**Chapter 1: Globalization**

# Table of Contents

[**Learning Objectives**](#_Learning_Objectives)

[**Chapter Summary**](#_Chapter_Summary)

[**Chapter Opening Activity**](#_Chapter_Opening_Activity)

[**Chapter Outline**](#_Chapter_Outline)

Opening Case: Detroit Bikes

Introduction

What Is Globalization?

Did You Know Video Clip: Did You Know? Trade Tripled for the United States as a Percentage of GDP

The Emergence of Global Institutions

Drivers of Globalization

Role of Technological Change

The Changing Demographics of the Global Economy

The Globalization Debate

Managing in the Global Marketplace

[**End-of-Chapter Resources**](#_End-of-Chapter_Resources)

Critical Thinking and Discussion Questions

globalEDGE™ Research Task

Closing Case: How the iPhone Is Made: Apple’s Global Production System

[**Continuous Case Concept**](#_Continuous_Case_Concept)

[**Additional Readings and Sources of Information**](#_Additional_Readings_and)

# Learning Objectives

1-1 Understand what is meant by the term *globalization*.

1-2 Recognize the main drivers of globalization.

1-3 Describe the changing nature of the global economy.

1-4 Explain the main arguments in the debate over the impact of globalization.

1-5 Understand how the process of globalization is creating opportunities and challenges for management practice.

# Chapter Summary

This opening chapter introduces the reader to the concepts of globalization and international trade and provides an introduction to the major issues that underlie these topics. The components of globalization are discussed, along with the drivers of globalization and the role of the General Agreement on Tariffs and Trade (GATT) and its successor the World Trade Organization (WTO) in lowering trade barriers. The influence of technological change in facilitating globalization is also discussed, along with the role of multinational firms in international business.

The chapter also describes the changing demographics of the global economy, with a special emphasis on the increasingly important role of developing countries, especially China, in world trade. This discussion is complemented by a description of the changing world order, which was brought on by the collapse of communism in Eastern Europe and republics of the former Soviet Union. The chapter ends with a candid overview of the pros and cons of the trend towards globalization.

# Chapter Opening Activity

Conduct this activity during the first week of class, as an icebreaker.

After students introduce themselves, ask them what their aspirant professional job will be after graduation. Organize the responses into groups on the whiteboard: accountants, supply chain managers, ERP managers, business owner or entrepreneur, marketing and sales reps, etc. Then, ask what additional skills they will need to do those jobs with *international* customers, suppliers, and co-workers.

The idea is to help students understand they are unlikely to be successful unless they understand globalization and develop cultural competencies. Skills they might name include: comfortable with rapid change; can understand national cultural differences; can work in diverse cultures; can adapt to diverse management, leadership, and participation styles; can understand differences in intercultural communication; can build relationships, be a lifelong learner, and others.

# Chapter Outline

Detroit Bikes

opening case

**Summary**

The opening case explores the globalization of the bike industry. In the 1970s, the United States produced some 15 million bikes every year. Bike 2018 however, about 95 percent of the bikes sold in the United States were assembled in China. China also produced much of the industry’s bike components, leaving U.S. bike companies to focus on design and marketing. In 2013, Detroit Bikes set out to change this trend and bring bike production back to the United States. This strategy has proved to be challenging, and even more difficult following Donald Trump’s trade war with China which targeted bike parts among other products for hefty tariffs. Detroit Bikes remains optimistic that its dream of American-made bikes will succeed, but for now, is pursuing a patchwork of strategic initiatives including importing parts from Vietnam and Taiwan to Canada, where the bikes would be assembled prior to shipping them to the United States.

**Discussion Questions**

1. Discuss globalization and how the bike industry epitomizes the phenomenon. How has globalization, and specifically the globalization of markets and production, changed the nature of the U.S. industry?

Globalization refers to a world where cultural differences between countries are disappearing, barriers to cross-border trade and investment are decreasing, communication and technology are rapidly advancing, and national economies are becoming globally integrated systems. In short, globalization suggests a more integrated and interdependent world economy. For the U.S. bike industry, globalization means that much of the industry has moved to Asia, and especially to China. Nearly every aspect of bike production, from sourcing of parts like tires and seats, to final assembly, now takes part in China. Indeed, U.S. companies looking to produce their product in the United States will find it difficult to acquire locally made parts and also labor skilled in bike production. At the same time, because labor costs are so much lower in China, consumers benefit from lower prices on imported bike. Paradoxically, this also means that a U.S. company like Detroit Bikes, that manages to produce its product domestically, will likely be less competitive, at least on price. Some students might note that because much of the world’s bike production takes place in Asia, disruptions to the global supply chain associated with the COVID-19 pandemic have been especially vexing for retailers, producers, and consumers.

2. How has U.S. trade policy impacted Detroit Bikes? What does it mean for consumers? What does it mean for the workforce at Detroit Bikes?

A country’s trade policy can often have unintended implications for companies. Bikes and bike parts were among the many products affected by Donald Trump’s ongoing trade dispute with China. And, while the policy was almost certainly not intended to hurt the domestic industry, in fact, the tariffs effectively raised prices for Detroit Bikes and also for consumers. To get around the tariffs, Detroit Bikes has considered moving its production to Canada. This strategy, of course, would have a direct impact on its U.S. workforce and could also have local spillover effects. Moving production and assembly to Canada could be beneficial for consumers though, who would likely enjoy lower prices as well as more choice.

**Teaching Tip:** To extend the discussion, consider <https://www.cnbc.com/2014/08/01/in-waterloo-wisconsin-a-passion-for-made-in-usa-bicycles.html>.

CONNECT

Case Analysis

*Detroit Bikes*

Summary

This activity focuses on globalization as it relates to the bike industry. In 2013, Detroit Bikes set out to reclaim bike production as an American activity. The task has proved to be much more difficult than anticipated, and challenges like the 25 percent tariffs on imported bike parts, imposed as part of Trump’s trade war with China, have forced the company to rethink its strategy.

Activity

Students are asked to read a short case exploring the challenges faced by Detroit Bikes in its quest to produce its product in the United States and then respond to a series of questions related to the case.

Class Discussion

Globalization has transformed some industries like bicycle production. Discuss why bike production moved to China, and why China has a competitive edge, not only in assembling bikes, but also in producing bike parts. Can Detroit Bikes produce a competitive product in the United States? How might the globalization of production and markets benefit Detroit Bikes in its endeavor? How might globalization be problematic?

**Introduction**

A) *Globalization* refers to the trend towards a more integrated global economic system where barriers to cross-border trade and investment are declining, perceived distance is shrinking thanks to advances in transportation and telecommunications, and material cultures are more similar across borders.

B) The effects of globalization can be seen everywhere, from the cars people drive and the food they eat to the jobs they have and the clothes they wear.

**Lecture Note:** To extend this discussion, consider <http://review.chicagobooth.edu/economics/2018/article/globalization-close-its-holy-cow-moment> and <https://hbr.org/2017/07/globalization-in-the-age-of-trump>. The first provides an alternative perspective of globalization and in particular, the role of services. The second explores globalization under the Trump Administration.

**Lecture Note:** The U.S. Census Bureau offers an extensive website that maintains, among other things, monthly statistics on trade between the United States and its trading partners: <https://www.census.gov/foreign-trade/index.html>.

**Teaching Tip:** Having a global mindset is becoming an important variable in the hiring selection process at some companies. Ask your students what it means to have a global mindset. Then, ask students to think about where they stand on the global mindset tips provided in <https://trainingindustry.com/articles/strategy-alignment-and-planning/5-ways-to-develop-a-global-mindset>.

**What** **Is** **Globalization**?

A) **Globalization** refers to the shift towards a more integrated and interdependent world economy.

**Video Note:** To explore globalization from the perspective of Volvo’s global strategy, consider *Volvo Cars: CEO: It’s Important to Build Cars in the U.S.* in the International Business Library at [http://bit.ly/MHEIBVideo](https://na01.safelinks.protection.outlook.com/?url=http%3A%2F%2Fbit.ly%2FMHEIBVideo&data=01%7C01%7Canke.weekes%40mheducation.com%7Ca25dc9eb643246ce47ad08d41a1dec6d%7Cf919b1efc0c347358fca0928ec39d8d5%7C1&sdata=PGTbnKJeqo4tban6vepacEyP5nezpxGm42CaB%2B3aOG8%3D&reserved=0)*.* Click “Ctrl+F” on your keyboard to search for the video title.

Additionally, our McGraw-Hill Education International Business Video Library at [http://bit.ly/MHEIBVideo](https://na01.safelinks.protection.outlook.com/?url=http%3A%2F%2Fbit.ly%2FMHEIBVideo&data=01%7C01%7Canke.weekes%40mheducation.com%7Ca25dc9eb643246ce47ad08d41a1dec6d%7Cf919b1efc0c347358fca0928ec39d8d5%7C1&sdata=PGTbnKJeqo4tban6vepacEyP5nezpxGm42CaB%2B3aOG8%3D&reserved=0) 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.

**THE GLOBALIZATION OF MARKETS**

B) The **globalization of markets** refers to the merging of historically distinct and separate national markets into one huge global marketplace in which the tastes and preferences of consumers in different nations are beginning to converge upon some global norm. The global acceptance of Coca-Cola, Citigroup credit cards, IKEA furniture, and McDonald's hamburgers are all examples. Firms, large and small, not only benefit from the globalization of markets, but they also, by offering the same basic products worldwide, facilitate the trend.

C) Yet there are still significant differences between markets that frequently require that marketing strategies, product features, and operating practices be customized for a country. In fact, most global markets are for industrial goods and materials that serve a universal need around the world like microprocessors, rather than for consumer products. In many industries, there is no such thing as a “German market” or an “American market,” there is only a global market.

**Video Note:** To explore the role of globalization and global markets, consider *Starbucks CEO Howard Schultz on First Roastery in Italy* in the International Business Library at [http://bit.ly/MHEIBVideo](https://na01.safelinks.protection.outlook.com/?url=http%3A%2F%2Fbit.ly%2FMHEIBVideo&data=01%7C01%7Canke.weekes%40mheducation.com%7Ca25dc9eb643246ce47ad08d41a1dec6d%7Cf919b1efc0c347358fca0928ec39d8d5%7C1&sdata=PGTbnKJeqo4tban6vepacEyP5nezpxGm42CaB%2B3aOG8%3D&reserved=0)*.* Click “Ctrl+F” on your keyboard to search for the video title.

**THE** **GLOBALIZATION** **OF** **PRODUCTION**

D) 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 land, labor, capital, and energy), thereby allowing them to compete more effectively against their rivals.

**Video Note:** To explore the role of globalization and the globalization of production, consider *Was Your T-Shirt Made in North Korea?* in the International Business Library at [http://bit.ly/MHEIBVideo](https://na01.safelinks.protection.outlook.com/?url=http%3A%2F%2Fbit.ly%2FMHEIBVideo&data=01%7C01%7Canke.weekes%40mheducation.com%7Ca25dc9eb643246ce47ad08d41a1dec6d%7Cf919b1efc0c347358fca0928ec39d8d5%7C1&sdata=PGTbnKJeqo4tban6vepacEyP5nezpxGm42CaB%2B3aOG8%3D&reserved=0)*.* Click “Ctrl+F” on your keyboard to search for the video title.

**Did You Know? Video Clip**

The video clip asks: Did you know that trade tripled for the United States as a percentage of GDP?

**Discussion** **Questions**

1. What are the benefits of global production for Boeing? Do you see any risks with this strategy?

*The decision by Boeing to outsource some 65 percent of its 787 aircraft is a stark contrast to the strategy it used when building its 737 and 747 aircraft. Those planes were largely built in the United States. For the 787 however, Boeing kept key activities such as design and marketing in the United States, and then worked with 50 suppliers located around the world for much of the aircraft’s production. For Boeing the strategy meant lower costs and higher value, but it also meant greater risk as control over the operation was ceded to outside companies.*

2. Roughly two-thirds of the value of Boeing’s 787 aircraft is outsourced to companies around the world. Is Boeing still an American company?

*While Boeing outsources a significant percentage of the value of its 787 aircraft to companies in other countries, critical activities such as design, final assembly, an engineering remain in the United States. This would suggest that Boeing is indeed an American company. That being said, it 787 aircraft could be labeled an international product.*

3. What role to companies, like Boeing, that outsource production play in the increase in trade as a percentage of GDP? What are the benefits to companies of outsourcing production?

*Much of the increase in global trade has been driven by companies that outsource production to places China and Mexico. Outsourcing allows companies to capitalize on lower cost labor, thereby increasing profits, as well as increase efficiency. Because this type of strategy involves exporting and importing parts and finished products, trade between nations is increased.*

management FOCUS: Boeing’s Global Production System

**Summary**

The feature explores U.S. aircraft manufacturer Boeing’s approach to the production of its Dreamliner 787 airplane. Boeing’s strategy was unlike any of its previous strategies. Instead of producing much of the aircraft itself, Boeing, noting that 80 percent of its customers were foreign airlines, decided to outsource some 65 percent of the value of the Dreamliner to suppliers located around the world. This strategy introduced several challenges for Boeing, and production of the 787 was delayed by four years.

**Discussion Questions**

Please see Critical Thinking and Discussion Question #7 for discussion of this feature.

**Teaching Tip:** To learn more about Boeing, go to [http://www.boeing.com](http://www.boeing.com/).

**Video Note:** To extend the discussion on Boeing consider *How the Boeing Max Became Boeing’s Fastest Selling Plane* in the International Business Library at <http://bit.ly/MHEIBVideo>.

**The Emergence of Global Institutions**

A) Over the last half-century, several global institutions have been created to help manage, regulate, and police the global marketplace, as well as to promote the establishment of multinational treaties to govern the global business system. The **World Trade Organization (WTO)**, like its predecessor the **General Agreement on Tariffs and Trade (GATT),** is responsible for policing the world trading system and making sure that nations adhere to the rules established in WTO treaties. As of 2020, the 164 nations that account for about 98 percent of world trade were all members of the WTO. The **International Monetary Fund (IMF)** maintains order in the international monetary system while the **World Bank** promotes economic development. The **United Nations (UN)** maintains international peace and security, develops friendly relations among nations, cooperates in solving international problems, promotes respect for human rights, and is a center for harmonizing the actions of nations.

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.

**Drivers** **of** **Globalization**

A) Two macro factors seem to underlie the trend toward greater globalization. First, the decline in barriers to the free flow of goods, services, and capital that has occurred since the end of World War II; and second, technological change. Dramatic technological change in recent decades has brought about advances in communication, information processing, and transportation.

**DECLINING TRADE AND INVESTMENT BARRIERS**

B) **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. After WWII, the industrialized countries of the West started a process of removing barriers to the free flow of goods, services, and capital between nations. Under GATT, nations negotiated even further decreases in tariffs and made significant progress on several non-tariff issues (e.g. intellectual property, trade in services). With the establishment of the WTO, a mechanism now exists for dispute resolution and the enforcement of trade laws.

**Teaching Tip:** A comprehensive overview of GATT is available at

<http://www.ciesin.org/TG/PI/TRADE/gatt.html>.

**Teaching Tip:** 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 of current talks.

**Teaching Tip:** To extend this discussion and to explore the impact of U.S. trade policy under Donald Trump, go to <https://www.bloomberg.com/news/articles/2018-08-13/trump-s-trade-tirade-can-t-slow-this-booming-canadian-port>.

**Video Note:** To explore the idea of global trade without U.S. leadership, consider *Global Trade Without U.S. Leadership Does Donald Trump Care?* in the International Business Library at [http://bit.ly/MHEIBVideo](https://na01.safelinks.protection.outlook.com/?url=http%3A%2F%2Fbit.ly%2FMHEIBVideo&data=01%7C01%7Canke.weekes%40mheducation.com%7Ca25dc9eb643246ce47ad08d41a1dec6d%7Cf919b1efc0c347358fca0928ec39d8d5%7C1&sdata=PGTbnKJeqo4tban6vepacEyP5nezpxGm42CaB%2B3aOG8%3D&reserved=0)*.* Click “Ctrl+F” on your keyboard to search for the video title.

C) This removal of barriers to trade has taken place in conjunction with increased international trade, world output, and foreign direct investment.

D) Between 1960 and 2019 the value of the world economy (adjusted for inflation) increased 9.4 times, while the value of international trade in merchandised goods increased 21.4 times. By 2019, the value of world trade in merchandised goods was 19.5 trillion, while the value of trade in services was $6 trillion.

E) The success of the efforts by GATT and WTO to reduce barriers to trade has been supplemented by bilateral and regional trade agreements. The number of such agreements has increased from fewer than 50 in the early 1990s, to some 300 today. Similarly, the value of FDI has grown significantly over the last 30 years. In 1990, about $244 billion in foreign investment was made by enterprises. By 2019, that figure had increased to $1.5 trillion.

F) The growing integration of the world economy into a single, huge marketplace is increasing the intensity of competition in a range of manufacturing and service industries, often prompting demands for protection from foreign competition. While it is unlikely that these calls will result in a return to the era of high barriers to trade and investment, the election of Donald Trump is representative of a move by some toward a more isolationist agenda.

G) In 2020, global supply chains were hit hard by the COVID-19 global pandemic. Many firms are now rethinking their production strategies and whether moving them closer to home could help avoid future disruptions. Should this become the trend, globalization will slow.

H) Predictions from the World Trade Organization are that cross border investment may fall by as much as 40 percent in the wake of the COVID-19 pandemic.

**ROLE OF TECHNOLOGICAL CHANGE**

I) While the lowering of trade barriers made globalization of markets and production a theoretical possibility, technological change made it a tangible reality.

**Communications**

J) Since the end of World War II, there have been major advances in communications and information processing.

K) **Moore’s Law** predicts the power of microprocessor technology doubles and its cost of production falls in half every 18 months. As this happens, the cost of global communication plummets, lowering the cost of coordinating and controlling a global organization.

**The Internet**

L) The Internet, which has experienced explosive growth worldwide, promises to continue to develop as the information backbone of tomorrow's global economy. The Internet effectively allows its 4.5 billion users in 2019 to find each other. For business, it can be a goldmine. In the United States, online retail sales were about $600 billion in 2019, while global e-commerce sales surpassed $3.5 trillion.

**Transportation Technology**

M) In addition to these developments, several major innovations in transportation technology have occurred since World War II. In economic terms, the most important are probably the development of commercial jet aircraft and super freighters and the introduction of containerization, which greatly simplifies transshipment from one mode of transport to another.

**Implications for the Globalization of Production**

N) Due to technological innovations, the real costs of information processing and communication have fallen dramatically over the past two decades. These developments make it possible for a firm to create and then manage a globally dispersed production system, further facilitating the globalization of production. A worldwide communications network has become essential for many international businesses.

**Implications for the Globalization of Markets**

O) As a consequence of these trends, a manager in today's firm operates in an environment that offers more opportunities but is also more complex and competitive than that faced a generation ago. While there has been some convergence of consumer tastes and preferences between markets (a global culture), firms must still address differences between countries.

CONNECT

Click and Drag

*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.

**The Changing Demographics of the Global Economy**

A) As late as the 1960s, four facts described the demographics of the economy. The first was the U.S. dominance in the world economy and the world trade picture. The second was U.S. dominance in world foreign direct investment. The third fact was the dominance of large, multinational U.S. firms on the international business scene. The fourth was that roughly half of the globe—the centrally planned economies of the Communist world—was off limits to Western international business.

**THE CHANGING WORLD OUTPUT AND THE CHANGING WORLD TRADE PICTURE**

B) In the early 1960s, the U.S. was still by far the world's dominant industrial power. In 1960, for example, the U.S. accounted for 38.3 percent of world manufacturing output. By 2018, the United States accounted for only 24 percent. This decline in the U.S. position was not an absolute decline, rather, it was a relative decline, reflecting the faster economic growth of several other economies, most notably those in Asia. China, now the world’s largest economy, is responsible for 15.2 percent of world output.

**Video Note:** To explore how a trade war between the United States and China could hurt emerging economies in Asia, consider *Why a U.S. – China Trade War Could Hurt Asia* in the International Business Library at [http://bit.ly/MHEIBVideo](https://na01.safelinks.protection.outlook.com/?url=http%3A%2F%2Fbit.ly%2FMHEIBVideo&data=01%7C01%7Canke.weekes%40mheducation.com%7Ca25dc9eb643246ce47ad08d41a1dec6d%7Cf919b1efc0c347358fca0928ec39d8d5%7C1&sdata=PGTbnKJeqo4tban6vepacEyP5nezpxGm42CaB%2B3aOG8%3D&reserved=0)*.* Click “Ctrl+F” on your keyboard to search for the video title and access to teaching notes and discussion questions for this video.

C) If we look into the future, most forecasts now predict a rapid rise in the share of world output accounted for by developing nations such as China, Russia, India, Indonesia, Thailand, Mexico, Brazil, and South Korea, and a commensurate decline in the share enjoyed by rich industrialized countries such as Great Britain, Germany, Japan, and the United States. For international companies, these trends suggest that future economic opportunities may be greater in developing nations, and that new competitors are likely to emerge from these countries.

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.

countryFOCUS: India’s Software Sector

**Summary**

This feature explores the growth of India’s software industry. Starting from nothing just twenty-five years ago, Infosys Technologies now generates revenues of $10.2 billion and exports of more than $100 billion. India’s growth in the software sector is based on its abundant supply of engineers, low labor costs, India’s fluency in English, and time differences between India and the U.S. As Indian firms have done more business with large U.S. firms, U.S. firms have begun investing in their own Indian operations.

**Discussion** **Questions**

1. What factors have contributed to the growth of India’s software industry? In your opinion, is the growth of India’s software sector a reflection of the growth of the overall economy or is the growth of the software sector prompting the growth of the entire economy?

Four key factors have contributed to the growth of India’s software industry. First is the huge number of engineers in India. Some 400,000 engineers graduate from Indian universities every year. A second factor is India’s low wage structure. Indian engineers make about 12 percent of what an American colleague might make. Third, coordination between Western firms and Indian firms is facilitated by the large number of English-speaking Indians. Finally, because of the differences in time zones, Indian firms operate while American firms are closed. Many students will probably suggest that without these contributing factors, growth in the software sector would have almost certainly been more limited.

2. How has India’s software industry changed in recent years? What are the implications of these changes for American companies like IBM and Microsoft?

There has been a gradual shift in the Indian software industry in recent years. Initially, Indian firms focused on the low end of the industry to supply basic software development and testing services to Western firms. Today, however, many companies have moved into higher end services to compete for large software development projects, business outsourcing contracts, and information technology consulting services. This new competitive threat is forcing American firms like IBM and EDS to rethink their global strategies. Some Western companies are now investing in India with the goal of capturing some of the cost advantages Indian companies like Infosys Technologies enjoy.

**Lecture Note:** India’s smartphone industry is growing rapidly and Samsung is just one company that is looking to capitalize on this growth. To learn more, go to <https://www.bloomberg.com/news/articles/2018-07-09/world-s-largest-mobile-phone-factory-set-to-open-in-india>.

**THE CHANGING FOREIGN DIRECT INVESTMENT PICTURE**

E) As shown in Figure 1.2 in the textbook, the share of total foreign direct investment stock for developed economies such as the United States and the United Kingdom has declined since 1995. Meanwhile, the same statistic indicates a considerable increase in developing economies.

F) As shown in Figure 1.3, this trend is mirrored in FDI flows. However, fluctuations appear in the total amount of foreign direct investment inflows due to economic factors.

**THE CHANGING NATURE OF THE MULTINATIONAL ENTERPRISE**

G) A **multinational enterprise** is any business that has productive activities in two or more countries.

**Non-U.S. Multinationals**

H) In the 1960s, large U.S. multinationals dominated the global business environment, accounting for about two-thirds of all foreign direct investment. The globalization of the world economy has resulted in a relative decline in the dominance of U.S. firms as well as firms from other developed countries. Today, just over a quarter of the top 2,000 global firms are U.S. multinationals, while at the same time, powerful global competitors have emerged from developing nations. Looking to the future, we can reasonably expect the growth of new multinational enterprises (any business that has productive activities in two or more countries) from the world's developing nations.

management FOCUS: The Dalian Wanda Group

**Summary**

This feature examines the expansion of the Dalian Wanda Group from its beginning in 1988. Originating in China, the company is well-known within the country as an important real estate developer. In 2012, Dalian Wanda expanded by purchasing the cinema chain AMC Entertainment Holdings in the United States. This expansion continued in 2015 with the acquisition of an Australian cinema operator, as well. With properties in Los Angeles, Chicago, Spain, and London, Dalian Wanda's goal is to have assets of $200 billion, revenues of $100 billion, and net profits of $10 billion by 2020.

**Discussion** **Questions**

1. How has Dalian Wanda Group established itself in its home market of China? In other words, what is the company best known for?

The company has had much success with five-star hotels as it is the largest owner of this hotel category. In addition, with activities in the film, sports, tourism, and children's entertainment industries, Dalian Wanda Group is well-positioned within China to expand internationally based on the experiences developed thus far.

2. Why has Dalian Wanda Group expanded internationally at such a fast rate? How do the acquisitions made fit into the company's strategy overall?

Dalian Wanda Group has identified that it aims to have assets of $200 billion, revenues of $100 billion, and net profits of $10 billion by 2020. One approach to accomplish this is to expand internationally based on the skills the company has developed thus far. Since its core competencies include real estate development focusing on the film industry, in particular, Dalian Wanda Group saw the opportunity to negotiate better distribution terms with movie studios after its purchase of cinemas in the United States and Australia. Because of these and other expansions, the actions discussed assist the company to reach its goals for assets, revenues, and net profits.

**Teaching Tip:** To learn more about Wanda Group go to [http://www.wanda-group.com](http://www.wanda-group.com/).

**Lecture Note:** Wanda Group’s plans to continue to expand into the U.S. market may soon be going on hold. To learn more and extend the discussion of this feature, go to <http://www.bloomberg.com/news/articles/2016-01-12/china-s-richest-man-to-buy-godzilla-producer-for-3-5-billion> and <https://www.reuters.com/article/us-dalian-wanda-results/chinas-dalian-wanda-group-says-2017-revenue-down-10-8-percent-on-asset-sales-idUSKBN1F90G5>.

**The Rise of Mini-Multinationals**

I) Another trend in international business has been the growth of medium-sized and small multinationals. These businesses are referred to as mini-multinationals.

**THE CHANGING WORLD ORDER**

J) The collapse of communism in Eastern Europe presented a host of export and investment opportunities for Western businesses. However, because of growing unrest and totalitarian tendencies in many states, companies must be cautious.

K) The economic development of China presents huge opportunities and risks, despite its continued Communist control. In addition, firms must be aware of the threat posed by China’s emerging multinationals.

L) For North American firms, the growth and market reforms in Mexico and Latin America also present tremendous new opportunities both as markets and sources of materials and production. However, given the history of economic mismanagement in Latin America, the favorable trends may not continue.

**THE GLOBAL ECONOMY OF THE TWENTY-FIRST CENTURY**

M) The path to full economic liberalization and open markets is not without obstruction. Economic crises in Latin America, South East Asia, and Russia all caused difficulties in 1997 and 1998.

N) While firms must be prepared to take advantage of an ever more integrated global economy, they must also prepare for political and economic disruptions that may throw their plans into disarray. The 2008–2009 financial crisis that began in the United States, for example, quickly spread to much of the rest of the world. More recently, disruptions to global supply chains as a result of the COVID-19 pandemic have raised questions about relying on globally dispersed production systems. Going forward, it is likely that hedging strategies will become more important to protect against risks like these and also against emerging nationalistic tendencies.

**The Globalization Debate**

A) Is the shift toward a more integrated and interdependent global economy a good thing? While many economists, politicians and business leaders seem to think so, globalization is not without its critics. Globalization stimulates economic growth, raises the incomes of consumers, and helps to create jobs in all countries that choose to participate in the global economy. Yet, there is a rising tide of opposition to globalization.

**ANTIGLOBALIZATION PROTESTS**

B) Since 1999, when protesters against globalization targeted the WTO meeting in Seattle, anti-globalization protesters have turned up at almost every major meeting of a global institution. Protesters fear that globalization is forever changing the world in a negative way. This fear was evident in the 2016 presidential election in the United States.

country FOCUS: Donald Trump’s America First Policies

**Summary**

This feature explores Donald Trump’s America First campaign and what it means for the United States and the rest of the world. As a candidate, Donald Trump frequently derided multilateral agreements including the Paris Accord on climate change, the Trans Pacific Partnership, and the North American Free Trade Agreement (NAFTA). Generally criticizing the agreements as being bad for America, Trump promised that as president, he would renegotiate the agreements so that they were more in America’s favor, or pull out all together. As president, Trump made good on his promise, pulling out of the Paris Accord with the claim that climate change is a hoax, withdrawing from the Trans Pacific Partnership soon after taking office, and renegotiating NAFTA. In addition, Trump used the threat of tariffs in negotiations with other countries including China sparking trade disputes that made it difficult for many American companies to conduct their business. While Donald Trump’s rejection of globalization and the role of the United States resonated with his followers, for his detractors, the policy was a loss for the United States.

**Discussion Questions**

1. Reflect on the role of multilateral agreements like the Paris Accord on climate change in the context of the global economy. What purpose do agreements like these serve? Do you agree with Donald Trump’s decision to withdraw from the agreement? Why or why not?

This question will probably generate considerable discussion. Those who support Donald Trump will contend that the agreement did not serve the United States. Students sharing this view may question the existence of climate change as an existential threat to humanity and, like Donald Trump, view the agreement as unnecessary. Other students will argue that the decision by Donald Trump to withdraw from the agreement was misguided at best, and foolish on many levels. Students taking this perspective will point out that climate change knows no boundaries and that the world must come together to solve the problem. While some may contend that the agreement did not go far enough, others will probably suggest that having a framework in place is an important starting point in working toward a solution.

2. What was the Trans Pacific Partnership and why did President Obama see it as an important agreement? Do you support the Donald Trump’s decision to withdraw from the agreement? Explain.

Responses to this question will likely be divided along political lines. Many students, despite supporting Donald Trump’s decision to withdraw from the Trans Pacific Partnership, may not have any idea what the agreement was actually intended to do. Other students will probably point out that the agreement was designed to set the rules for trade in region, and that Donald Trump’s decision to pull out created an opening for China to play a much bigger role in the region. Students sharing this perspective may note that by withdrawing, the United States is no longer able to put its interests on the table and lead the way on the rules for global trade and investment. Some students may also suggest that given the remaining countries went forward with their own agreement, the United States is now left in the cold.

**Teaching Tip:** To learn more about the Trans Pacific Partnership, go to <https://www.cfr.org/backgrounder/what-trans-pacific-partnership-tpp>.

**Teaching Tip:** To extend the discussion of Donald Trump’s America First policy, consider <https://www.brookings.edu/blog/order-from-chaos/2019/01/04/america-first-is-only-making-the-world-worse-heres-a-better-approach/>.

**Video Note:** Protesting globalization is not uncommon. Consider <https://www.npr.org/sections/thetwo-way/2017/07/07/535959974/flames-subside-but-protests-continue-as-g20-leaders-gather-for-hamburg-summit> to explore some recent protests against globalization.

**GLOBALIZATION, JOBS, AND INCOME**

C) In developed countries, labor leaders lament the loss of good-paying jobs to low-wage countries. However, 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. Free trade advocates suggest that despite some job dislocation, the whole economy is better off with free trade. They make a similar argument to support the outsourcing of services like call centers to low-wage countries. However, given that the wage gap between developed and developing countries is closing, the migration of unskilled jobs to low-cost nations may only be a temporary phenomenon.

**Teaching Tip:** For resources related to exporting, the export assistance center at [http://www.export.gov](http://www.export.gov/) can provide insight into this process.

**Video Note:** Video clips related to importing and exporting are available at <http://www.census.gov/foreign-trade/aes/exporttraining/videos/index.html>. A variety of topics are available to consider.

**GLOBALIZATION, LABOR POLICIES, AND THE ENVIRONMENT**

D) A second source of concern is that free trade encourages firms from advanced nations to move manufacturing facilities offshore to less developed countries that lack adequate regulations to protect labor and the environment from abuse by the unscrupulous. Supporters of free trade and greater globalization express serious doubts about this scenario. They point out that tougher environmental regulation and stricter labor standards go hand in hand with economic progress. In general, as countries get richer, they enact tougher environmental and labor regulations.

E) Lower labor costs are only one of the reasons why a firm may seek to expand in developing countries. These countries may also have lower standards on environmental controls and workplace safety. Nevertheless, since investment typically leads to higher living standards, there is often pressure to increase safety regulations to international levels. This is indicated in Figure 1.5, which indicates that pollution levels decrease after per capita income levels reach $8,000. No country wants to be known for its poor record on health and human safety. Thus, supporters of globalization argue that foreign investment often helps a country to raise its standards.

**GLOBALIZATION AND NATIONAL SOVEREIGNTY**

F) Another concern voiced by critics of globalization is that in today's increasingly interdependent global economy, 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. As perceived by critics, the problem is that unelected bureaucrats are now sometimes able to impose policies on the democratically elected governments of nation-states, thereby undermining the sovereignty of those states.

G) With the development of the WTO and other multilateral organizations such as the EU and NAFTA, countries and localities necessarily cede some authority over their actions. Supporters of these organizations claim that if the organizations fail to serve the collective interests of member states, the states will withdraw their support and the organizations will collapse.

**GLOBALIZATION AND THE WORLD’S POOR**

H) Critics of globalization argue that over the last century, the gap between rich and poor has gotten wider, and the benefits of globalization have not been shared equally. However, supporters of free trade suggest that the actions of governments have limited economic improvement in many countries. In addition, debt may also be limiting growth in some countries. Today, there are various efforts underway to encourage debt relief programs.

**Video Note:** South Africa’s fishing industry, which has benefited from globalization, is now threatened by disruption in demand related to the novel coronavirus.To learn more, consider *Coronavirus: South Africa’s Economic Victims* in the International Business Library at [http://bit.ly/MHEIBVideo](https://na01.safelinks.protection.outlook.com/?url=http%3A%2F%2Fbit.ly%2FMHEIBVideo&data=01%7C01%7Canke.weekes%40mheducation.com%7Ca25dc9eb643246ce47ad08d41a1dec6d%7Cf919b1efc0c347358fca0928ec39d8d5%7C1&sdata=PGTbnKJeqo4tban6vepacEyP5nezpxGm42CaB%2B3aOG8%3D&reserved=0). Click “Ctrl+F” on your keyboard to search for the video title.

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 and 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.

**Managing in the Global Marketplace**

A) An **international business** is any firm that engages in international trade or investment.

B) As their organizations increasingly engage in cross-border trade and investment, managers need to recognize that the task of managing an international business differs from that of managing a purely domestic business in many ways. Countries differ in their cultures, political systems, economic systems, legal systems, and levels of economic development.

C) These differences require that business people vary their practices country by country, recognizing what changes are required to operate effectively. It is necessary to strike a balance between adaptation and maintaining global consistency, however.

D) As a result of making local adaptations, the complexity of international business is clearly greater than that of a purely domestic firm. Firms need to decide which countries to enter, what mode of entry to use, and which countries to avoid. Rules and regulations also differ, as do currencies and languages.

E) Managing an international business is different from managing a purely domestic business for at least four reasons: 1) countries differ, 2) the range of problems and manager faces is greater and more complex, 3) an international business must find ways to work within the limits imposed by governmental intervention and the global trading system, and 4) international transactions require converting funds and are susceptible to exchange rate changes.

CONNECT

Case Analysis

*How the iPhone is Made: Apple’s Global Production System*

Summary

This activity focuses on Apple’s production strategy for its iPhone. The company, which currently outsources much of its production to China, has come under fire both for shipping U.S. jobs abroad and for working with contractors that violate their employees’ human rights.

Activity

Students are asked to read a case exploring Apple’s global production strategy for its popular iPhone and then respond to a series of questions related to the case.

Class Discussion

Pursuing greater efficiency in production is generally seen as a positive strategy when it comes to profits. For Apple, that efficiency is achieved by outsourcing much of the production of its iPhone to China. However, there are serious concerns as to whether Apple, through its choice of subcontractors, is putting profit in front of human rights. Ask students to consider the issue from the perspective of various stakeholders including stockholders, domestic employees and managers, consumers, and employees at the subcontractor organizations. Is Apple making good decisions?

CONNECT

Video Case

*Did You Know? Trade Tripled for the United States as a Percentage of GDP*

Summary

This activity focuses on the growing interconnectedness of the global economy. Since 1960, trade as a percentage of GDP has tripled for the United States. Trade as a percentage of global GDP has grown from 24.1 percent in 1960 to more than 56 percent in 2016. Much of this growth can be attributed to individual enterprises unbundling their value creation activities and dispersing them to locations that are more efficient and effective.

Activity

Students are asked to watch a video on trade with a focus on Boeing, and then respond to a series of questions related to the video.

Class Discussion

It is essential that international managers understand the forces that shape the business world. After decades of general support for globalization, some are now challenging that perspective. The disruptions to global supply chains associated with the COVID-19 pandemic have highlighted the risks associated with global production. Ask students to discuss this trend and what it means for international companies like Boeing. Is it likely that Boeing will continue to disperse its value creation activities around the world, or will the company return to a more domestically oriented strategy?

#

# End-of-Chapter Resources

**Critical Thinking and Discussion Questions**

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 the United Kingdom? North America? Hong Kong?

Answer: The world economy has shifted dramatically over the past 30 years. As late as the 1960s, four trends described the demographics of the global economy. The first was U.S. dominance in the world economy and world trade. The second was U.S. dominance in the world foreign direct investment picture. Related to this, the third fact was the dominance of large, multinational U.S. firms in the international business scene. The fourth was that roughly fifty percent of the world—the centrally planned economies of the Communist world—was off-limits to Western international businesses. All of these demographic facts have changed. Although the U.S. remains the world's dominant economic power, its share of world output and world exports have declined significantly since the 1960s. This trend does not reflect trouble in the U.S. economy, but rather reflects the growing industrialization of developing countries such as China, India, Indonesia, and South Korea. This trend is also reflected in the world foreign direct investment picture. The share of world output (or the stock of foreign direct investment) generated by developing countries has been on a steady increase since the 1960s, while the share of world output generated by rich industrial countries has been on a steady decline. Shifts in the world economy can also be seen through the shifting power of multinational enterprises. Since the 1960s, there have been two notable trends in the demographics of the multinational enterprise. The first has been the rise of non-U.S. multinationals, particularly Japanese multinationals. The second has been the emergence of a growing number of small and medium-sized multinationals, called mini-multinationals. The fall of Communism in Eastern Europe and the republics of the former Soviet Union have brought about the final shift in the world economy. Many of the former Communist nations of Europe and Asia seem to share a commitment to democratic politics and free market economies. Similar developments are being observed in Latin America. If these trends continue, the opportunities for international business may be enormous. The implications of these shifts are similar for North America and Britain. The United States and Britain once had the luxury of being the dominant players in the world arena, with little substantive competition from the developing nations of the world. That has changed. Today, U.S. and British manufacturers must compete with competitors from across the world to win orders. Britain’s departure from the European Union suggests a desire for greater sovereignty, yet also seemingly puts the country in the difficult position of needing its trading partners more than they need Britain. The changing demographics of the world economy favor a city like Hong Kong. Hong Kong is well located with easy access to markets in Japan, South Korea, Indonesia, and other Asian markets. Further, Hong Kong has a vibrant labor force that can compete on par with the industrialized nations of the world, yet the creeping influence of Beijing in 2019 and 2020 set of violent protests as citizens demanded to keep their democratic rights. The declining influence of the United States and Britain on the global economy suggests that companies will look elsewhere for growth opportunities. Britain is already experiencing an exodus of foreign investment as companies that once used the country as a jumping off point for the European Union, move their business elsewhere. Hong Kong is also likely to see companies leave as they seek more stable business environments for their Asian bases in locations like Singapore.

Video Note: To extend this discussion, consider *Why Brexit Uncertainty Means Companies Plan for the Worst* in the International Business Library at [http://bit.ly/MHEIBVideo](https://na01.safelinks.protection.outlook.com/?url=http%3A%2F%2Fbit.ly%2FMHEIBVideo&data=01%7C01%7Canke.weekes%40mheducation.com%7Ca25dc9eb643246ce47ad08d41a1dec6d%7Cf919b1efc0c347358fca0928ec39d8d5%7C1&sdata=PGTbnKJeqo4tban6vepacEyP5nezpxGm42CaB%2B3aOG8%3D&reserved=0)*.*

Video Note: To extend this discussion, consider *From Tokyo to Sydney, Cities Vie To Replace Hong Kong as Asian Hub* in the International Business Library at [http://bit.ly/MHEIBVideo](https://na01.safelinks.protection.outlook.com/?url=http%3A%2F%2Fbit.ly%2FMHEIBVideo&data=01%7C01%7Canke.weekes%40mheducation.com%7Ca25dc9eb643246ce47ad08d41a1dec6d%7Cf919b1efc0c347358fca0928ec39d8d5%7C1&sdata=PGTbnKJeqo4tban6vepacEyP5nezpxGm42CaB%2B3aOG8%3D&reserved=0)*.*

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 smaller firms." Evaluate this statement.

Answer: People who believe in this view, and the firms that they work for, may find that they do not achieve their full potential (at best) and may ultimately fail because of their myopia. As barriers to trade decrease and state of the art technological developments take place throughout the world, new opportunities and threats exist on a worldwide basis. The rise of the mini-multinationals suggests there are global opportunities even for small firms. But staying attuned to international markets is not only important from the perspective of seeking profitable opportunities for small firms; it can also be critical for long-term competitive survival. Firms from other countries may be developing products that, if sold internationally, could wipe out small domestic competitors. Scanning international markets for the best suppliers is also important for small firms, for if a domestic competitor is able to tap into a superior supplier from a foreign country, it may be able to seriously erode another firm's competitive position before the small firm understands the source of its competitor's competitive advantage and can take appropriate counteractions.

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

Answer: Changes in technology have significantly contributed to the globalization of markets and of production. Improvements in transportation technology have paved the way for companies like Coca-Cola, Levi Strauss, Sony and McDonalds to make their products available worldwide. Similarly, improvements in communications technology have had a major impact. The ability to negotiate across continents has been facilitated by improved communications technology, and the rapidly decreasing cost of communications has lowered the expense of coordinating and controlling a global corporation. The power of advances in technology was on full display during the 2020 COVID-19 shutdowns, as companies around the world were transformed into web-based operations virtually overnight. Finally, the impact of information technology has been far reaching. Companies can now gain worldwide exposure simply by setting up a homepage on the Internet. This technology was not available just a few short years ago, yet online sales proved to be vital to the global economy during 2020 as traditional in-person shopping was replaced with shopping from home. The globalization of production and markets may have been possible without improvements in technology, but the pace of globalization would have been much slower. The falling cost of technology has made it affordable for many developing nations, which has been instrumental in helping these nations improve their share of world output and world exports. The inclusion of these nations, such as China, India, Thailand, and South Korea, has been instrumental in the globalization of markets and production. In addition, improvements in global transportation and communication have made it relatively easy for business executives from different countries to converse with one another. If these forms of technology, including air travel, fax capability, email, and overnight delivery of packages were not available, it would be much more difficult for businesses to conduct international trade.

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: This statement reflects a poor understanding of the unique challenges involved in international business. Managing an international business is different from managing a purely domestic business for at least four reasons. These are: (1) countries are different; (2) 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; (3) an international business must find ways to work within the limits imposed by government intervention in the international trade and investment system; and (4) international transactions involve converting money into different currencies. Because of these differences, there are ample reasons for studying international business as a specific field of study or discipline.

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

Answer: The Internet has changed the way companies do business. This technology makes it easier for individuals and companies in different countries to conduct business with one another and has lowered the cost of communications. These developments will undoubtedly hasten the already rapid pace of globalization and act as an equalizer between large (resource-rich) and small (resource-poor) firms. For instance, it does not cost any more for a small software firm to gain visibility via the Internet than it does for a large software company like Microsoft. As a result, the Internet helps small companies reach the size of audience that was previously only within the reach of large, resource-rich firms. Since COVID-19, the Internet has also changed the way meetings are held. Face-to-face meetings have been replaced with web-based meetings, allowing many businesses, including many services, to continue to operate even during a pandemic. The Internet has also transformed production and shipping as inventory levels and distribution can be tracked in real time allowing for leaner production and faster delivery times.

6. If current trends continue, China may be the world's largest economy by 2035. Discuss the possible implications of 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: The world trading system would clearly be affected by such a development. Currently, China enjoys a somewhat privileged status within the World Trade Organization as a “developing” country. Such a rise to eminence, however, would clearly force it to become a full and equal member, with all the rights and responsibilities. China would also be able to actively influence the terms of trade between many countries. On the monetary front, one would expect that China would have to have fully convertible and trading currency, and that ultimately it could become one of the “benchmark” currencies of the world. From the perspective of Western global firms, China would represent both a huge market, and potentially the home base of some very capable competitors. Students should recognize though, that the ongoing trade war between the United States and China during the Trump presidency has prompted some companies to move their operations to other locations in the region such as Vietnam. Finally, commodity prices would probably fall.

Video Note: To extend this discussion, consider *Tech Decoupling: China’s Race to End Its Reliance on the U.S.* in the International Business Library at [http://bit.ly/MHEIBVideo](https://na01.safelinks.protection.outlook.com/?url=http%3A%2F%2Fbit.ly%2FMHEIBVideo&data=01%7C01%7Canke.weekes%40mheducation.com%7Ca25dc9eb643246ce47ad08d41a1dec6d%7Cf919b1efc0c347358fca0928ec39d8d5%7C1&sdata=PGTbnKJeqo4tban6vepacEyP5nezpxGm42CaB%2B3aOG8%3D&reserved=0)*.*

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 of the Boeing 787 to firms based in other countries?

b. What are the potential costs and risks to Boeing 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: a. Boeing has traditionally outsourced some of the production of its aircraft, but it took outsourcing to a new level with the Dreamliner 787, outsourcing 65 percent of its value to suppliers located around the world. This strategy allowed each company including Boeing to focus on what it does best, allowing for greater efficiency and lower costs. Some students may also suggest that by using suppliers located in customer countries, Boeing could introduce a “local” element to the Dreamliner and gain goodwill with its customers.

b. With its new strategy, Boeing also encountered many problems, including challenges in coordinating its globally dispersed production chain. Production was frequently delayed, and the aircraft was ready for sale much later than Boeing had anticipated. Some students may note that while Boeing was able to benefit from the expertise of its suppliers, by outsourcing, the company also lost the ability to increase its own knowledge and skills.

c. Workers in the countries to which the outsourcing takes place benefit. In specific, these workers may receive competitive wages for the skills they provide to the companies developing and manufacturing the products in-country. Knowledgeable workers within Boeing would not have the opportunity to use their skills and―in some cases―could lose their jobs as a result.

d. Based on the design of the Boeing 787, there are some core competencies that Boeing must develop to manufacture the product. In the short term, it would be difficult for Boeing to experience that learning curve, but if the company is able to work through these problems, it may have more knowledge and capabilities to apply in different projects in the future. As a result, employee skills would be applied and potentially widened. By keeping these employees working, the communities that depend on the company and its employees would enjoy a certain level of success. However, for Boeing in particular, the financial investment to make for all production within the company could be a daunting proposition and may have an impact on profitability, as well.

e. There will be some students who will state that this action is good for the American economy as it allows an American company to focus on its core strengths. In addition, this line of thought could be supported by the notion that, because of this focus on core strengths, the economy would become more competitive. However, other students will state that this approach is bad for the American economy due to the loss of jobs and commerce within the United States. Those holding this view will cite the danger of increased unemployment or the lack of jobs fitting the specific skills of the employees who may no longer be needed in the aerospace industry in the United States.

Video Note: To extend this discussion, consider exploring the broader global airline industry through *Will It Be A “Borderless World” For Emirates Under Trump?* in the International Business Library at [http://bit.ly/MHEIBVideo](https://na01.safelinks.protection.outlook.com/?url=http%3A%2F%2Fbit.ly%2FMHEIBVideo&data=01%7C01%7Canke.weekes%40mheducation.com%7Ca25dc9eb643246ce47ad08d41a1dec6d%7Cf919b1efc0c347358fca0928ec39d8d5%7C1&sdata=PGTbnKJeqo4tban6vepacEyP5nezpxGm42CaB%2B3aOG8%3D&reserved=0)*.*

**globalEDGE™ Research Task**

Use the globalEDGE™ site ([globaledge.msu.edu](https://globaledge.msu.edu/)) to complete the exercises in the text.

**Exercise 1**

As the drivers of globalization continue to pressure 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 forecast 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.

How the iPhone Is Made: Apple’s Global Production System

closing case

**Summary**

This 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.

**Case Discussion Questions**

1. What are the benefits to Apple of outsourcing the assembly of the iPhone to foreign countries, and particularly China? What are the potential costs and risks to Apple?

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 foreign sources for some 90 percent of iPhone parts. Outsourcing means that Apple reduces its production costs and has the benefit of the flexibility of its suppliers to quickly ramp production up or down, however, it also means that the company is dependent on its supply chain working without interruption. Indeed, the company’s global supply chain was disrupted during the COVID-19 pandemic as factories in China were forced to close to stop the spread of the virus.

2. In addition to Apple, who else benefits from Apple’s decision to outsource assembly to China? Who are the potential losers here?

China, along with other countries that produce parts used in the iPhone, are among the big winners from Apple’s decision to outsource. The jobs created by Apple’s strategy are a direct benefit, but it is important to keep in mind that these jobs will have spillover effects as workers spend their earnings in their local economies. In addition, the success of Apple’s outsourcing strategy means that additional, higher skilled jobs are created in the United States. These jobs also have spillover effects. While some lower skilled jobs have moved to China, doing so allows Apple to keep its overall production costs lower, which then translates into higher profits for stockholders, and potentially lower prices for consumers.

3. What are the potential ethical problems associated with outsourcing assembly jobs to Foxconn in China? How might Apple deal with these?

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. The negative press associated with these claims is of course, detrimental to Apple’s reputation. Many students will probably suggest that Apple needs to be more vigilant when choosing its suppliers and conduct regular visits to supplier factories.

4. On balance, do you think that the kind of outsourcing undertaken by Apple is a good thing or a bad thing for the American economy? Explain your reasoning?

Responses to this question will vary by student. Apple has 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. Students may focus on the loss of manufacturing jobs in the United States and what it means to working class Americans and contend that Apple is putting profits ahead of the American worker and that as an American company, Apple has a responsibility to support American workers. Other students however, will agree that the outsourcing undertaken by Apple is a good thing for the American economy because it helps to support some 450,000 U.S. jobs. In addition, students may point out that Apple has retained jobs requiring higher skills in the United States. These jobs of course, will be higher wage positions. Students sharing this perspective may argue that if Apple produced the entirety of its iPhone in the United States, it would likely be uncompetitive and quickly go out of business, eliminating the jobs it does create and the economic growth associated with those jobs.

5. How can a company like Apple, with a global supply chain, hedge against the risks of significant supply chain disruption due to the emergence of a new virus such as the SARS virus that appeared in 2003 and the COVID-19 virus that appeared in 2020?

The speed with which the COVID-19 virus spread around the globe prompting the entire world to shut down in early 2020 caught most people by surprise. International cargo shipments ground to a halt and factories furloughed workers overnight. For companies like Apple that rely on highly efficient global supply chains, the disruption was a shock. Many companies are now rethinking their strategies. Some are moving key elements of their production closer to home, while others are reconsidering domestic production for at least part of their output. Still other companies are considering increasing inventory levels. Apple not only saw its supply chain dry up, it was also forced to close its retail store, in part because of supply issues. Students may suggest that developing a bigger online presence will be important for some companies as might rethinking the number and location of suppliers they rely on.

**Video Note:** To extend the discussion for Question 5, consider *Coronavirus Hits Companies in China, But They Still Have a Reason To Stay* in the International Business Library at <http://bit.ly/MHEIBVideo>.

Teaching Tip: Students can explore Apple’s website at <http://bit.ly/MHEIBVideo>.

Video Note: To extend this discussion, consider *Apple’s China Problem Goes Deeper than the iPhone* in the International Business Library at[*http://bit.ly/MHEIBVideo*](http://bit.ly/MHEIBVideo)*.*

CONNECT

Geography Mapping Activity

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 question 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.

# Continuous Case Concept

This feature allows you to integrate the material presented in each chapter of the text using a single industry, the auto industry. For each chapter, ideas will be presented on how to link the chapter contents to the current situation in the auto industry. This discussion can take place at the beginning of a new unit, at the end, or it could be threaded through the chapter material. In some cases, you may want to use the feature more than once. By using the continuous case concept, students will have the opportunity to understand how the elements presented throughout the text apply to an evolving, real situation.

* Sketch out a diagram of the auto industry showing the major players such as Ford, Chrysler, Toyota, Nissan, BMW, Mercedes, Tata, and Hyundai. Look at recent changes in corporate structure. For example, Italian automaker Fiat recently took control of Chrysler.
* Next, identify the location of each company’s headquarters, where production takes place, which markets are important to each firm, which companies are key rivals, and so on. For example, China and the United States are both strong markets for most automakers right now, but sales in Latin America and Europe are slumping. One challenge for automakers today is meeting increasingly ambitious CO2 regulations. Nearly every carmaker is turning to electric vehicles as part of the solution to meeting these new standards, however, developing a range of electric cars that are profitable, yet affordable has proved to be challenging. Some automakers are teaming up with others in the effort. Ford and Volkswagen, are working together for example, as are BMW and Daimler, and Renault and Nissan. Students will probably be able to provide most of the information relatively easily. The goal here is to take a few minutes to establish the global nature of the industry.
* Finally, reflect on the factors that made the industry a global one, and consider what is likely to happen to the industry in the next three years, five years, and ten years. Students may note for example, that although the U.S. market is getting stronger, emerging markets have become more important. Similarly, students may predict that automakers will continue to look for ways to streamline production. Ford, for example, believes that auto buyers are becoming more similar in their buying habits and so implemented a strategy, One Ford, allowing it to sell just a few models in every market. The company hopes that by streamlining all phases of product development, production, and marketing it will be able to capture a larger share of the market and bigger profits.

Teaching Tip: To extend this discussion, consider <https://www.bbc.com/news/business-47376677>.

Video Note: To explore an article that relates to short- and long-term industry and consumer factors automotive companies must consider in this discussion, consider *Volkswagen Comes Clean on Emissions Cheating* in the International Business Library at [http://bit.ly/MHEIBVideo](https://na01.safelinks.protection.outlook.com/?url=http%3A%2F%2Fbit.ly%2FMHEIBVideo&data=01%7C01%7Canke.weekes%40mheducation.com%7Ca25dc9eb643246ce47ad08d41a1dec6d%7Cf919b1efc0c347358fca0928ec39d8d5%7C1&sdata=PGTbnKJeqo4tban6vepacEyP5nezpxGm42CaB%2B3aOG8%3D&reserved=0)*.* Click “Ctrl+F” on your keyboard to search for the video title and access to teaching notes and discussion questions for this video.

# Additional Readings and Sources of Information

‘America First’ is only making the world worse. Here’s a better approach.

<https://www.brookings.edu/blog/order-from-chaos/2019/01/04/america-first-is-only-making-the-world-worse-heres-a-better-approach/>

Trade War Update: China May Have Shot Self in Foot

[https://www.forbes.com/sites/kenrapoza/2018/08/15/trade-war-update-china-soy-tariffs-brazil-trump/#134149032bc7](https://www.forbes.com/sites/kenrapoza/2018/08/15/trade-war-update-china-soy-tariffs-brazil-trump/%23134149032bc7)

iPhone, Laptop Makers Eye Moving Production in Trade War Prep: Video

<https://www.bloomberg.com/news/videos/2018-08-17/iphone-laptop-makers-eye-moving-production-in-trade-war-prep-video>

In U.S. and UK, Globalization Leaves Some Feeling ‘Left Behind’ or ‘Swept Up’

<https://www.pewresearch.org/2020/10/05/in-u-s-and-uk-globalization-leaves-some-feeling-left-behind-or-swept-up/>

The State of Globalization in 2019, and What It Means for Strategists

<https://hbr.org/2019/02/the-state-of-globalization-in-2019-and-what-it-means-for-strategists>

Boeing to cut 20% of workforce by end of 2021

<https://www.bbc.com/news/business-54716296>

Trump Pushes China for Better Deal With Trade Talks Set to Resume

<https://www.bloomberg.com/news/articles/2018-08-16/trump-pushes-china-for-better-deal-as-trade-talks-set-to-resume>

BRICS Want World to Play by WTO Rules as Trump Seeks More Duties

<https://www.bloomberg.com/news/articles/2018-07-26/brics-nations-want-wto-multilateral-trade-system-strengthened>

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<http://www.bloomberg.com/news/articles/2016-07-14/brexit-won-t-stop-globalization>

Wanda Scraps $5.6 Billion Reorganization of Entertainment Assets

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Why Anti-Globalization Drives Inflation: Video

<http://www.bloomberg.com/news/videos/2016-07-12/why-anti-globalization-drives-inflation>

Trump Targets Foreign Auto Companies for Not Building Enough in U.S.

https://www.wsj.com/articles/auto-makers-meet-with-donald-trump-on-emissions-nafta-1526063070