CHAPTER

1 Evaluating the Global Business Environment

OBJECTIVES

1-1. To understand the global business environment and how it affects the strategic and operational decisions that managers must make

1-2. To develop an appreciation for the ways in which political and economic factors and changes influence the opportunities that companies face

1-3. To recognize the role of the legal environment in international business

1-4. To review the technological environment around the world and how it affects the international manager's decisions and operations as well as the war for talent around the globe

1-5. To explore essential skills for developing your career as a manager in a multinational company

Sample pages

Opening Profile: Businesses Battle Brexit Bureaucracy[1]

Simon Spurrell's company is among a small but significant group of Britain's small and medium-sized businesses which have suffered a decline in or loss of business since post-Brexit rules took effect in January 2021. In June 2021, just six months after the introduction of these rules, Spurrell's firm the Cheshire Cheese Company halted bulk sales to the European Union in the face of spiraling shipping costs. Fees to ship consignments that once came in at around £300, soared to more than £1300. It was, says Spurrell, simply no longer viable for the Macclesfield-based cheesemaker to trade with Europe.

The experience of the Cheshire Cheese Company is not unique. According to one survey by the United Kingdom's Institute of Directors (IoD), 17 percent of UK companies have halted trade with the European Union since the departure from the EU single market and customs union. While the UK government hailed the Brexit deal as a huge success, many firms dispute this. While the agreement confirmed zero tariff, zero quota trading between the United Kingdom and the European Union, businesses say the reality of the new trading environment is not as simple or straightforward. Indeed, a large number of firms have complained that the new arrangements involve too many expensive and time-consuming checks, customs processes, and bureaucracy. Many smaller businesses argue that they do not have the resources, both in terms of finances and manpower, to navigate the new regime when exporting and importing with the bloc.

Some organizations, such as Evolve Beauty, an eco-friendly beauty firm, have sought to reduce costs by setting up operations in the European Union so that they can continue to serve their existing markets. While it might be a useful strategy for the medium and long term, this does mean costs go up initially as jobs are transferred between the United Kingdom and the European Union and new infrastructure is set up. Even with this increased investment, Laura Rudoe, who runs Evolve Beauty, says some key markets are now closed to the business.

The post-Brexit challenges have caused some companies to begin laying off staff. Somerset-based company Something Different, which distributes clothes and gifts to small retailers and visitor centers around Europe, used to send out 2,500 parcels a day to EU customers at its peak. By June 2021 that number had fallen to 100 to 150 a day, forcing managing director Alfred van Pelt to lay off nine of his twenty-strong workforce. There does not appear to be an easy solution to navigate the downturn in trade. The value of Something Different's parcels can be low—less than £30 each—and with shipping costs of £8 plus £17.50 required to cover the cost of import declarations, customers are understandably reluctant to shoulder the additional costs.

Many UK businesses fear that the trading environment could soon become even tougher. The mitigations the Boris Johnson government put in place to ease the Brexit transition were to come to an end at the close of 2021. Import controls will be introduced at the borders between Britain and the European Union. The IoD survey found that two thirds of companies forecast the new controls would have an adverse impact on trade.

Some commentators claim that the true impact of Brexit is being masked by the fall-out from the COVID-19 pandemic. Analysis by the Centre for Economic Performance (CEP) at the London School of Economics[2] highlighted growing business confidence and a notable increase in economic activity in early 2021. The businesses questioned were optimistic about the trading environment improving since the start of the pandemic; however, they were still deeply concerned about the fall-out from Brexit. The big difficulty is that it is tough to separate out the economic impacts of COVID-19 and the various lockdowns, given the huge amount of stimulus provided by the Bank of England and the UK government in the form of the furlough scheme and VAT, rent, and rate deferrals. While such initiatives were essential for the survival of many businesses, they also delayed a true picture of the outlook post Brexit from emerging. Although the UK economy was outperforming many of its international competitors during the pandemic, in part thanks to the speed of its vaccine roll-out program and its uptake by the UK population, as of the end of 2021, it remains to be seen how long this advantage will stand in the following year(s). What economic experts will be watching carefully is how much Brexit slows down any trading rebound, particularly in comparison with similar sized economies such as France.

The opening section briefly describes the experiences of many small and medium-sized businesses following the Brexit agreement. Brexit has brought about massive changes to business. New customs regulations have increased the administrative burden and caused shipping delays. Goods are often stuck in ports, awaiting paperwork. Contract amendments have been necessary as have additional intellectual property right clauses. Many companies lack the resources to function properly in the post-Brexit environment. It is argued that the true picture is yet to emerge, since the figures have been affected by various government measures taken to mitigate the economic fallout from COVID-19. Clearly, those involved in international and global business have to adjust their strategies and management styles to the global disruption brought on by the digital economy as well as other global developments.

As well as the disruption driven by the digital economy, typical challenges that managers face involve politics, cultural differences, global competition, terrorism, technology, sustainability, and economic uncertainties. For example, changes to the European Union (Brexit) and the free trade agreement between Mexico, Canada, and the United States have led many multinational companies to reassess their strategies and investment decisions in Europe and the Americas as of the writing of this text.

In addition, the opportunities and risks of the global marketplace increasingly bring with them the societal obligations of operating in a global community. Many companies face increased scrutiny from investors and nongovernment organizations (NGOs) to provide a thorough account of the environmental and social implications of their supply chains. For instance, the London Metal Exchange has supported a consortium of metals traders and financial institutions to build a blockchain-based system to track the trade of physical metal. Through digital technology—a blockchain-based system—"you know where your metal is, you have proof of your metal, but

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nobody can see what your metal is and where your metal is," according to Matt Chamberlain, chief executive of the London Metals Exchange. Managers in those companies are struggling to find ways to balance their social responsibilities, their reputations, and their competitive strategies.

To compete aggressively, firms must make considerable investments overseas—not only capital investment but also investment in well-trained managers with the skills essential to working effectively in a multicultural environment. In any foreign environment, managers need to handle a set of dynamic and fast-changing variables, including the pervasive variable of culture that affects every facet of daily life. Added to that behavioral "software" are the challenges of the digital economy, which are rapidly changing the dynamics of competition and operations.

International management (IM), then, is the process of developing strategies, designing and operating systems, and working with people around the world to ensure sustained competitive advantage. Corporate leaders need to instill a global mindset with their employees while navigating the diverse competitive landscapes as well as the uncertainty associated with the digital economy. Even more, international managers need to consider how to recruit, train, and develop the new generation of talent from around the world. These management challenges are shaped by the prevailing conditions and ongoing developments in the world, as outlined in the following sections and subsequent chapters.

1-1. To understand the global business environment and how it affects the strategic and operational decisions that managers must make

THE GLOBAL BUSINESS ENVIRONMENT

Following is a summary of some of the global situations and trends that managers need to monitor and incorporate in their strategic and operational planning. We discuss the status of globalization and the debates about its effects on countries, on corporations, on human capital, and on the relationship with **information technology (IT)**. We look briefly at some of the areas in the world in which you might find yourself doing business, with a particular focus on China (see World Map 1, after the chapter, for reference throughout this book).

Globalization

The types of events described in the opening profile illustrate the interdependence of the business, politics, trade, finances, and technological environment around the world. That interdependence has come to be known as **globalization**—global competition characterized by networks of international linkages comprising economic, financial, political, and social markets that in turn bind countries, institutions, and people in an interdependent global economy. These linkages have resulted in the free movement of goods, people, money, and information across borders. Economic integration results from the lessening of trade barriers and the increased flow of goods and services, capital, labor, and technology around the world. The invisible hand of global competition has been propelled by the phenomenon of an increasingly borderless world, by technological advancements, and by the rise of emerging markets such as China and India—a process that Thomas Friedman called "leveling the playing field" among countries—or the "flattening of the world."[3] That was then, but this is now—and some are now arguing that the world is no longer so flat, such that the pace of globalization has slowed and, in some instances, has declined. This retreat is resulting from political crises, cybertheft, protectionism, and increasing trade barriers.[4] As Bremmer notes in the *Harvard Business Review*, the governments of many developing nations have become increasingly nationalistic in protecting their own industries rather than open them to foreign companies, in particular multinational corporations (MNCs).[5]

On a strategic level, Ghemawat argues that the business world is in a state of "semi-globalization"—that various metrics show that only 10 to 25 percent of economic activity is truly global. He bases this conviction on his analysis that "most types of economic activity that can be conducted either within or across borders are still quite localized by country."[6] Ghemawat posits that we are in an "unevenly globalized world" and that business opportunities and threats depend on the individual perspective of country, company, and industry.[7] He observes that, as emerging market countries have gained in wealth and power and increasingly call their own shots, a reverse trend of globalization is taking place—evolving fragmentation—which he says is having, ironically, a ripple effect of globalization.[8]

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Global Trends

Nevertheless, globalization is still here; it is a matter of degree and direction in the future. The rapid development of globalization over the past decades is attributable to many factors, including the burgeoning use of technology and its accompanying uses in **international business**; political developments that enable cross-border trade agreements; and global competition for the growing numbers of consumers around the world. From studies by Bisson et al. and others, we can also identify six key global trends that provide both challenges and opportunities for companies to incorporate into their **strategic planning**:[9]

- The changing balance of growth toward emerging markets compared with developed ones, along with the growing number of middle-class consumers in those areas
- The need for increased productivity and consumption in developed countries to stimulate their economies
- The increasing global interconnectivity—technologically and otherwise, as previously discussed—and in particular the phenomenon of an "electronically flattened earth" that gives rise to increased opportunity and fast-developing competition
- The increasing gap between demand and supply of natural resources, in particular to supply developing economies, along with the push for environmental protection
- The challenge facing governments to develop policies for economic growth and financial stability[10]
- The growing number of emerging-market companies embracing digital technologies

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Globalization and Emerging Markets

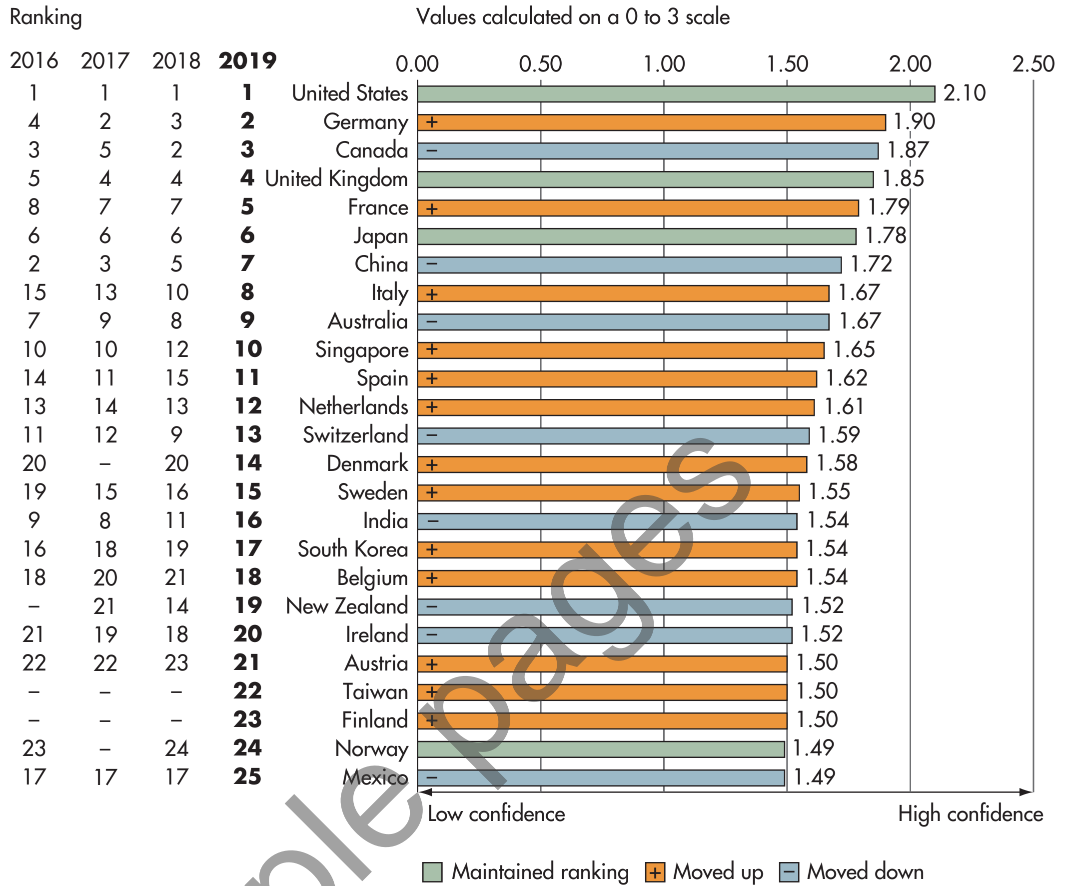
There are growing concerns about rising political and **economic risks** in developed economies. Despite wariness, MNC leaders remain relatively positive on the global economy. Moreover, FDI levels fell again in 2018. According to research by the A. T. Kearney Company on the **foreign direct investment (FDI)** intentions and preferences of the leaders of 300 top companies in various industry sectors spanning six continents, companies view foreign direct investment (FDI) as crucial to profitability and sustainable competitive advantage. Indeed, 77 percent of MNC leaders indicated that FDI will grow in importance in the years ahead.[11] These corporate leaders also viewed FDI as a means to achieve localization, which implies shifting managers, production, operations, and/or marketing to local markets. The Kearney report reveals some paradoxes as corporate leaders affirm that they will be increasing foreign investment, yet the actual levels of FDI do not reflect that affirmation.

Exhibit 1-1 shows the 2017–2019 results of the A. T. Kearney Foreign Direct Investment Confidence Index. The exhibit shows the top 25 countries in which those executives have confidence for their investment opportunities. Kearney's results show that the United States continues to be in the lead since 2017 and up from 4th in 2012. China has slipped from 3rd in 2017 to 7th in 2019. Germany, Canada, and the United Kingdom ranked 2nd, 3rd, and 4th respectively. India has dropped from 8th in 2017 to 16th in 2019. There are two other notable declines in ranking: Mexico dropped from 17th to 25th while Brazil dropped from 16th to unranked during the 3-year period.[12] Overall, the results show renewed confidence in the economic recovery in the United States and Europe and that emerging economies are improving their rankings, but not enough to be in the top 25 (see Map 1-1).

Although the United States remains dominant in many new-age industries such as nanotechnology and biotechnology, emerging markets continue to grow their countries' economies, and, in turn, will provide growth markets for the products and services of developed economies. It is clear also that the phenomenon of rapidly developing economies continues.

The Boston Consulting Group's (BCG) 2018 list of Global Challengers shows evidence of the growing number of companies from emerging markets: companies that are growing faster than comparable companies are. Although there are relatively fewer from China and India than in previous years, there are more from smaller countries, including five from Thailand, four from Turkey, and three from Chile, which are at all-time highs.[13] Examples of the now more mature emerging giants are, from China, Huawei Technologies, Lenovo Group, and Baosteel;

EXHIBIT 1-1 2019 Foreign Direct Investment Confidence Index Top 25 Targets for FDI
The main types of FDI are acquisition of a subsidiary or production facility, joint ventures, licensing, and investing in new facilities or expansion of existing facilities.



Source: 2019 FDI Confidence Index, © A. T. Kearney, 2019. All rights reserved. Reprinted with permission.

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from India, Infosys Technologies, Tata Group, and Bharti Airtel; from Brazil, Embraer and Votorantim Group; from Mexico, Group Bimbo; from Russia, Gazprom; and from Indonesia, Bumi Resources—to name a few.

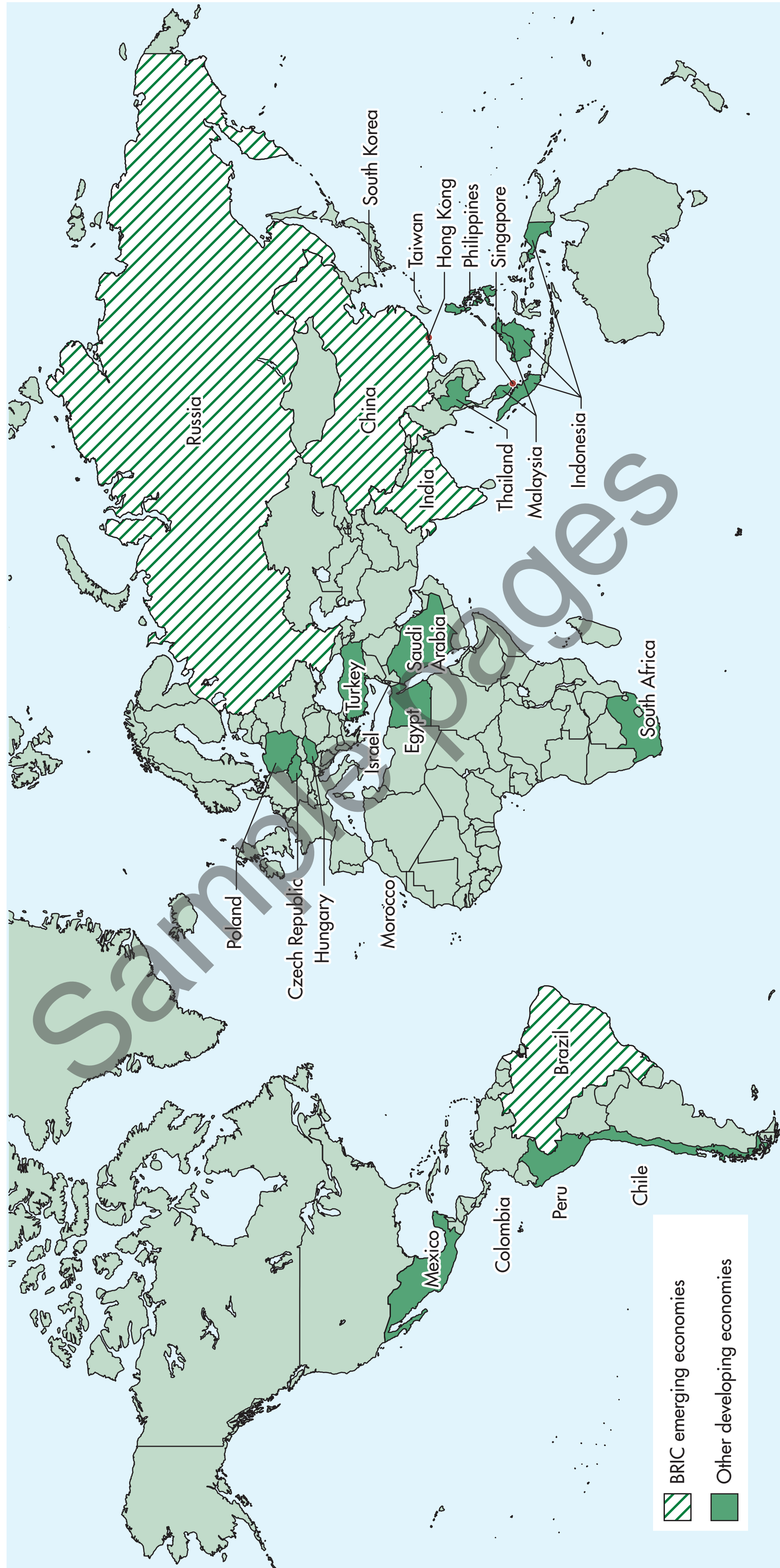
Further evidence that *globalization* is the increase in the number of emerging-market companies acquiring established large businesses and brands from the so-called developed countries. Clearly, companies in emerging markets are providing many tangible business opportunities for investment and alliances around the world and establishing themselves as competitors to reckon with. One example of a company enjoying rapid global growth through technology is China-based Tencent, which tends to acquire minority stakes in companies whose products can link to its WeChat and WeChat Pay platforms. Tencent offers those companies the opportunity to reach over one billion users.

> *It's almost impossible to succeed in China retail without Alibaba or Tencent.*
>
> JAMES ROOT, HONG KONG-BASED PARTNER AT BAIN & CO.[14]

Backlash against Globalization

As we consider the many facets of globalization and how they intertwine, we observe how economic power and shifting opinions and ideals about politics and religion, for example, result in an increasing backlash against globalization and a rekindling of nationalism. Capitalism and open markets, most notably by Western companies, have propelled globalization. Now, digitally

MAP 1-1 Emerging Economies



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oriented multinational companies from China, India in particular, represent the new drivers of economic growth around the globe.[15]

The rising nationalist tendencies are evident as emerging and developing nations—wielding their economic power in attempted takeovers and inroads around the world—encounter protectionism. There is hostility toward takeovers such as Indian company Flipkart by U.S. retailer, Walmart.

Although the debate about the effects of globalization continues, it is clear that economic globalization will be advanced by corporations looking to maximize their profits with global efficiencies, by politicians and leaders wishing to advance their countries' economies, and by technological and transportation advances that make firms' production and supply networks more efficient. However, pressure by parties against those trends, as well as the resurgence in nationalism and protectionism, may serve to pull back those advances to a more regional scope in some areas or limit them to bilateral pacts.[16]

In addition, although competition to provide the best and cheapest products to consumers exerts pressure on corporations to maximize efficiencies around the world, there is also increasing pressure and publicity for them to consider the social responsibility of their activities (discussed further in Chapter 2).

Effects of Institutions on Global Trade[17]

Two major groups of institutions (supranational and national) play differing roles in globalization. Supranational institutions such as the **World Trade Organization (WTO)** and the International Labor Organization (ILO) promote the convergence of how international activities should be conducted. For example, the WTO promotes the lowering of tariffs and a common set of trade rules among its member countries. Similarly, the ILO promotes common standards of how workers should be treated. Although many supranational institutions frequently promote rules or laws favorable to foreign firms (e.g., requiring intellectual property rights protections in China), others have been criticized for infringing on national sovereignty (e.g., challenges to certain environmental laws in the United States).

National institutions, in contrast, play a role in creating favorable conditions for domestic firms and may make it more difficult for foreign firms to compete in those countries. For example, the stringent drug testing rules the U.S. Food and Drug Administration (FDA) requires and the anti-dumping rules the U.S. Department of Commerce's International Trade Administration (ITA) enforces act as entry barriers for foreign firms (see Chapter 6 for a more detailed discussion of these entry barriers).

Some supranational institutions represent the interests of a smaller group of countries. For example, the European Commission acts in the interest of EU members as a whole rather than in the interest of individual member countries. The European Commission is the executive arm of the EU and is responsible for implementing the decisions of the European Parliament and the European Council. Of relevance to international business, the European Commission speaks for the EU at the World Trade Organization and is responsible for negotiating trade agreements on behalf of the EU.[18]

Effects of Globalization on Corporations

In returning to our discussion at the corporate level, we can see that almost all firms around the world are affected to some extent by globalization and, in turn, cause globalization by their activities abroad. Firms that have investment, operations, or marketing activities in several countries are called **multinational corporations (MNCs)** or **multinational enterprises (MNEs)**. Firms from any country now compete with companies at home and abroad, and domestic competitors are competing on price by outsourcing or offshoring resources and services anywhere in the world. Often it is difficult to tell which competing products or services are of domestic or foreign origin. Examples abound—for example, do you drive an American car?

> *Look at your vehicle identification number (VIN): If it starts with 1 it is made in America; 2, Canada; 3, Mexico; 4, anywhere else in the world. The only cars allowed to park in a United Auto Workers (UAW) plant are those with VIN numbers beginning with 1 and 2.*[19]

Honda vehicles, for example, are manufactured in many markets outside of Japan: Argentina, Australia, Bangladesh, Brazil, Canada, China, France, India, Indonesia, Italy, Malaysia, Mexico, Pakistan, Peru, Philippines, Taiwan, Thailand, the United Kingdom, the United States, and Vietnam.[20]

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Some companies have made multiple investments in particular countries. For example, Japan's Toyota has been investing in North America for 20 years in plants, suppliers, and dealerships as well as in design, testing, and research centers. As of 2019, it makes nine vehicles in the United States. For example, its Sienna model is assembled in Indiana. The Camry and Lexus models are made in Kentucky, while the Tundra is made in Texas.

It would seem that competition has no borders, with many global companies producing and selling a substantial portion of their global brands and services abroad than domestically. In 2018, Cisco Systems received 48.3 percent of its revenues from overseas. General Electric, however, derives 66.5 percent of its US$121 billion from overseas markets. Nestlé has 98.6 percent of its sales outside of its home market, with 42 percent of its sales coming from emerging markets. Coca-Cola has 64 percent foreign sales, while Procter & Gamble has 59 percent. [21]

The Tata Group, a conglomerate originating in India, generates over 60 percent of its revenues from its operations in over 100 international markets. In Europe, Tata has 19 companies across the continent with over 60,000 employees. In North America, it operates 13 companies with over 35,000 employees. In the Asia-Pacific region, Tata operates 16 companies consisting of over 7,000 employees. In particular, Tata has over 3,000 employees in both Singapore and China. Tata has a sizable presence in the Middle East with more than 20 companies and 10,000 employees.[22]

Investment by global companies around the world means that this aspect of globalization benefits developing economies—through the transfer of financial, technological, and managerial resources as well as through the development of local allies that later become self-sufficient and have other operations. Global companies are becoming less tied to specific locations, and their operations and allies are spread around the world as they source and coordinate resources and activities in the most suitable areas and as technology facilitates faster and more flexible interactions and greater efficiencies.

It is essential, therefore, for managers to look beyond their domestic market. If they do not, they will be even further behind the majority of managers who have already recognized that they must have a global vision for their firms, beginning with preparing themselves with the skills and tools of managing in a global environment. Companies that desire to remain globally competitive and expand their operations to other countries must develop a cadre of top management with experience operating abroad and an understanding of what it takes to do business in other countries and work with people of other cultures. Many large firms around the world are getting to the stage of evolution known as the stateless multinational, when work is sourced wherever it is most efficient; the result of this stage of development is that:

> *[F]or business leaders, building a firm that is seamlessly integrated across time zones and cultures presents daunting obstacles.* [23]

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The above quote continues to resonate with multinational companies seeking to balance being global and local simultaneously. For example, India's largest technology and ecommerce start-up firms are based in its biggest cities—Bangalore and Greater Delhi serve as home to most of them. Yet Alibaba's Jack Ma told an Indian entrepreneur, "you must focus on the smaller cities and towns—they're untapped." Indeed, ecommerce growth is now fastest outside India's eight largest cities. Indian startup firms are facing increased competition from multinationals such as Amazon, which has observed the relatively higher growth rates in smaller Indian towns and cities.[24] According to Kishore Thota, an Amazon executive, "For a year or so we've been seeing this huge growth differential from outside the metros," he said. In light of the growth of online purchasing, Indian ecommerce users remain wary of online payment mechanisms, so Amazon offers them a cash payment option upon delivery. Needless to say, cash is the preferred payment choice for most Indian online transactions, suggesting that multinational companies—especially digitally oriented ones—need to understand local customers or miss huge growth opportunities.[25] For example, in 2018, Amazon created a Hindi version of its platform.

Small and Medium-Sized Enterprises (SMEs)

SMEs are also affected by and, in turn, affect globalization. They play a vital role in contributing to their national economies—through employment, new job creation, development of new products and services, and international operations, typically exporting. The vast majority (about

98 percent) of businesses in developed economies are small and medium-sized enterprises, which are typically referred to as those companies having fewer than 500 employees. Small businesses are rapidly discovering foreign markets. Although many small businesses are affected by globalism only to the extent that they face competing products from abroad, an increasing number of entrepreneurs are being approached by potential offshore customers, thanks to the burgeoning number of trade shows, federal and state export initiatives, and the growing use of websites that ease making contact and placing orders online.[26]

There has never been a better time for SMEs to go global; the Internet is as valid a tool for small companies to find customers and suppliers around the world as it is for large companies. By using the Internet, email, and web-conferencing, small companies can inexpensively contact customers and set up their global businesses.

The Globalization of Human Capital

> *Talent performance is now clearly seen as key to growth, job creation, and innovation. New approaches are emerging to stimulate entrepreneurial talent . . . Such strategies affect all aspects of talent competitiveness, including education, skilling, and re-skilling, attracting external talents and fostering co-creation with local ones, as well as encouraging imported or returning talent to stay and contribute to long-term local objectives.*[27]
>
> *2019 Global Talent Competitiveness Index Report*

Firms around the world have been offshoring manufacturing jobs to countries with lower wages for decades. Firms of all sizes have been and are continuing to produce or assemble parts of their products in many countries, that is, outsourcing by contracting to a local firm and then integrating it into their global supply chains. However, an increasing number of firms are realizing that their cost advantage of producing abroad is disappearing because wages and other manufacturing costs in countries such as China are going up, transportation costs are increasing, the risks involved in complex supply chains are becoming more apparent, and there is continuing pressure to supply jobs at home. According to Reshoring Initiative, an advocacy group, a growing number of U.S. firms are actively **reshoring** jobs back to the United States. They indicated that during the period 2010 to 1Q 2018, the 16 companies that reshored the most jobs, collectively brought back 73,000 manufacturing jobs to the United States. Apple led the way with 22,200 reshored jobs, followed by General Motors (12,988), Boeing (7,725), Ford (4,200), and Intel (4,000).[28]

But shipping costs do not affect nonmanufacturing jobs, and firms are outsourcing white-collar jobs to India, China, Mexico, and the Philippines. Customer support, medical analysis, technical work, computer programming, form filling, and claims processing—all these jobs can now move around the globe in the same way that farming and factory jobs could move a century ago.[29] We have all experienced talking to someone overseas when we call the airlines or a technology support service; now increasingly sophisticated jobs are being outsourced, leaving many people in developed economies worried about job retention.

For multinational firms, winning the war for talent is one of the most pressing issues, especially because hot labor markets in emerging markets are causing extremely high turnover rates.[30] Moreover, companies seeking to leverage a global talent pool need to recognize national differences in the abilities to "develop, attract, and empower the human capital that contributes to productivity and prosperity."[31] The Global Talent Competitiveness Index (GTCI) ranks countries according to six pillars—a country's ability to enable talent to develop, as well as what that country is doing to attract, grow, and retain talent. Two outcome-based pillars are the levels of vocational-technical skills and global knowledge skills of people in those countries. Switzerland, Singapore, and the United States ranked 1, 2, and 3 respectively in the 2019 GTCI rankings. The remaining countries in the top ten are all from Europe: Norway, Denmark, Finland, Sweden, the Netherlands, U.K., and Luxembourg. The United Arab Emirates ranked 19th, ahead of Israel (20th), Japan (22nd), South Korea (30th), Russian Federation (49th), and Brazil (72nd).[32] Table 1-1 shows the top three countries by competitiveness pillar.

Sample pages

TABLE 1–1 Global Talent Competitiveness Index by Pillar[33]

Pillar	Top Countries
Enabling Talent	Singapore, Switzerland, Denmark
Attracting Talent	Singapore, Luxembourg, UAE
Growing Talent	United States, Switzerland, Netherlands
Retaining Talent	Switzerland, Norway, Austria
Vocational-Technical Skills	Switzerland, United States, Germany
Global Knowledge Skills	Singapore, Iceland, United States

The 2019 Global Talent Competitiveness Index reveals several key takeaways. First, there is a growing talent inequality gap across countries. Second, entrepreneurial talent can mitigate inequalities. In China, for example, the migration of talent to the private sector has contributed to the emergence of globally competitive firms such as Ten-cent, Alibaba, and Haier. Third, digitalization and globalization enhance the role of entrepreneurial talent. Fourth, cities will assume a large role in cultivating entrepreneurial ecosystems.

Of all the developments propelling global business today, the one that is transforming the international manager's agenda more than any other is the rapid advance in IT. The explosive growth of IT is both a cause and an effect of globalization. Recently, however, large Indian IT companies such as Infosys Limited and the Tata Group were hiring their staff in the United States. Infosys, for example, has proclaimed on its website a "national commitment to hire 10,000 American workers."[34] The role of IT in international management is discussed later in this chapter, in the section titled "The Technological Environment."

FIGURE 1-1 **IT allows service jobs to be performed anywhere in the world.**

texelart/123RF GB Ltd

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Regional Trading Blocs

The recent departure of the UK from the European Union draws attention to economic agreements between countries, or **regional economic groups**, which refer to "agreements among countries in a geographic region to reduce and ultimately remove tariff and nontariff barriers to the free flow of goods, services and factors of production between each other."[35] There are different types of regional economic groups, each of which is based on the level of integration between the member countries.

The most basic form of regional economic group is the **free trade area (FTA)**, which involves an agreement between countries that commits to removing all barriers to trade of goods and services among the member countries. However, each member country is permitted to

negotiate *independently* trade policies with nonmember countries. Examples of FTAs include the European Free Trade Association, which currently consists of Iceland, Norway, Liechtenstein, and Switzerland, and the North American Free Trade Agreement between Canada, Mexico, and the United States (subsequently replaced by the USMCA [United States, Mexico, Canada Agreement]).

A **customs union** entails a deeper level of economic integration. It refers to an agreement between countries that involves the removal of all barriers to the free flow of goods and services between member countries and establishment of a *common* trade policy with nonmember countries. An example of a customs union is the Andean Community, which consists of Bolivia, Columbia, Ecuador, and Peru.

The next step toward economic integration is a **common market**, which refers to an agreement between a group of countries that commit to the removal of all barriers to the free flow of goods and services, as well as factors of production—such as the free movement of labor and capital between member countries. Moreover, common market member countries pursue a common external trade policy. A current example of a common market is Mercosur, which has consisted of Argentina, Brazil, Paraguay, Uruguay, and Venezuela. However, Venezuela has experienced difficulty in getting its membership ratified.

An **economic union** describes a deeper level of economic integration between member countries compared with a common market, customs union, and free trade area. In an economic union, member countries commit to the removal of all barriers to the free flow of goods, services, and factors of production between member countries. Moreover, member countries may adopt a common currency, establish uniform tax rates with member countries, and establish *common* trade policy with nonmember countries. The most recognized example of an economic union is the European Union. However, some EU member countries have adopted a common currency (the Euro), but other member countries have retained their own currencies.

The deepest level of economic integration is the **political union**, which consists of a central political system that directs and oversees economic, social, and foreign policies of the member states. An example of a political union is the United States.

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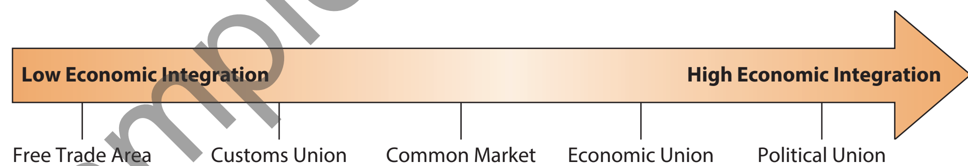

Over time, economic groups may evolve. Some of these economic groups begin as free trade areas and then pursue deeper levels of integration over time. In addition, the members of the economic groups can change over time. For instance, some economic groups may add new member countries. However, there are instances in which member countries have been removed from the economic group for violating covenants and member countries have left voluntarily.

BENEFITS AND COSTS OF ECONOMIC INTEGRATION

One of the principal reasons to form an economic group is *trade creation*, which arises when high-cost domestic producers are replaced by lower-cost producers from other member countries. Moreover, it can reduce political risk between member countries, while enhancing the political strength of the economic group. Lastly, additional trade can increase job opportunities in the member countries. However, in light of these proposed benefits, there are some potential costs to economic integration. For example, it is conceivable to incur *trade diversion*, which arises when lower-cost producers from nonmember countries are replaced by higher-cost producers from member countries. Another concern with economic groups is the *loss of sovereignty*. For instance, some member countries may relinquish some monetary policy in economic unions. Also, expansion of an economic group may result in dilution of voting rights of existing member countries. Lastly, some member countries may contribute more than others, which can lead to concerns of inequity and even abandonment of the economic group if the inequity becomes excessive.

THE EUROPEAN UNION

In a watershed event, British citizens voted to leave the EU in its 2016 United Kingdom European Union membership referendum. As of 2020 the European Union (EU) will comprise a 27-nation unified borderless market, as shown in Map 1-2. The political fallout of Brexit has created a cloud of uncertainty pertaining to regulations, labor mobility, and trade between the UK and the rest of the EU member countries.

Total exports of goods between EU member countries steadily increased from 2003 to 2008, followed by a significant drop in exports through mid-2009. Following the global recession, exports between member countries began to increase, surpassing prerecession levels in 2011 and continuing the export trend through July 2018.[36] Countries around the world trade with the EU countries. Among non–EU members, the United States, China, Switzerland, Russia, and Turkey exhibited the highest trade with EU member countries in 2018.[37] The uncertainty as to what will

MAP 1-2 European Union

Sample pages

result from Brexit has led some multinational firms to rethink locating operations in the U.K. versus other EU member countries.

The importance of Germany to the eurozone is clear, but it is also a two-way street. In 2017, Germany exported the most goods to other EU member countries. From 2003 to 2017, Germany had a 4 percent annual growth rate in exports to other EU member countries. Moreover, it is among the top three trading partners of 26 EU member countries.[38] The strength of the German manufacturing model is evidenced by the fact that, although Germany has about a quarter of the population of the United States, and a quarter of the U.S. GDP (gross domestic product), it exports more than the United States.[39] Germans were concerned, however, that the need to help prop up weaker economies in the eurozone, such as Greece, would dilute their economic strength.

In spite of those problems, the World Economic Forum's 2018 Global Competitiveness Index (GCI) shows that six out of the top ten countries are in Europe (see Table 1-2).[40] The United States' rank rose from 3rd to 1st in three years, interestingly. The GCI is based on 12 pillars of competitiveness that provide attractive conditions and incentives for both local and foreign companies to do business there.[41] However, the elimination of internal tariffs and customs, as well as financial and commercial barriers, has not eliminated national pride. Although most people in Europe are thought of simply as Europeans, national identities prevail as they still think of themselves first as British, French, Danish, Italian, and so on, and are wary of giving too much power to centralized institutions or of giving up their national culture. The continuing enlargement of the EU to include many less prosperous countries, such as Croatia in 2013, has also promoted divisions among the older members.[42] In addition, continuing eurozone problems has prompted skepticism of any further enlargement.

Global managers face two major tasks. One is strategic: how firms outside of Europe can deal with the implications of the EU and of what some have called a Fortress Europe—that is, a market giving preference to insiders. Although firms must have a pan-European business strategy, they must realize that suitable market entry strategies need to be considered on a country-by-country basis.

Although the EU continues to move in the direction of a Single Market, some of Europe's most prominent industrial leaders are working together to invest more in job creation and innovation at home. One of the leaders of this initiative is Mr. Carl-Henric Svanberg, chairman of the European Round Table of Industrialists and head of Swedish truck manufacturer Volvo. Stressing the importance of a competitive home base, Mr. Svanberg stated, "*We as companies, even though we are global, will not be successful if the countries we come from are not successful.*"[43]

The other task is cultural: how to deal effectively with multiple sets of national cultures, traditions, and customs within Europe such as differing attitudes about how much time should be spent on work versus leisure activities.

Sample pages

ASIA

> *It would be difficult to overstate the power of the fundamental drivers of Asian growth. First, Asian economies have been enjoying a remarkable period of "productivity catch-up," adopting modern technologies, industrial practices, and ways of organizing—in some cases leapfrogging Western competitors.*[44]

TABLE 1-2 2018 Global Competitiveness Index[45]

2014–2015 Rank	Country	2018 Rank
3	United States	1
2	Singapore	2
5	Germany	3
1	Switzerland	4
6	Japan	5
8	Netherlands	6
7	Hong Kong (SAR)	7
9	United Kingdom	8
10	Sweden	9
13	Denmark	10

Source: Based on selected data from www.worldeconomicforum.org.

Manufacturing, in particular, has propelled Asia's emerging markets, helping to fuel the demand for materials and supplies from the developed world and lending hope for a quick global economic recovery.[46] Japan and the Four Tigers—Singapore, Hong Kong, Taiwan, and South Korea—have provided most of the capital and expertise for Asia's developing countries. Now the focus is on China's role in driving closer integration in the region through its rapidly growing exports. Japan continues to negotiate trade agreements with its neighbors; China is negotiating with the entire thirteen-member Association of Southeast Asian Nations (ASEAN), whereas ASEAN has "virtually established" its own free trade area, that is the ASEAN Free Trade Area (AFTA).[47] The following "Under the Lens" examines government initiatives to spur competitiveness in Southeast Asia.

UNDER THE LENS

South-East Asia Wakes Up to Power of Corporate Competition [48]

When Mahathir Mohamad reprised his role as Malaysia's prime minister in May [2018], he brought along a lengthy list of promises. Vows to root out corruption and review bloated China-backed infrastructure projects dominated the headlines. But Mr Mahathir is also following up on a less-publicised, but no less ambitious, pledge.

He wants to break up monopolies.

Governments across south-east Asia are with him, especially after a loud wake-up call earlier this year. The regional merger of ride-hailing groups Grab and Uber made it clear that authorities were ill-equipped to keep up with today's fast-acting tech companies.

Countries are recognising that monopolies and anticompetitive practices threaten to undermine trade deals and hard-won economic integration. If they level the playing field, though, it could go a long way to making the bloc a more attractive place to do business.

Mr Mahathir set things in motion immediately after his stunning victory. In May [2018], his new government ordered state-affiliated Telekom Malaysia to share its vast cable ducts for high-speed broadband. This will save new operators the expense of laying underground fibre optic networks, and save the government the burden of processing approvals. . . .

If there were any doubts about Mr Mahathir's determination, the government removed them in mid-October with a review of a five-year economic plan drawn up by his predecessor, Najib Razak.

The plan runs through 2020. "In the remaining period, focus will be given [to] reviewing and streamlining the role of state-owned enterprises and monopoly entities to meet the objectives of enhancing market efficiency and fair competition," the government said in a report. In the Philippines, President Rodrigo Duterte is making similar moves. Aiming to break the duopoly in the telecom sector, the government opened bidding for a third operating license on November 7. A few weeks before he took office in 2016, Mr Duterte complained about the country's poor internet connections. "If you cannot improve on the services . . . I would really agree to the coming in of foreign players," he said, adding that the same applied to energy. At least 10 potential bidders applied for the chance to take on PLDT, in which Japan's NTT Group and Indonesia's Salim Group are key shareholders, and Globe Telecom, a joint venture between Singapore Telecommunications and local conglomerate Ayala. An alliance between China Telecom and Davao-based tycoon Dennis Uy, an ally of Mr Duterte, emerged as the sole qualified bidder. The process is part of a broader effort to promote competition in the Philippines, led by an assertive new antitrust authority established in 2016.

Governments are focusing on competition to deliver "more economic benefits to their citizens", said Cassey Lee, senior fellow at the ISEAS-Yusof Ishak Institute and an expert on the region's competition laws. "Cross-border barriers to trade can be lowered through greater Asean integration, but anti-competitive conduct can reduce such benefits to citizens." Economically, south-east Asia may be one of the world's fastest-growing regions, but it lags behind in terms of ensuring fair play in business. Singapore offers the most level playing field of any country worldwide, according to the World Economic Forum. After the city-state, there is a drop-off to Malaysia in 24th place. The Philippines ranks 60th.

Vietnam, at 102nd place, has a new competition law set to take effect next July. The legislation will give the government authority over offshore business endeavours if there are implications for the domestic market, an upgrade prompted by cross-border acquisitions. Cambodia, the only Asean member that does not have a competition law, is in the process of establishing one.

The problem is that, although south-east Asian countries are changing their ways, the business landscape is changing even faster, particularly in the tech sector. The deal between Singapore's Grab and the US-based Uber showed how quickly the authorities can be overwhelmed.

(*Continued*)

Sample pages

On March 26 [2018], Grab and Uber announced they were merging their south-east Asian operations. Grab would take over Uber's regional business. In exchange, Uber would get a stake in Grab. The companies moved ahead without notifying competition authorities in advance. After all, it was not mandatory to do so.

Grab and Uber "proceeded to complete the transaction on March 26 and began the transfer of the acquired assets immediately, thus rendering it practically impossible to restore the status quo," the Competition and Consumer Commission of Singapore, or CCCS, pointed out later.

Since Uber runs a digital service with few physical assets, pulling out of the region was a breeze. Just two weeks after the announcement, Uber ended its ride-hailing services in six of the eight countries where it operated, leaving Grab as the dominant player in most markets.

The result? Fares rose while incentives for drivers were scaled back.

South-east Asian authorities gained valuable experience as they scurried to respond, suggested Toh Han Li, chief executive of the CCCS and this year's chair for Asean's competition agencies group. The Grab-Uber case "can be considered as the first significant case involving co-operation among Asean competition authorities," he said.

He noted that Singapore, the Philippines, Vietnam and Malaysia exchanged information and helped one another assess the effects of the deal. . . .

After only six years in business, Grab operates in eight south-east Asian countries and its app has been downloaded more than 100m times. Digital technology has made this sort of rapid expansion possible, which means cases such as the Grab-Uber merger are bound to increase.

Asean itself, as a bloc, recognised the significance of competition and cross-border mergers and acquisitions in 2015, when it compiled a blueprint for 2025. Member states aimed to foster a "competition-aware" region and to establish enforcement co-operation agreements.

Yet it took the Grab-Uber case to prompt meaningful action.

On October 9, the competition agencies of Asean members established a regional enforcers' network to share information and co-ordinate responses.

The stakes are high. The Asean economy has been growing at an annual rate of about 5 per cent over the past few years, but the pace may slow as markets mature. An effective framework for ensuring competition would help the region attract investors and maintain momentum.

Making that framework function properly is no easy task. South-east Asia is not Europe, and each country has its own legal structure.

"Asean is an intergovernmental organisation and member states retain full sovereignty over cross-border competition cases, unlike the European Union, which has powers to decide on [such] cases," said Mr Toh at the CCCS.

. . .

"The countries need to come together and take advantage of the regional market in order to compete more effectively with the larger economies in Asia," he said.

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Sample pages

CHINA

The Chinese market offers big opportunities for foreign investment, but you must learn to tolerate ambiguity.[49]

China has enjoyed success as an export powerhouse, a status built on its strengths of low costs and a constant flow of capital. Its tremendous growth, although now slowing, is further discussed in the following feature, "Comparative Management in Focus: China Loses Its Allure."

Comparative Management in Focus

China Loses Its Allure[50]

In 2018, China's official GDP growth rate was 6.4 percent. Nevertheless, the country is facing its slowest rate of economic growth in 30 years. A combination of forces, from flagging demand for exports to a sluggish property market, threaten to weigh down growth this year.[51] Beijing's plan for managing the slowdown in growth this year has been a stronger-than-expected burst of fiscal stimulus.