist control. And, while Mexico and Latin America also present tremendous new opportunities both as markets and sources of materials and production, Bolivia, Ecuador, and Venezuela have all seen an increase in state involvement in the past few years and are less welcoming of foreign investment.

Global Economy of the Twenty-First Century
Current trends indicate the world is moving toward an economic system that is more favorable for international business.

Slides 1-26 – 1-34 The Globalization Debate
Firms should be aware that while the more integrated global economy presents new opportunities, it also could result in political and economic disruptions that may throw plans into disarray

Antiglobalization Protests
Is the shift toward a more integrated and interdependent global economy a good thing? Antiglobalization protesters now turn up at almost every major meeting of a global institution. Protesters fear that globalization is forever changing the world in a negative way.

Globalization, Jobs, and Income
Critics of globalization worry that jobs are being lost to low-wage nations.

Supporters of globalization argue that free trade will result in countries specializing in the production of those goods and services that they can produce most efficiently, while importing goods and services that they cannot produce as efficiently.

Globalization, Labor Policies, and the Environment
Critics of globalization argue that free trade encourages firms from advanced nations to move manufacturing facilities offshore to less developed countries with lax environmental and labor regulations.

Supporters of free trade point out that tougher environmental regulation and stricter labor standards go hand in hand with economic progress and that foreign investment often helps a country to raise its standards.

Globalization and National Sovereignty

Critics of globalization worry that economic power is shifting away from national governments and toward supranational organizations such as the World Trade Organization (WTO), the European Union (EU), and the United Nations.

However, supporters of globalization contend that the power of these organizations is limited to what nation-states agree to grant, and that the power of the organizations lies in their ability to get countries to agree to follow certain actions.

Another Perspective: To explore economic freedom and globalization, go to The Fraser Institute's Economic Freedom of the World Report at {www.freetheworld.com}.

Globalization and the World's Poor
Critics of globalization argue that the gap between rich and poor has gotten wider and that the benefits of globalization have not been shared equally.

Supporters of free trade suggest that the actions of governments have made limited economic improvement in many countries.

CONNECT
Click and Drag
The Globalization Debate

Summary
This activity focuses on the debate on globalization. While globalization has long been viewed as a beneficial trend, more recently, certain segments of the population have voiced their strong opposition to the trend. Anecdotes, evidence, and arguments can be collected to support each side of the debate.

Activity
Students are asked to match various issues in terms of whether they are arguments for or against globalization.

Class Discussion
The debate on globalization, its benefits and drawbacks, has shaped elections and policies in several countries in recent years including the United States, Great Britain, and Sweden. Discuss this trend and why globalization has become such a driving and divisive issue for so many people.

Slide 1-35 Managing in the Global Marketplace
Managing an **international business** (any firm that engages in international trade or investment) is different from managing a domestic business because countries differ, managers face a greater and more complex range of problems, international companies must work within the limits imposed by governmental intervention and the global trading

system, and international transactions require converting funds and being susceptible to exchange rate changes.

CONNECT
Video Case
Did You Know? Trade Tripled for U.S. as a Percentage of GDP

Summary
This activity focuses on understanding the impact of globalization; what is driving it; the opportunities and challenges it presents for international businesses; and the debate about the process of globalization.

Activity
Students are asked to watch a video on the growth of trade as a percentage of U.S. GDP and the implications of that growth, and then respond to a series of questions related to the video.

Class Discussion
Understanding the benefits and drawbacks of globalization from the perspective of different stakeholders is important for international businesses and policy makers. Discuss what is driving globalization and what that means for international businesses and policy makers. How do the drivers impact trade and investment decisions? How do they impact policy decisions?

CRITICAL THINKING AND DISCUSSION QUESTIONS

QUESTION 1: Describe the shifts in the world economy over the last 30 years. What are the implications of these shifts for international businesses based in Great Britain? North America? Hong Kong?

ANSWER 1: Over the last 30 years, there has been a shift away from a world in which national economies are relatively self-contained entities, isolated by barriers to trade and investment, and differences in government regulation, culture, and business systems and toward a world where barriers to trade and investment are declining, cultures are converging, and national economies are merging into an integrated, interdependent global economic system. As companies from Japan and emerging markets like China play a more vital role in the world economy, the dominance of companies from the United States and Western Europe has diminished. Significant implications for British firms involve their need to look beyond Europe and America for investment and opportunities. Consumer spending power is growing the most quickly in developing countries. In the wake of Brexit, international businesses will need to decide just how they will approach the United Kingdom. While it is now clear that the United Kingdom will no longer be a part of the European Union, it is unclear exactly what the relationship will be between the United Kingdom and the European Union and indeed the United Kingdom and any trading partner. North American firms also need to look beyond traditional markets in Europe and explore growing opportunities in developing markets. The recently negotiated United States-Mexico-Canada Agreement (USMCA) will have implications for international businesses inside and outside member countries. Recent protests in Hong Kong against what is perceived to be heavy handedness by Beijing have upended what had been a stable business environment. Before the protests, Hong Kong had been viewed as a gateway to the immense market of mainland China, but now there is less certainty in the market as it relates to mainland China. International businesses based in all three locations are facing new opportunities and threats.

QUESTION 2: "The study of international business is fine if you are going to work in a large multinational enterprise, but it has no relevance for individuals who are going to work in small firms." Evaluate this statement.

ANSWER 2: Globalization is changing the world economy. Firms, even small ones, can no longer ignore events going on outside their borders because what occurs in one country has implications for the rest of the world. Individuals who believe they can act in isolation by working for a small firm are not being realistic, but rather myopic and insular. Today, thanks to advances in technology, many small firms sell and source internationally very early in their evolution. Those that fail to take advantage of international opportunities may not achieve their full potential, and ultimately may fail as competitors who do recognize the importance of international business will dominate. In the United States, for example, almost 98 percent of firms that export employ fewer than 500 people. They also account for 33 percent of U.S. exports.

QUESTION 3: How have changes in technology contributed toward the globalization of markets and production? Would the globalization of markets and production have been possible without these technological changes?

ANSWER 3: Technological change has made globalization a reality. Major advances in communication, information processing, and transportation have brought countries of the world closer together. The development of the microprocessor is perhaps the single, most important innovation as it increased the amount of information that could be processed by individuals and firms. The Internet has facilitated the creation of a 24/7/365 marketplace where information is available in real time. Advances in transportation have enabled firms to take advantage of the savings associated with dispersing production to low-cost production locations. Advances in communications have helped create a global culture of sorts, and the emergence of a global market for consumer products. Thanks to technological change, firms today can locate facilities wherever in the world it makes the most sense, coordinate activities among facilities, and ship products to customers worldwide more cost effectively than at any time in the past.

QUESTION 4: "Ultimately, the study of international business is no different from the study of domestic business. Thus, there is no point in having a separate course on international business." Evaluate this statement.

ANSWER 4: There are at least four reasons why studying international business is important. First, countries are different; and managers must understand the reasons for the differences and their implications for business. Second, the range of problems confronted by a manager in an international business is wider and the problems themselves more complex than those confronted by a manager in a domestic business. Third, international companies must find ways to work within the limits imposed by government intervention in the international trade and investment system. Finally, international transactions involve converting money into different currencies. Managers who fail to appreciate these basic differences greatly increase their chance for failure.

QUESTION 5: How does the Internet affect international business activity and the globalization of the world economy?

ANSWER 5: Internet usage has exploded over the last two decades. In 1990, there were fewer than 1 million people connected to the Internet. By 2018 that figure had risen to 4 billion, some 52 percent of the global population! One of the biggest implications of the Internet is its role as an equalizer. Firms are no longer constrained by size, location, scale, and time zones. Instead, firms operate in a 24/7/365 world with real time access. In North America, e-commerce sales surpassed $517 billion in 2018. For companies, location is no longer an issue because the Internet makes it possible to reach customers anywhere in the world, operations can be linked via the Internet allowing firms to produce in advantageous locations, and global communications are facilitating a cultural convergence making it easier for companies to sell standardized products.

QUESTION 6: If current trends continue, China may emerge as the world’s largest economy by 2035. Discuss the possible implications for such a development for
a. the world trading system.
b. the world monetary system.
c. the business strategy of today’s European- and U.S.-based global corporations.
d. global commodity prices.

ANSWER 6: China is continuing to move toward greater free market reforms, and if it stays on its present track, could become an industrial superpower in the near future. Indeed, the United States’ position as the world’s largest economy is being challenged by China. China has also surpassed the United States in world exports of goods and services. If these trends continue, China will be a force to be reckoned with. Going forward, international businesses are likely to find that many of their opportunities are in China and other developing nations, and that competition from these markets is fierce

QUESTION 7: Reread the Management Focus "Boeing's Global Production System" and answer the following questions.

a. What are the benefits to Boeing of outsourcing manufacturing of components for the Boeing 787 to firms based in other countries?

b. What are the potential costs and risks to Boeing of outsourcing?
c. In addition to foreign subcontractors and Boeing, who else benefits from Boeing's decision to outsource component-part manufacturing assembly to other nations? Who are the potential losers?
d. If Boeing's management decided to keep all production in America, what do you think the effect would be on the company, its employees, and the communities that depend on it?
e. On balance, do you think that the kind of outsourcing undertaken by Boeing is a good thing or a bad thing for the American economy? Explain your reasoning.

ANSWER 7:
a. Student answers will vary. In some respects, outsourcing to overseas suppliers probably keeps company and consumer costs down, allowing Boeing to spend more money on research and innovations to create more products in the United States. When a supply chain becomes too complex to manage effectively, however, its advantages are soon outweighed by inefficiencies, cost overruns, and delays that negatively affect the company, workers, and consumers.

b. Many of the costs and risks associated with outsourcing were underscored by Boeing’s experience with the 787. Boeing lost much of the control it once had over the complex production process, resulting in failures of communication, unexpected delays, and mismatched parts. Ultimately, delivery of the first 787 was pushed back by four years and Boeing suffered millions of dollars in penalties for late deliveries. For its next jet, Boeing has decided to bring production of some elements in-house.

c. By awarding many manufacturing contracts to overseas suppliers, Boeing created thousands of jobs in foreign countries—jobs that would normally be held by workers in the United States. This not only benefits foreign workers and their families (while negatively affecting workers in the United States) but also benefits state and local governments in areas where subcontractors are located, generating higher tax revenues and lowering unemployment rates.

d. Boeing faced extensive criticism in the United States for its decision to outsource jobs overseas, particularly after the 787 project began to experience setbacks. By bringing production back to the United States, Boeing will benefit from positive publicity and improved morale among its employees, which, in turn, could result in higher sales to domestic airlines and improved productivity. However, it may also face negative publicity in the foreign press and could potentially lose some of the business it secured from foreign airlines.

e. There are several reasons that Boeing decided to outsource manufacturing to foreign firms. First, outsourcing offers Boeing the chance to build loyalty. Many of the firms are located in countries that are home to major airlines. Awarding large contracts to businesses in these countries may result in those airline companies placing larger orders for Boeing aircraft. Second, outsourcing offers Boeing the opportunity to optimize production. Boeing's foreign suppliers are world leaders in producing the parts they are supplying, resulting in a higher quality product. Third, by outsourcing production, Boeing could transfer some of the risks and costs associated with manufacturing to its suppliers.

Another Perspective: Students can find out about Boeing at {http://www.boeing.com} and production of the 787 and 777 at {https://www.reuters.com/article/us-airshow-paris-mounir/sales-chief-says-boeing-won-571-orders-and-commitments-idUSKBN19D1CF}.

Teaching Tip: To learn more about Boeing, consider *How the Boeing Max Became Boeing's Fastest Selling Plane* and *Bombardier Wins Big in Boeing Dispute* in the International Business Library at http://bit.ly/MHEIBVideo. Click "Ctrl+F" on your keyboard to search for the video title.

CLOSING CASE: General Motors in China

Summary

The closing case explores General Motors' strategy in China. The U.S. company, in response to falling domestic sales, recently closed several plants in the United States prompting criticism from Donald Trump who suggested that GM close its factories in Mexico and China instead. GM sells some 3.64 million vehicles in China in conjunction with its Chinese joint venture partner, SAIC Motor. The two companies hold an equal share in the partnership and receive subsidies from Beijing as part of the country's efforts to move to electric vehicles. GM made the decision to serve the growing Chinese market using local production rather than exports in 1997. Producing locally means that the company can avoid costly tariffs and be closer to the market, something that GM feels is important to its marketing effort. Ironically, another U.S. automaker, Tesla, which had been exporting its cars to China, the approach endorsed by Donald Trump, has seen its sales drop by 50 percent after being caught up in Trump's trade war with China. Tesla is now in the process of building its own factory in China with the goal of serving the market locally rather than through exports. American jobs that had been linked to Tesla exports will disappear. A discussion of the case can begin with the following questions:

Teaching Tip: To learn more about Tesla's strategy in China, consider *Why Tesla Is Betting Big in China with a Shanghai Gigafactory* in the International Business Library at http://bit.ly/MHEIBVideo. Click "Ctrl+F" on your keyboard to search for the video title.

QUESTION 1: What are the long-term prospects for the Chinese market?

ANSWER 1: In 2006, GM, together with its partner SAIC Motors, sold less than half a million vehicles in China. By 2011, that number had more than doubled. Today, the joint venture is selling nearly 4 million vehicles. Prospects for continued rapid growth are strong. In China, the number of vehicles per person is just 173 as compared to 833 per capital in the United States. Moreover, China is making a major push into electric cars, providing subsidies to automakers and buyers as an incentive. This would suggest that existing car owners may be enticed to trade up to a new electric vehicle sooner than previously expected. GM's investment as a 50/50 partner with state-owned company SAIC Motors also provides the company with some protection against potential negative actions by Beijing and seemingly enables it to share in benefits offered to local companies.

Another Perspective: GM has recently seen sales drop in China. To learn more, consider {https://www.bloomberg.com/news/articles/2019-11-21/gm-can-t-keep-up-in-china-once-seen-as-the-promised-land} and {https://www.reuters.com/article/us-gm-china/gms-third-quarter-china-vehicle-sales-down-17-5-as-u-s-automakers-cede-ground-idUSKBN1WP0L0}.

QUESTION 2: Does it make sense for GM to produce automobiles for the Chinese market in China? Why?

ANSWER 2: Most students will probably agree that GM's decision to produce its cars in China makes sense. By producing locally, GM can capitalize on China's lower labor costs and avoid shipping costs as well as potential tariffs like those currently affecting Tesla. Local production also means that GM can better appreciate local shifts in the market and better understand local design preferences. These differences can then be incorporated into future products which should then better suit the local market. Forming a joint venture with local company GAIC Motors has also allowed GM to act like a local company and benefit from subsidies from the Chinese government.

QUESTION 3: What do you think would happen if GM tried to serve the Chinese market by exporting production from the United States?

ANSWER 3: Responses to this question will vary by student. Some will argue that if GM tried to export its product from the United States it would almost certainly have gotten caught up in the trade war that has crippled Tesla's exports to China. Other students are likely to point out that the shipping costs associated with exporting lower end vehicles may have been prohibitively expensive and that without local production, GM may not have made a serious push into the growing Chinese market. Students taking this perspective may note that many of the cars currently being sold in China are lower margin vehicles making any added shipping costs out of the question. Still other students may argue that local production has enabled GM to better understand the Chinese market and build cars to suit the needs of its buyers there. Producing in the United States and exporting would not have provided these benefits of local production.

Teaching Tip: To learn more about how U.S. automakers are dealing with Trump's demands for more U.S. production, consider *Can Automakers Afford Trump's U.S. Job Pressure?* in the International Business Library at http://bit.ly/MHEIBVideo. Click "Ctrl+F" on your keyboard to search for the video title.

QUESTION 4: Why do you think GM went into partnership with a state-owned company to produce automobiles in China? What are the possible benefits of such a venture? What might be the downside?

ANSWER 4: GM's joint venture with China's GAIC Motors has proved to be enormously successful. Together, the two companies sell more than 3.5 million vehicles in China and that number is expected to grow. For GM, the joint venture offered instant knowledge of the local market and the opportunity to be "local". The 50/50 joint venture also meant that GM shared the cost and risk of building market share in China with SAIC Motors. At the same time, though, GM must now share profits and control with its partner. Some students will likely speculate that a joint venture may have been the only way into the market in China and that as part of the joint venture, GM may have lost some proprietary information. Despite these downsides, many students will probably agree that for GM, there are more benefits than drawbacks.

QUESTION 5: What does this case teach you about benefits and costs of import tariffs?

ANSWER 5: This question may generate some discussion among students. The ongoing trade war between the United States and China has become a hotly debated topic, one that is generally politically charged, and one that is divisive depending on an individual's socioeconomic position. Many students will agree that rather than protect jobs, import tariffs encourage local production, and in this case, exports of jobs.

Another Perspective: Students can find out more about GM's operations in China at {https://www.gmchina.com/company/cn/en/gm/company/about-gm-china.html}.

MHE INTERNATIONAL BUSINESS VIDEO LIBRARY

Please click here to visit our International Business Video Library, which provides an ongoing stream of updated video suggestions correlated by key concept and major topic. Every new clip posted is supported by teaching notes and discussion questions. Please feel free to leave comments in the library that you feel might be helpful to your colleagues.

CONNECT
Geography

Summary
This activity is designed to test the student's knowledge of geography. Questions related to chapter material are asked, requiring students to understand the topics and the locations of the countries involved.

Activity
Students are asked to respond to a series of questions related to the geographic location of several countries.

Class Discussion
Understanding the geographic location of countries is essential to the understanding of international business. Ask students to discuss the implications of the geographic locations of the countries in this exercise on the subject matter.

INCORPORATING globalEDGE™ EXERCISES

Use the globalEDGE™ website {globaledge.msu.edu} to complete the following exercises:

Exercise 1
As the drivers of globalization continue to pressure for both the globalization of markets and the globalization of production, we continue to see the impact of greater globalization on worldwide trade patterns. HSBC, a large global bank, analyzes these pressures and trends to identify opportunities across markets and sectors through its *trade forecasts*. Visit the HSBC Global Connections site and use the trade forecast tool to identify which export routes are forecasted to see the greatest growth over the next 15 to 20 years. What patterns do you see? What types of countries dominate these routes?

Exercise 2
You are working for a company that is considering investing in a foreign country. Investing in countries with different traditions is an important element of your company's long-term strategic goals. Management has requested a report regarding the attractiveness of alternative countries based on the potential return of FDI. Accordingly, the ranking of the top 25 countries in terms of FDI attractiveness is a crucial ingredient for your report. A colleague mentioned a potentially useful tool called the Foreign Direct Investment (FDI) Confidence Index. The FDI Confidence Index is a regular survey of global executives conducted by A.T. Kearney. Find this index and provide additional information regarding how the index is constructed.

Answers to Exercises

Exercise 1 Answer
Search phrase: *trade forecasts* or *HSBC Global Connections*
Resource Name: HSBC Global Connections
Website: https://globalconnections.hsbc.com/us/en
globalEDGE™ Category: Globalization

Additional Info:
Once on the *HSBC Global Connections* website, the *Trade Forecast Tool* can be found under the Tools & Data section of the site. It's an interactive chart, where you can see the trade routes that are forecasted to exhibit the largest annual growth over the next several years.

Exercise 2 Answer

Search phrase: *FDI Confidence Index*
Resource Name: A.T. Kearney: Foreign Direct Investment Confidence Index
Website: http://globaledge.msu.edu/global-resources/rankings
globalEDGE™ Category: Rankings

Additional Info:
This ranking study, published regularly since 1998 surveys over 300 hundred executives from multinationals with more than $500 million in revenues from 28 countries. The Index is calculated as a weighted average of the number of high, medium, and low responses to questions about the likelihood of direct investment in a market over the next three years. Index values are based on non-source-country responses (so the rating for India does not include responses from Indian multinationals).

NOTE TO READER: The information in this case dates to 2015. Additionally, the chair of the board has changed. Still, this passage remains relevant as it discusses the corporate strategy and vision of a global company.

AB InBev and Beer Globally

The company AB InBev may not sound familiar to everyone, but spelled out, its name likely becomes clearer to most people, especially the beer-loving population of the world. Anheuser-Busch InBev originates from the Den Hoorn brewery in Leuven, Belgium, which dates back to 1366, and the pioneering spirit of the Anheuser & Co brewery, with origins in St. Louis, Missouri, since 1852. Today, AB InBev is the leading global brewer and one of the world's top consumer products companies.

AB InBev has operations in 25 countries, sales in more than 100 countries, revenue of $44 billion, 155,000 employees, and seven of the top 10 most valuable beer brands. These seven brands are: Budweiser, Bud Light, Stella Artois, Skol, Corona, Brahma, and Modelo Especial. Budweiser, Corona, and Stella Artois are marketed as "global brands," while Beck's, Leffe, and Hoegaarden are considered "international brands" in AB InBev's brand portfolio. The company also has 15 "local champions," which represent leadership in their respective local markets. These local brands include Jupiler (most popular beer in Belgium), Quilmes (original Argentinean lager since 1890), and Harbin (from the oldest brewery in North China), among the portfolio. In total, AB InBev's portfolio consists of more than 200 brands.

With more than 200 brands and strong coverage internationally of the different brands, strategically AB InBev is a unique and highly organized global company. Carlos Brito (CEO) and Olivier Goudet (chairman of the board) have stated that the company's ambition is to build a great, enduring company for the next 100 years. The core management team consists of the CEO, nine Executive Board members, and six zone presidents. The six zone presidents have responsibility for Latin America South, Latin America North, Asia Pacific, North America, Mexico, and Europe.

Using this management structure, AB InBev has built leading positions in the important beer profit markets in the world through a combination of organic growth and selected, value-enhancing acquisitions. The company follows a focus brands strategy in which the majority of the resources are devoted to those brands that have the greatest long-term growth potential. Investment behind the brands is fueled by a disciplined approach to cost management and efficiency. AB InBev has a strong track record of industry-leading margins and cash flow generation. In 2015, this led to growth of 12.6 percent of the company's three global brands (Budweiser, Corona, and Stella Artois), for example, and strong earnings in North America and most of Latin America.

The foundation for AB InBev's global strategy is the company's "Dream-People-Culture" approach. The goal is that, despite having operations in many countries around the world, with different national cultures, AB InBev operates as one company, with one dream and one culture uniting them. There is also a focus on having the right people in the right place at the right time. This culture is built on ownership, informality, candor, transparency, and meritocracy.

Strategically, AB InBev has 10 principles driving everything they do. At the core, AB InBev is focused on a shared dream that energizes everyone to work in the same direction to be the best beer company in the world, bring people together, and aspire for the betterment of the world. Additional principles cover people strengths, quality of teams, striving for increased satisfaction, consumer focus, ownership, common sense and simplicity, cost management, leadership, and hard work and responsibility.

Sources: D. Leonard, "Can Craft Beer Survive AB InBev?" *Bloomberg Business,* June 25, 2015; V. Wong, "Why AB InBev and Big Brewers Are Betting on Hard Cider," *Bloomberg Business,* May 13, 2013; J. Colley, "The Big Beer Merger Won't Bring Down the Price of a Pint," *Newsweek,* October 18, 2015; C. Purdy, "There's a Less Obvious Reason Why AB InBev Is Buying Up Craft Breweries," *Quartz,* December 23, 2015; *AB InBev Annual Report* 2015. annualreport.ab-inbev.com.

INTEGRATIVE CASES:

TEACHING NOTES

For *International Business* 13e, we have included a set of 20 cases as value-added materials at the end of the textbook in addition to the 40 cases – Opening Case and Closing Case – which appear in the 20 chapters. These end-of-the-book cases replace what used to be cases included at the end of the core sectional "Parts" of the earlier versions of the textbook.

The end-of-the-book cases serve a better and more strategically aligned objective for the core features of *International Business* 13e. Specifically, we are able to build on and enhance the market leadership of our International Business textbook and its focus on current, application rich, relevant, and comprehensive materials by including a set of cases that both (1) tackle chapter-relevant topics and (2) serve as integrated learning vehicles covering materials across chapters. Several of these cases focus on company scenarios in China, Japan, Mexico, Germany, and other prominent world markets.

This allows us to include cases that can be used as a complement to the Opening Case and Closing Case of each chapter by teachers who prefer a case-oriented and practically focused teaching method. It also allows for an integrated take on the content across chapter topics for those teachers who prefer to delve into a more comprehensive set of issues in international business.

To understand the positioning of each end-of-the-book case, we have included a matrix that outlines which chapter are covered in the case and which textbook "Parts" are covered by a case (i.e., Globalization; Country Differences; The Global Trade and Investment Environment; The Global Monetary System; The Strategy and Structure of International Business; and International Business Functions).

The end-of-the-book cases have been composed to be similar in length to the Opening and Closing Cases (700 to 1500 words). For the International Business Course – whether it be at the undergraduate or graduate level – cases of the 700 to 1500-word length have been shown to resonate with both students and teachers. This length case serves as a motivation to learn the content material in a chapter and provides an application rich connection to relevant practice while also being able to comprehensively cover important topics.

Table of Contents

Integrative Cases Matrix

Case	Primary Chapters	Part I: Introduction and Overview	Part II: National Differences	Part III: The Global Trade and Investment Environment	Part IV: The Global Monetary System	Part V: The Strategy and Structure of International Business	Part VI: International Business Functions
Globalization of BMW, Rolls-Royce, and the MINI	1 13	X	X	X		X	X
The Decline of Zimbabwe	2 3, 6		X	X			
Economic Development in Bangladesh	3 6, 7		X	X			
The Swatch Group and Cultural Uniqueness	4 7, 8	X	X	X			X
Woolworths’ Corporate Responsibility Strategy	5 4, 13	X	X	X			
The Trans Pacific Partnership (TPP) Is Dead” Long Live the CPTPP	6 7, 8, 9	X		X			
Boing and Airbus Are in a Dogfight over Illegal Subsidies	6, 7			X			
FDI in the Indian Retail Sector	8 2, 3, 13, 15	X	X	X	X	X	
Free Trade in Africa	9 6, 7	X		X			

Case	Primary Chapters	Part I: Introduction and Overview	Part II: National Differences	Part III: Global Trade and Investment Environment	Part IV: The Global Monetary System	Part V: The Strategy and Structure of International Business	Part VI: International Business Functions
The Mexican Peso, The Japanese Yen, and Pokémon Go	10 11				X		
Egypt and the IMF	11 3, 12		X		X		
Alibaba's Record-Setting IPO	12 13	X			X		
Sony Corporation: Still a Leader Globally?	13 14, 17	X				X	X
Organizational Architecture at P&G	14 13	X				X	
Cutco Corporation—Sharpening Your Market Entry	15 13, 14	X				X	
Tata Motors and Exporting	16 15	X				X	X
Alibaba and Global Supply Chains	17 13, 14, 15	X				X	X
Best Buy Doing a Turnaround Again	18 16, 17	X				X	X
Sodexo: Building a Diverse Global Workforce	19 14	X				X	X
Tesla, Inc.—Subsidizing Tesla Automobiles Globally	20 12, 14, 15	X			X	X	X

Case 1: Globalization of BMW, Rolls-Royce, and the MINI

Summary

This case explores the globalization of BMW, Rolls-Royce, and the MINI. Bayerische Motoren Werke, otherwise known as BMW, dates back to 1916. Today, BMW has more than 125,000 employees and revenues of about $103 billion. With its reputation for streamlined luxury design and performance, BMW sells about 2.4 million vehicles every year. In addition to automobiles, BMW also produces motorcycles and aircraft engines. BMW's portfolio includes the BMW brand along with Rolls-Royce and MINI.

Innovation has long been at the forefront of BMW's strategy to be a leader in the luxury car industry. The company focuses on bringing new features to all of its models and builds on innovations used in its racing program to develop vehicles offering the perfect combination of sporty performance and breath-taking design that live up to the reputation of BMW being synonymous with "driving pleasure."

BMW's Rolls-Royce brand, considered to be the most exclusive luxury brand in the world, has a long history of power, luxury, and quality. With the base model Rolls Royce Ghost starting at $250,000, buyers expect handcrafted perfection. In contrast, BMW's MINI, which like Rolls-Royce traces its roots to the United Kingdom, offers buyers distinctive design, clever solutions, and precise German engineering at a much lower price.

Discussion Questions

1. How do you think BMW integrates its various unique brands into a global effort that works for them (BMW, Rolls-Royce, and the MINI) across the world's many global markets?

ANSWER 1: Many students will probably focus on the fact that for the most part. BMW is targeting different individuals with each of its major brands. Buyers looking for sporty performance will be drawn to BMW branded cars, while individuals looking for less expensive, fun cars to drive might consider a MINI. Rolls Royce is targeting a very small segment of the population who is willing, and able, to spend large sums of money on supreme quality and craftmanship. Students may further point out that these customer groups are the same regardless of where in the world they are located making it easier for BMW to standardize not only its vehicles but also its marketing message. BMW is likely able to modify design and performance elements used in its higher end vehicles across its entire portfolio and in doing so reduce development costs for lower margin vehicles.

2. What is your reaction to the global brand of BMW when you hear its name, think of the brand, and see BMW vehicles on the road?

ANSWER 2: Most students will probably suggest that BMW projects an image of luxury, power, and quality. Some students may recall the slogan used by BMW that it provides "driving pleasure." Other students may point out that BMW's quality is based on Germany's reputation for precision engineering, while others may speculate that along with higher quality comes higher operating costs. Still other students might say that their initial reaction to BMW is its price. BMW is often associated with high prices even though its base model is priced to compete with models from mainstream brands Volvo and Volkswagen as well as higher end brands such as Mercedes Benz and Audi.

3. Rolls-Royce's chase of perfection drives the supreme quality, exquisite hand craftsmanship, and attention to the finest detail to maintain its global position as the pinnacle luxury automobile manufacturer in the world. How do you think the Rolls-Royce brand helps, or hurts, other BMW brands globally (i.e., BMW, the MINI)?

ANSWER 3: Many students, like many car buyers, may be surprised to learn that Rolls Royce is part of BMW. For that reason, students may suggest that the Rolls Royce brand has very little impact on the BMW portfolio. Other students though may disagree, suggesting that instead, the Rolls Royce brand brings a level of prestige and old school excellence to BMW. Students might suggest for example, that the craftmanship that is found in the interior of Rolls Royce vehicles might inspire the interiors of high-end BMW models and attract buyers looking for luxurious interiors as well as a sporty ride. Still other students might wonder whether the company capitalizes on economies of scale in design across is various brands.

4. The MINI is a unique car offering in the BMW portfolio. It has long-engaged in clever solutions and distinctive designs that have enabled terrific urban driving and have catered to customers' individual needs. Do you agree that this is the focus for the MINI, and do you think it is working as advertised globally?

ANSWER 4: Responses to this question will vary by student. Many will agree that MINI buyers are often those looking for a fun, quirky car that is different from traditional sedans. Students may point out that like the Volkswagen Beetle, MINI has a reputation as a car that appeals to younger buyers looking for an affordable car that still allows them to show their individuality as well as older buyers not yet ready to buy the more sedate cars often chosen by other people in their demographic group. Students will probably agree that MINI is targeting a similar segment across the globe and so can use a similar message and design everywhere. Students should recognize that the ability to standardize both product design and message represents a huge savings for MINI and BMW.

Teaching Notes

The focus of this case is on globalization. Many students will recognize BMW as a German brand but may be unaware that BMW now owns both Rolls Royce and MINI. Indeed, many students may think of both MINI and Rolls Royce as being British companies. Discuss why the heritage of a brand can be a factor in the buying decision for cars. Ask students whether BMW should focus on the British heritage of Rolls Royce and MINI or their more recent German ownership. What does the BMW brand imply about its cars? Then, consider other companies and their brands. Why has the auto industry become so global? Challenge students to identify various auto brands and their owners. For example, Volvo, once an iconic symbol of Sweden, is now owned by China's Geely and India's Tata Motors owns former British brands Land Rover and Jaguar. Discuss how showcase brands like Jaguar and Volvo bring prestige to companies that are trying to build a presence in a highly competitive industry. Students might also explore why the auto industry is a global one and reflect on how domestic market size drives companies to develop markets in other countries as well. Finally, discuss how opportunities for global production have resulted in cars being labeled American for example, yet being assembled in Mexico using parts that are produced all over the world.

Lecture Note: To extend this discussion, consider https://www.forbes.com/sites/nargessbanks/2019/06/18/insight-bmw-design-director-adrian-van-hooydonk/#4bcb5635e087.

This case works well with Chapter 1. It can also be used with Chapter 13.