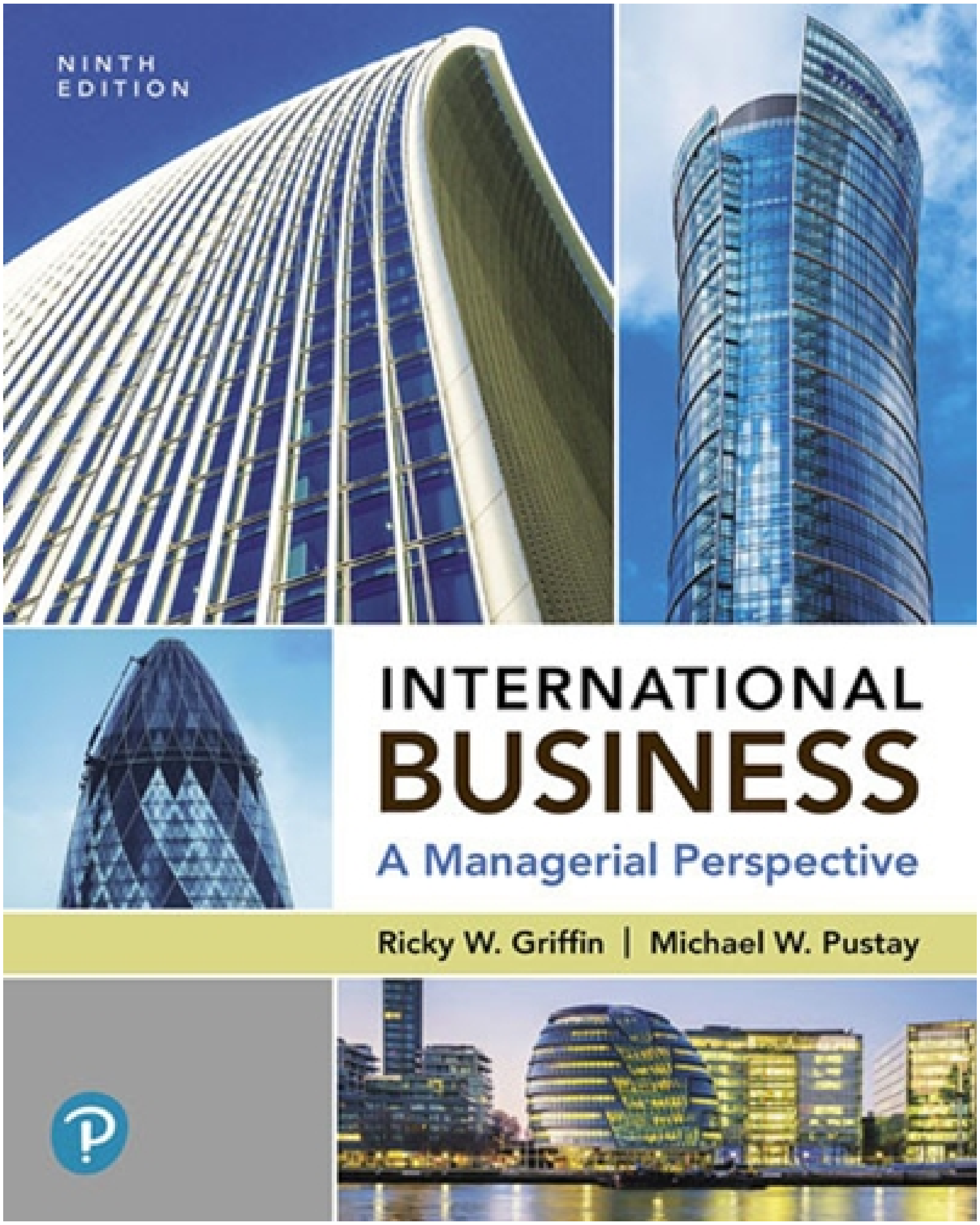
Solutions for International Business A Managerial Perspective 9th Edition by Griffin



Solutions

CHAPTER 2

Global Marketplaces and Business Centers

Chapter Objectives

After studying this chapter, students should be able to:

1. Discuss North America as a major marketplace and business center in the world economy.
2. Describe Western Europe as a major marketplace and business center in the world economy.
3. Analyze the role of Eastern Europe and Central Asia in the world economy.
4. Discuss Asia as a major marketplace and business center in the world economy.
5. Assess the development challenges facing African and Middle Eastern countries.
6. Evaluate the economic prospects of the South American countries.

LECTURE OUTLINE

OPENING CASE: *The Northwest Passage*

The opening case explores the historic search for the Northwest Passage, which may make Artic trade routes possible.

Key Points

- The diminishing ice cap may make a Northwest Passage feasible.

- One possible route goes from North America, through the Canadian Artic islands, to Greenland, making a route to Europe or the eastern coast of the Americas possible.

- The second route follows the coastline of eastern Siberia and enters the Arctic Ocean through the Bering Strait.

- These routes could develop into some of the world's most important trade corridors.

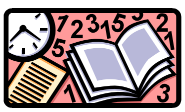
- These regions may also hold a great deal of commercially recoverable reserves of oil and natural gas.

- The Arctic Council is the primary international organization addressing the region's issues.

CHAPTER SUMMARY

Chapter Two provides a basic foundation of geographic, economic, and political factors necessary for understanding international business. The chapter considers the major centers of international business and analyzes existing patterns of trade. It is designed to act as a reference chapter for students as they develop their knowledge of the field of international business.

Most of the world's current economic activity is concentrated in the developed countries of North America, the European Union and Japan, and the United States or the **Quad** (the Triad plus Canada). Include a discussion of **Figure 2.1 here**.



***Teaching Note*:**
Students are often surprised to find out that they may actually know very little about basic world geography. An interesting exercise for students at this point in the course is to provide them with a blank world map and ask them to fill in various countries, cities, capitals, etc. This exercise not only provides students with a measure by which to gauge their knowledge, but it also provides instructors with a basic idea of what students already know about world geography.

THE MARKETPLACES OF NORTH AMERICA

The United States, Canada, Mexico, Greenland, the nations of Central America, and the various island nations of the Caribbean make up North America.

The United States

- The United States is the world's largest economy. It accounts for 24 percent of the world's $80.7 trillion GDP (as of 2017). As Map 2.1 shows, the United States enjoys a per capita income of over $59,500, the highest per capita income in North America.

EMERGING OPPORTUNITIES
Classifying Countries by Income Level
This box discusses the importance of knowing income levels when internationalizing. The box explains the differences among high-income countries (at least $12,055 GDP/capita), lower middle-income countries (GDP/capita more than $955 but less than $12,055), upper middle income countries (GDP/capita between $3,896 and $12,055) and lower-income countries (GDP/capita of $955 or less) and their attractiveness to foreign direct investment.

- The size and political stability of the United States provide the country with a unique position in the world economy. It accounts for one-eleventh of world trade in goods and services, and therefore attracts the exports of lower-income nations that are trying to develop. Also, it is a favorite target for firms from higher-income countries. In addition, the U.S. dollar serves as the **invoicing currency** in approximately half of all international transactions, making it an important component of the foreign currency reserves owned by governments around the globe. It also attracts money (known as **flight capital**) fleeing political turmoil in other countries and longer-term investments.
- International trade, although growing in recent years, is still a relatively small component of the U.S. economy. This phenomenon is probably due in part to the large geographic size of the country. Transactions that might constitute international trade and investment in other parts of the world are just domestic transactions in the United States.
- The majority of the largest industrial companies (as of the year 2017) are headquartered in the United States and China. 126 of them are in the United States, and another 111 in China. **Discuss Figure 2.2 here.**

Canada

- Although the second largest country in the world, Canada has a relatively small population of 37 million, most of which is concentrated along its southern border with the United States. The country has close political and economic ties with the United States, although it has tried to retain a separate cultural identity.
- The United States is a dominant market for Canadian products, receiving more than three-quarters of Canada's output in a typical year. The trading relationship between the United States and Canada is the single largest bilateral trading relationship in the world.
- Canada's strong infrastructure and proximity to the U.S. market make it an attractive location for international businesses.
- Canada's political stability is currently being threatened by a long-standing conflict between French-speaking Canada and English-speaking Canada. The conflict is not only affecting investment in the country, but it is also affecting international business because firms exporting products to Canada must be aware of the country's labeling laws.

Mexico

- Mexico is the world's largest Spanish-speaking nation. Mexico follows a federal system similar to that of the United States under which a new president is elected every six years.
- In 1994, Canada, Mexico, and the United States initiated the North American Free Trade Agreement (NAFTA). Mexico signed a similar agreement with the European Union in 1999. In 2000 it signed free trade pacts with El Salvador, Guatemala, and Honduras; and in 2004 it signed pacts with Japan and Uruguay. (The role of trade in Mexico's economy is explored in depth in Chapter 10's opening case, "Trade By Prosperity: The Case of Mexico.)

Central America and the Caribbean

- The two dozen other nations that make up the North American continent, Central America and the island states of the Caribbean, have suffered economically as a result of political instability, a history of U.S. military intervention, inferior educational systems, a weak middle class, and economic policies that have created large pockets of poverty. The United States and other developed countries have contributed to the slow economic development of these countries by limiting the access of Central American and Caribbean goods into their markets.

> **BRING THE WORLD INTO FOCUS**
> ***The Canals of Commerce***
> This box discusses the strategic importance of both the Suez Canal and Panama Canal, including the impacts upon global trade. This section also highlights the political and historical significance of the canals.

THE MARKETPLACES OF WESTERN EUROPE

- The countries of Western Europe make up the second component of the Triad, and are among the most prosperous nations in the world. They can be divided into (1) the members of the European Union (EU) and (2) the other nations in the region (see Map 2.2).
- The members of the European Union have agreed to reduce barriers to trade and investment among themselves in an effort to achieve greater prosperity. The EU will be discussed in more detail in Chapter Ten.
- In 2002, twelve of the EU nations eliminated their national currencies, replacing them with the euro.
- Twenty-eight countries belong to the EU (the United Kingdom is in the process of withdrawing from the EU, which will leave it with 27 members).
- With a 2017 GDP of $17.3 trillion and a population of 513 million, it is one of the world's richest markets.
- Germany, the fourth largest economy in the world, is the most economically powerful nation in the EU. In 2017 it was the world's third largest exporter of goods, after China and the United States, with some $1.5 trillion. (See "Bringing the World in Focus" section, which provides an account of the impact of *Mittelstand* firms in Germany.)
- France is politically strong and is a leading proponent of increased political, economic, and military union within Europe, and of increasing the powers of the government of the EU. The United Kingdom has resisted many of the initiatives to broaden the EU's powers and, as a traditionally strong supporter of free trade, provided an important counterweight to the French protectionist tendencies. However, in 2016 the British electorate voted to leave the European Union.
- The newest EU members were either part of the Soviet Union (Estonia, Latvia, and Lithuania) or allied with the Soviet Union politically and economically (Bulgaria, Czech Republic, Hungary, Poland, Slovakia, and Romania).
- Other countries in Western Europe that are not a part of the EU include Iceland, Switzerland, Norway, Andorra, Monaco, and Liechtenstein. These countries, considered rich by the World Bank, follow free market-oriented policies.

THE MARKETPLACES OF EASTERN EUROPE AND CENTRAL ASIA

The regions of Central (Austria, Albania, the former Soviet satellite states of Bulgaria, the Czech Republic, Slovakia, Hungary, Poland, Romania, Bosnia-Herzegovina, Croatia, Macedonia, Montenegro, Serbia, and Slovenia) and Eastern Europe (the former Soviet Union) continue to undergo the vast economic change that began in 1986 with **glasnost** (openness) and **perestroika** (restructuring the economy).

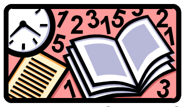
- The Soviet Union collapsed in 1991 as a result of economic and political reforms. The various countries, of which Russia is the largest, are now part of the Newly Independent States (NIS).
- The process of transforming their economies from a communist to a capitalist system was not easy. One of the most important challenges in this process is that of **privatization** (selling state-owned property to the public sector). The process is a painful one that has caused massive unemployment.
- Under the leadership of Boris Yeltsin, Russia's central government staggered from one financial crisis to another. Vladimir Putin, Yeltsin's successor, overhauled Russia’s taxation system and has helped somewhat stabilize the economy. The initiative worked, and government revenues increased.
- The five Central Asian republics of the former Soviet Union (Kazakhstan, Uzbekistan, Tajikistan, and Kyrgyzstan) declared their independence when the Soviet Union dissolved in 1991. They are primarily Muslim countries suffering from scarcity of arable land and from poverty. Per capita incomes range from $801 per year in Tajikistan to $8,837 in Kazakhstan.

THE MARKETPLACES OF ASIA

Asia, home to over half the world’s population, produces less than a third of the world’s GDP (see Map 2.4). Asia is unique in that it is a source of both high- and low-quality products and of both expensive and inexpensive labor. Further, the region attracts MNC investments, and is a major supplier of capital to non-Asian countries. Moreover, its companies are increasingly pressuring European and North American companies to improve their operations.

Japan

- Japan, with a population of 127 million, has enjoyed rapid growth over the last 50 years in part because of the close relationship between the Ministry of International Trade and Investment and the industrial sector.
- Japan, through the use of **keiretsus**, has also made it difficult for foreign firms to penetrate its marketplace. A keiretsu is a large family of interrelated firms. **Sogo Soshas** (export trading companies that serve as the marketers for the keiretsu in international markets) facilitate the exports of keiretsu members.
- Although Japan is frequently criticized for its exports, it should be recognized that its exports are a smaller portion of its GDP than is the case for many nations. However, the country seemingly restricts importers from competing for its domestic market. This topic will be discussed in more depth in Chapter Nine.
- Japan's economy slowed in the 1990s, however, since 2009, its GDP has grown at an annual rate of 1.4 percent, however, that is also well below the 2.9 percent average growth in the world economy.



Teaching Note:
The question of whether Japan practices free trade usually generates good discussion among students. Instructors can raise the question in a very broad sense, and then play devil's advocate to really get students thinking.

Australia and New Zealand
- Australia and New Zealand are traditional economic powers in Pacific Asia. Some 40 percent of its population lives in Sydney or Melbourne.
- Australia is rich in natural resources, but has a relatively small workforce. As a result, its merchandise exports, which in 2017 accounted for 17 percent of its $1.3 trillion GDP, are concentrated in natural resource industries (such as gold, iron ore, coal, etc.) and land-intensive agricultural goods (wool, beef, and wheat).
- New Zealand, the other traditional industrial power in Pacific Asia, has aggressively moved to deregulate and privatize its economy. More than two-thirds of New Zealand's exports are attributable to its extensive pasture lands. These exports include dairy products, meat, and wool. Australia, China, Japan, and the United States account for approximately half of New Zealand's exports and imports.

The Four Tigers
The Four Tigers – South Korea, Taiwan, Singapore, and Hong Kong – enjoy the position of being among the fastest industrializing nations in the world. While many publications still classify the Four Tigers as *emerging markets*, they have in fact already emerged as indicated by their having achieved high-income classification by the World Bank for more than a decade.

- **South Korea** has grown rapidly through tight cooperation between the government and **chaebol**. Chaebol are large, privately owned conglomerates such as Samsung, Hyundai, and Daewoo. Today, however, many of the chaebol are experiencing financial difficulties as a result of the Asian currency crisis. South Korea has followed a similar recipe for economic growth as Japan, focusing on government leadership in the economy, large economic combines for industrialization, and keeping imports out.
- **Taiwan**, the island off mainland China, has relied on private businesses and export-oriented trade policies to bring about its phenomenal growth. The country exports more than 63 percent of its GDP, mainly to the United States, China, and Japan. Today, Taiwan has outgrown its status as a low-cost manufacturing center, and instead focuses on high-value-added industries, such as electronics and automotive parts. In fact, many of Taiwan's companies are investing in China as they search for low-cost labor.
- **Singapore** is another nation that can no longer compete with low-cost labor countries, and instead has shifted to higher value-added activities, including oil refining and chemical processing. The country gains much of its economic growth through the practice of reexporting. So important are exports to Singapore that, in 2017, they made up 166 percent of the GDP. Singapore thrives on **reexporting**. Singapore's firms take advantage of the country's excellent port facilities to import foreign goods and then reexport them to other countries (particularly neighboring Malaysia).The country also is active in sophisticated communications and financial services for companies in Pacific Asia.

- **Hong Kong** was ceded back to the PRC in 1997 but will continue to enjoy special privileges under Chinese rule until 2047. Hong Kong has a highly educated and productive labor force for industries such as textiles and electronics. The country is also active in banking and financial services throughout East Asia. In addition, Hong Kong acts as a middleman for companies that wish to do business with mainland China. Hong Kong exported 161 percent of its GDP in 2017. Hong Kong also serves as a bridge between Taiwan and the PRC by converting goods made in the two enemy nations into Hong Kong goods.

China
- The People's Republic of China (PRC), the most populous nation in the world, is also the world's largest communist country. The PRC's growth has been governed by a series of communist policies, the more recent of which have focused on freer market policies. In fact, it was the freer policies and the hopes for political freedom that led to the Tiananmen Square massacre in 1989.
- Today, the PRC continues to adopt market-oriented economic policies, but always under the watchful eye of the Communist Party. The country produces a unique assortment of goods, the shoddy products of the state enterprises, and the higher quality products of private firms.
- As the private sector has developed, foreign investment in the country has soared, particularly by firms located in the Four Tigers that are seeking innovative low-cost labor. **Display Figure 2.3 here.**

India
- India, the second most populous country, with 1.3 billion people. It is also one of the world's poorest (with per capita income of $1,940/year). It has relied on state ownership of key industries as a key to its economic development. Until 1991, India discouraged foreign investment and limited foreign ownership of companies. In 1991, the government under the guidance of Prime Minister Rao established market opening reforms, which reduced trade barriers, opened doors to increased FDI, and modernized the country's financial sector. These reforms have started to pay off, and foreign companies now consider India for investment and expansion.

Southeast Asian Countries

Other countries in Asia that are affecting international business include Thailand, Malaysia, and Indonesia, countries with low labor costs that have been recipients of significant FDI in the last four decades. Their GDPs enjoyed annual growth rates averaging over 7 percent from 1980 to 1995. However, the 1997-1998 currency crisis seriously hurt these countries (See Chapter 7). Even so, they have continued to be the target of large flows of foreign investment, particularly by Japanese companies seeking low-cost labor. U.S. and European MNCs have used these countries as production platforms as well.

THE MARKETPLACES OF AFRICA AND THE MIDDLE EAST

The continent of Africa covers roughly 22 percent of the world's total land area and is composed of 54 countries. Egypt occupies the northeastern tip of the African continent and represents the western boundary of what is commonly known as the Middle East.

Africa

- The African continent is home to 1.3 billion people. Though countries on the African continent are now independent, some vestiges of colonialism remain and affect international business. The text provides an example of colonial ties, specifically that Chad, Niger, and the Ivory Coast retain their ties with France and in doing so, link their currencies with the French franc and follow the legal, educational, and governmental procedures of France. (see Map 2.6) Similarly, the public institutions of Kenya, Zimbabwe and the Republic of South Africa are modeled along British lines, giving British firms a competitive advantage in these countries.
- As Africa has shed its colonial rule, the region has undergone political unrest and civil war; but today, it is turning toward market-oriented policies and multi-party democracies, and is attracting international businesses.
- Natural resources, particularly oil, and agricultural production are important to the African economy. Much of the economy still revolves around subsistence farming.
- South Africa is expected to be the dominant power in the continent during the twenty-first century.

Middle East

- The Middle East (the region located between northwestern Asia and northeastern Africa) is home to many oil-rich countries. It is also home to political unrest and conflict, and the region has been plagued with various wars in the last century, including the Arab-Israeli wars, the Iran-Iraq war, and the Persian Gulf wars.
- In 2017, Saudi Arabia had the largest economy ($684 billion GDP), but Qatar had the highest per capita income ($63,506 per year).
- Countries in the region are trying to plan for a life after oil and are beginning to diversify their economies. Dubai, for example, is attracting investors by offering all the benefits of a foreign trade zone (see Chapter 9), an excellent infrastructure, and an entry point for exports to the region. Dubai, Qatar and Abu Dhabi have implemented another strategy to diversify their economies by leveraging their location to aid three local airlines – Emirates Air, Qatar Airways, and Etihad Airways.

In Practice
Sovereign Wealth Funds

Sovereign wealth funds are a new and controversial source of capital in the world economy. These are monies derived from a country's reserves that have been set aside as an investment benefiting a country's economy and citizens. These funds come from a country's central bank's reserves that are a result of trade surpluses and revenues generated by the sale of a country's natural resources (i.e. oil).

THE MARKETPLACES OF SOUTH AMERICA

- South America's 13 countries not only share a common political history, but also share many social and economic challenges, such as inflation, inefficient producers, and widespread poverty. (see Map 2.8)
- Until recently, most South American countries have followed an economic policy of **import substitution**. Under such a policy, a nation attempts to stimulate the development of local industry by discouraging imports through high tariff and nontariff barriers. The trouble with the policy is that in most cases the domestic market is too small to allow producers to gain the necessary economies of scale and

mass production. Consequently, domestic prices rise above prices in other markets, putting exporters at a competitive disadvantage. To improve the competitiveness of the companies and maintain employment levels, governments usually resort to subsidies and even nationalization. As a result, the government runs a budget deficit, which leads to inflation and the destruction of middle-class savings.

- The opposite of import substitution, and the successful policy used by countries such as Taiwan, Singapore, and Hong Kong, is **export promotion**, in which a country grows by expanding its exports.
- Today, the nations of South America are reversing their import substitution policies in favor of free trade agreements with neighboring countries, and are following a policy of privatization. As the policies begin to "go into action," South America's role in world trade is expected to increase.

CHAPTER REVIEW

2-1 Describe the U.S. role in the world economy.

The United States has a unique position in the world economy because of its size and political stability. Approximately 21 percent of the world's GDP is accounted for by the United States. Furthermore, it acts as a magnet for lower-income nations that are attempting to raise their standard of living through export-oriented economic development strategies and for higher-income country firms that target the country's large, well-educated middle class. The U.S. dollar plays an important role in global financial markets. Approximately one-half of all international transactions are denominated in U.S. dollars, and it is an important component of foreign currency reserves owned by governments throughout the world. As a result of the country's political stability, investors frequently invest their money in the United States whenever political conflicts and instability flare up. The United States is also a recipient of long-term investment. International trade remains a relatively small component of the U.S. economy, although it is becoming increasingly more important. (LO 2.1; AACSB: Analytical Thinking; Learning Outcome: Discuss the trends and debate over globalization)

2-2 How do differences in income levels and income distribution among countries affect international businesses?

A country's income level is a key indicator of how attractive it will be to international businesses because it provides companies with information about the nature of a nation's consumers and the country's value as a production site. Countries are typically classified according to the World Bank scheme as being high-income, middle-income, or low-income nations. Firms can use this information to help identify the best markets for their products. For example, a firm with a range of products in different price categories might export the most expensive, sophisticated products to high-income countries, and the low-priced, standard products to low-income countries. Similarly, a firm seeking sources of low-cost labor would consider low-income countries, while a firm needing a well-developed infrastructure would look at higher-income countries. (LO 2.1, AACSB: Analytical Thinking; Learning Outcome: Discuss trends in and the debate over globalization)

2-3 What role did MITI serve in the Japanese economy?

MITI, a government agency, partnered with Japanese businesses to help guide corporate production and investment strategies in a manner that helped Japanese businesses concentrate initially on basic industries such as steel, and then later to move into automobiles, electronics, and so on. In this manner, MITI contributed to the rebuilding of the Japanese economy after World War II. (LO 2.4, AACSB: Application of Knowledge; Learning Outcome: Describe how differences in political economy influence economic development)

2-4 What is a keiretsu?

A keiretsu is a large family of interrelated companies that share ownership among each other. Typically, a keiretsu is centered around a major Japanese bank that takes primary responsibility for meeting the keiretsu's financing needs. The members often act as suppliers, buyers, and distributors for one another. (LO 2.4, AACSB: Application of Knowledge; Learning Outcome: Describe how differences in political economy influence economic development)

2-5 Who are the Four Tigers? Why are they important to international business?

The Four Tigers are South Korea, Taiwan, Singapore, and Hong Kong. The Four Tigers are important to international business because of their rapid strides toward economic development. South Korea is one of the world’s fastest-growing nations. Much of its growth has come through exports. Taiwan also enjoys rapid economic growth and today focuses on high-value-added industries, such as electronics and automobiles. Singapore is an export intensive nation, exporting 171 percent of its GDP in 2011. It is also an important port and center for oil refining in Asia, and provides sophisticated communications and financial services for Pacific Rim companies. Finally, Hong Kong’s highly educated and productive workforce makes it attractive to industries such as textiles and electronics. It also provides banking and financial services for much of East Asia and is an important link for companies that want to do business in mainland China. (LO 2.4, AACSB: Application of Knowledge; Learning Outcome: Describe how differences in political economy influence economic development)

2-6 What is a chaebol?

A chaebol is a conglomerate of privately owned companies. Some examples of chaebol include Samsung, Hyundai, Daewoo, and Lucky-Goldstar. Leaders of chaebol may be related to each other or to top government officials through marriage. (LO 2.4, AACSB: Application of Knowledge; Learning Outcome: Describe how differences in political economy influence economic development)

2-7 Discuss the role of natural resources and agriculture in Africa's economy.

Much of Africa's economy is tied to its natural resources. Several countries (such as Nigeria, Gabon, and Angola) rely heavily on oil exports to sustain their economies. In other countries (such as Ivory Coast and Rwanda), agricultural products are their only major export. Apart from exports, in many countries (such as Gambia, Mozambique, Sierra Leone, Tanzania, and Zambia), a major part of the population is "employed" in subsistence farming. (LO 2.5, AACSB: Application of Knowledge; Learning Outcome: Describe how differences in political economy influence economic development)

2-8 How did import substitution policies affect the economies of Brazil and Argentina?

Import substitution policies attempt to stimulate the development of local industry by discouraging imports through tariff and nontariff barriers. The policies create problems, however, when a domestic market is too small to allow producers to gain economies of scale from mass production or to permit much competition between local producers. Thus, prices rise above prices in other markets, making exports uncompetitive. Governments are then forced to subsidize domestic producers, and possibly nationalize them as a means of preserving jobs. This leads to governmental budget deficits, inflation, and the destruction of the savings of the middle class. Today, Brazil and Argentina have reversed their import substitution policies and are opening up their economies so that they can compete in the world marketplace. See also Bringing the World into Focus: Brazil Bolsters its Families. (LO 2.6, AACSB: Application of Knowledge; Learning Outcome: Define the fundamental concepts of international business.)

QUESTIONS FOR DISCUSSION

2-9 Regional trading blocs, such as the EU and NAFTA, are growing in importance. What are the implications of these trading blocs for international business? Are they helpful or harmful? How may they affect a firm's investment decisions?

Trading blocs, such as the North American Free Trade Agreement and the European Union, stand to have a great impact on international business because they change the rules of trade and in some cases, investment, presenting new opportunities but also new threats to both foreign and domestic companies. Whether they are harmful or helpful is difficult to state in just a paragraph or two, but will depend on the perspective of the particular company (or individual). For companies inside a trading bloc, such agreements can be seen as helpful since they can have the effect of keeping nonmember companies out, thus providing a degree of protection to member companies. Moreover, member companies are helped by the increase in effective market size that is a result of such an agreement. On the other hand, since trading agreements essentially create one large market, member companies may find that they face increased competition within the bloc. For companies outside a trading bloc, particularly those that have had a strong trading relationship with a member country, trade agreements can be devastating. Companies may find that they face high tariff and nontariff barriers that prevent them from exporting to the companies within a trade bloc. This situation may lead firms to invest in a member country and essentially become an insider. (LO 2.1, AACSB: Reflective Thinking; Learning Outcome: Define the fundamental concepts of international business.)

2-10 Many American and European businesspeople argue that the keiretsu system in Japan acts as a barrier to foreign companies entering the Japanese market. Why do you think they believe this?

The fact that the Japanese market is closed to foreign companies is a popular, and some would argue mistaken, belief among American and European executives. The Japanese keiretsu is a family of interrelated firms in which each firm takes a small ownership position in each of the other companies. The strong ties among keiretsu members may lead to buyer-supplier relationships (if the keiretsu is a vertical one) and may allow firms to take on high-risk investments. Many American and European executives believe that such relationships make it difficult for them to supply their products to Japanese firms, and even break into the market itself. Furthermore, they believe that the keiretsu puts European and

American firms at a distinct competitive disadvantage when dealing with the Japanese. Others, however, will argue that with patience and hard work, companies (for example, Toys "R" Us) can enjoy success in the Japanese market. (LO 2.4, AACSB: Analytical Thinking; Learning Outcome: Discuss trends in and the debate over globalization)

2-11 Ethnic ties, old colonial alliances, and shared languages appear to affect international trade. Why might this be so? If true, how does this affect international businesses' strategies regarding which markets to enter?

Ethnic ties, old colonial alliances, and shared languages affect international trade because they may provide the basis from which a nation emerged. For example, although the United States, a former colony of Great Britain, declared its independence centuries ago, it still shares with its former ruler the same language, cultural heritage, and many beliefs about issues such as democratic rule. These ties with Britain have helped to shape the United States into the country it is today. For American companies, this relationship is beneficial because not only do American companies have easy access to the British market (and British firms to the American market), but they may also find it easier to enter other markets where, for example, English is the spoken language. In addition, if the countries in question have maintained strong ties, it is likely that they will share enemy countries, a factor that could further impact the strategy of an international firm. (LO 2.1, AACSB: Analytical Thinking; Learning Outcome: Discuss trends in and the debate over globalization)

2-12 South Korea is prominently featured in many lists of "emerging markets." (For example: see Table 1.2 on page 16) Is South Korea an emerging market? Or has it already "emerged"? Defend your answer. How would you define an "emerging market"?

Emerging markets are countries whose recent growth or prospects for future growth exceed that of traditional markets. Economic growth is defined as the increasing capacity of the economy to satisfy the wants of the members of society. Economic growth is enabled by increases in productivity, which lowers the inputs (labor, capital, material, energy, etc.) for a given amount of output. Lowered costs increase demand for goods and services. Economic growth is also the result of population growth and of the introduction of new products and services. (LO 2.4, AACSB: Analytical Thinking; Learning Outcome: Discuss trends in and the debate over globalization)

2-13 What can African countries do to encourage more foreign investment in their economies?

The nations of Africa are in a difficult situation. Years of political unrest and civil war have labeled the region as a high risk one. If Africa expects foreign firms to invest in the region, it must try to lose the label. The process has already been started with the implementation of new market-oriented policies, and the region is beginning to attract the attention of international firms. To continue the process, Africa can develop more tax-free zones such as the one located in Mauritius, and provide other incentives to attract foreign companies. In addition, efforts must be made to contain any remaining civil unrest, particularly attacks against foreigners. (LO 2.5, AACSB: Reflective Thinking; Learning Outcome: Describe how differences in political economy influence economic development)

BUILDING GLOBAL SKILLS

Essence of the exercise
Keeping with the reference style of this chapter, the Building Global Skills exercise introduces the student to several different publications that can be used by international business persons to obtain information about foreign countries and markets. Students who complete the exercise will not only find out more about Belgium (see questions below), but they will also become familiar with the process of conducting secondary research on international markets.

Answers to the follow-up questions:
(Note: The answers to these questions will change from year to year and may differ from one information source to another due to measurement parameters. Provided below are "baseline" figures to provide the instructor a reference point for considering whether the data students collect are reasonable.)

2-14 What was the total value of U.S. imports from Belgium last year? Of U.S. exports to Belgium?

U.S. imports from Belgium (2017) = $14.9 Billion
U.S. exports to Belgium (2017) = $29. Billion
Source = U.S. Census Bureau

(LO 2.1; AACSB: Analytical Thinking; Learning Outcome: Define the fundamental concepts of international business)

2-15 What is the total level of U.S. investments in Belgium? Of Belgian investments in the United States?

These figures include foreign direct investment as of 2017:
U.S. FDI in Belgium = $54.95 Billion
Belgian FDI in U.S. = $103.45 Billion

(LO 2.1; AACSB: Analytical Thinking; Learning Outcome: Define the fundamental concepts of international business)

2-16 Profile the economy of Belgium: What is its GDP? What is its per capita income? How fast is its economy growing? What are its major exports and imports? Who are its major trading partners?

Belgian GDP (PPP adjusted) = $492.7 Billion (2017)
Belgian GDP/capita = $43,168 (2017)
Belgian GDP growth = -0.4 percent (2017)
Major exports = transportation equipment, diamonds, metals and metal products, foodstuffs and devices
Major imports = machinery and equipment, chemicals, diamonds, foodstuffs, pharmaceuticals, transportation equipment, and oil products
Major trading partners = EU (75.3 percent), U.S. (4.8 percent) and Asian Countries (11.8 percent)

(LO 2.1; AACSB: Analytical Thinking; Learning Outcome: Define the fundamental concepts of international business)

2-17 Profile the people of Belgium: What language do they speak? What is their average educational level? What is their life expectancy? How fast is their population growing?

Population: 11.5 million (2017)
Official languages: Dutch (60 percent), French (40 percent), German (less than 1 percent)
Education: 99 percent literacy, 16 years average education
Life expectancy: Overall = 81.3 years
Population growth = 0.6 percent (2017)

(LO 2.1; AACSB: Analytical Thinking; Learning Outcome: Define the fundamental concepts of international business)

Other Applications

Since many students may be unfamiliar with trade and investment figures for other countries and information about different economies, it is worthwhile to spend some time exploring such issues. Students can be divided into small groups to develop country profiles similar to the one above for different parts of the world. For example, one group of students might examine the lesser developed countries of Africa, while another group explores parts of South America, and so forth. Information can then be compiled in chart format on a "master list" that students can refer to in class.

CLOSING CASE

Fracturing the Energy Market

The case explores the concept of fracking, including the economic and political considerations.

Key Points:

- Fracking could potentially turn the world energy markets upside down.
- Although developed a long time ago, nations are now becoming more interested and aggressive with the process.
- The process may provide new supplies of energy at a lower cost.
- It may shift global geopolitical power and the competitiveness of nations.
- It may have a major environmental impact.
- The process is controversial and highly politicized.

Case Questions

2-18. Which industries gain and which industries lose from the availability of cheap natural gas produced from shale deposits?

Chemical and fertilizer manufacturers benefit from a low price for natural gas, while utilities and natural gas producers are adversely affected by it.
Natural gas is an important feedstock for chemical companies, so lower natural gas prices have impacted favorably by enabling them to underprice their foreign petrochemical rivals. In addition fertilizer manufacturers are the most intensive users of natural gas in the U.S., and have benefited from its low price.

Low natural gas prices have had a negative effect on unregulated utilities and natural gas producers. Certain utilities are negatively impacted by low gas prices and ultimately lower earnings. The cost of production is higher than the current price of natural gas, which means that these companies lose money for every unit of natural gas produced. (LO 2.1; AACSB: Analytical Skills; Learning Outcome: Discuss trends in and the debate over globalization)

2-19. Which countries gain and which countries lose from the availability of cheap natural gas?

Cheap natural gas means cheap energy and currently a Mexico is a major US export market, which makes U.S. shale gas production a winner. Additionally, Japan would also be a big U.S. export market. While Australia and Indonesia would be losers because their natural gas would be more expensive than US supply. (LO 2.1; AACSB: Analytical Skills; Learning Outcome: Discuss trends in and the debate over globalization)

2-20. Will the stability of the world's economy increase or decrease as a result of the fracking revolution? What about the stability of the world from a political perspective?

Fracking has enabled tremendous amounts of natural gas to be extracted from underground shale formations that were long thought to be uneconomical. The U.S. fracking revolution has caused natural gas prices to significantly drop to what the price would have been prior to the fracking revolution in 2013. Consumer gas bills have dropped as a result of increased fracking, which increases discretionary income for gas-consuming households, it allows consumer to enjoy electricity for homes, heat for schools, and hospital and power for mass transit. Moreover, all types of energy consumers, including commercial, industrial, and electric power consumers, saw economic gains from increased fracking.

On a national level, fracking of natural gas plays a role in protecting our national security, eliminating our dependency on foreign oil and allowing the United States to consider all our interests in oil producing regions such as the Middle East through a different lens. (LO 2.1; AACSB: Analytical Skills; Learning Outcome: Discuss trends in and the debate over globalization)

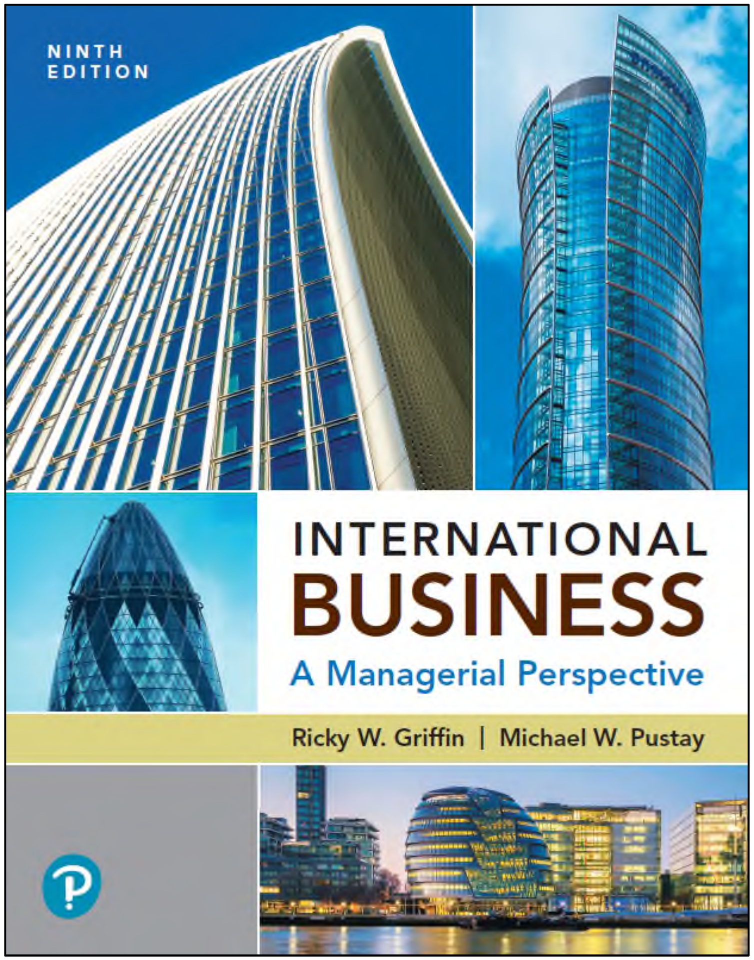
2-21. What environmental concerns does widespread use of fracking create? What is the appropriate trade-off between environmental concerns and economic growth?

Environmental concerns in the United States created by widespread us of fracking include the potential contamination of ground water, risks to air quality, the potential migration of gases and hydraulic fracturing chemicals to the surface, the potential mishandling of waste, contributing to climate change and the potential health effects, such as cancer.
On the other hand, U.S. consumers and industry rarely complain when energy prices fall, and reducing imports from unstable parts of the world has considerable appeal. Natural gas also releases half as much carbon dioxide as coal, allowing it to potentially serve as a "bridge fuel" to the cleaner energy supported by the majority of Americans.

Despite these advantages, fracking remains highly controversial, in large part because of the potential damage it poses to human health and the environment.
Fracturing generates income and, done well, can reduce air pollution and even water use compared with other fossil fuels. However, it could slow the adoption of renewables and, done poorly, release toxic chemicals into water and air. (LO 2.1; AACSB: Analytical Skills; Learning Outcome: Discuss trends in and the debate over globalization)

International Business: A Managerial Perspective

Ninth Edition



Chapter 2

Global Marketplaces and Business Centers

Learning Objectives

2.1 Discuss North America as a major marketplace and business center in the world economy.

2.2 Describe Western Europe as a major marketplace and business center in the world economy.

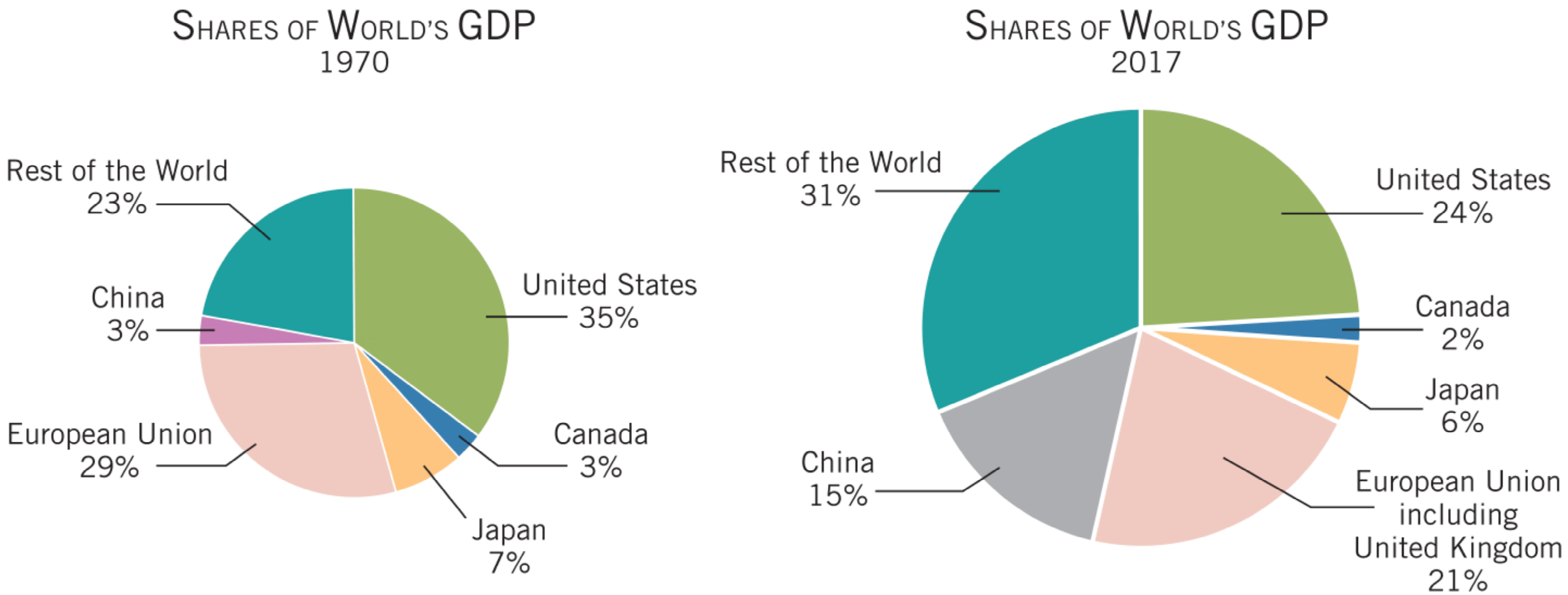
2.3 Analyze the role of Eastern Europe and Central Asia in the world economy.

2.4 Discuss Asia as a major marketplace and business center in the world economy.

2.5 Assess the development challenges facing African and Middle Eastern countries.

2.6 Evaluate the economic prospects of the South American countries.

Figure 2.1 The World Economy 1970 and 2017



The Marketplaces of North America

Country	Population (millions)	2017 GDP (billions of U.S. dollars)	GDP per capita (in U.S. dollars)
Canada	37	$1,653	$45,032
United States	326	$19,391	$59,532
Mexico	129	$1,150	$8,903
Central America	48	$258	$5,357
Caribbean	45	$466	$10,325

The Marketplaces of North America: The United States (1 of 2)

- World's largest economy
  - 24% of the world's GDP in 2017
  - One-tenth of world exports of goods and services
  - About one-eighth of world imports of goods and services
- Prime market for
  - Lower-income countries
  - Higher-income countries
- U.S. Dollar
  - Invoicing currency
  - Foreign-currency reserve

The Marketplaces of North America: The United States (2 of 2)

- Political stability and military strength
  - Flight Capital
- Foreign Investments
  - Important recipient of long-term foreign investment
- International Trade
  - Increasingly more important
  - Relatively small component of the U.S. economy
- MNCs
  - 27% of the world’s 500 largest corporations are headquartered in the United States

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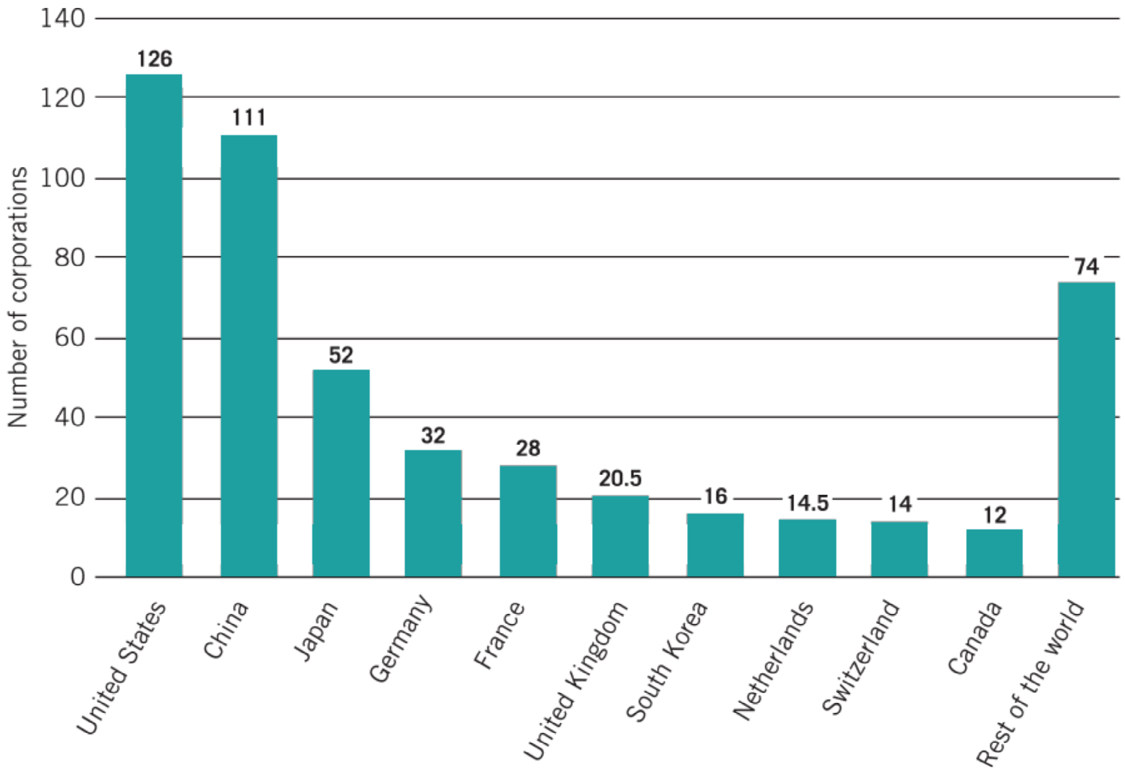
Figure 2.2 Headquarters of the World’s 500 Largest Corporations in 2017 by Country



Source: Based on data from www.fortune.com, accessed July 30, 2018.

The Marketplaces of North America: Canada (1 of 2)

- Exports
  - Vital to the Canadian economy: 31% of its 2017 GDP of $1.7 trillion
  - Rich natural resources: Canada's most important exports
  - The United States: The dominant market for Canadian goods
  - US-Canada two-way trade is one of the largest bilateral trading relationships in the world

The Marketplaces of North America: Canada (2 of 2)

- Foreign Investments
  - Proximity to the huge U.S. market
  - Stable political and legal systems
  - Excellent infrastructure and educational systems
  - Lingering Risk: long-standing conflict between French-speaking Canadians and English-speaking Canadians

The Marketplaces of North America: Mexico

- The world’s most populous Spanish-speaking nation
- Open-market system
  - Reversed economic nationalism policies
  - Opened its markets to foreign goods and investors
  - Reduced government’s role in its economy
  - Signed a series of free trade agreements

The Marketplaces of North America: Central America and the Caribbean (1 of 2)

- Divided geographically into two groups:
  - Central America
  - The Island States of the Caribbean
- Several island states have achieved high income status
  - Vibrant offshore financing or tourism industries
- Costa Rica and Panama are classified as upper-middle income

The Marketplaces of North America: Central America and the Caribbean (2 of 2)

- Political instability
- Chronic U.S. military intervention
- Inadequate educational systems
- Weak middle class
- Poverty
- Import limitations

The Marketplaces of Western Europe

- Western Europe
  - Members of the EU
  - Other Western European Countries

Map 2.2 Western Europe

The Marketplaces of Western Europe: The EU

- Comprises 28 countries
  - 27 after Brexit
- Seeks to promote European peace and prosperity
- One of the world's richest markets
- Free-market-oriented members
- Parliamentary democracies
- 19 EU members adopted the euro (€)

The Marketplaces of Western Europe: Influential Members of the EU

- Economically, Germany is the EU's most important member
  - Germany's strict anti-inflation policies
- Politically, France exerts strong leadership within the EU
  - French protectionist tendencies
- The United Kingdom has challenged France's positions
  - British exiting the EU (Brexit)

The Marketplaces of Western Europe: Newest EU Members

- Were either part of the Soviet Union or allied with the Soviet Union
- Restructured their economies from centrally planned communist systems to decentralized market systems
- Implemented political, legal, and institutional reforms
- Some are achieving high-income status

The Marketplaces of Western Europe: Other Western European Countries

- **High Income Countries:**
  - Iceland, Norway, and Switzerland
  - Several small, "postage stamp" countries such as Andorra, Monaco, and Liechtenstein
  - Account for 2 percent of the world's GDP
- **Middle Income Countries:**
  - The Balkan countries of Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia
  - Post–Cold War economic progress was slowed by chaos and conflicts

The Marketplaces of Eastern Europe and Central Asia

- Soviet Union's collapse in 1991
  - Newly Independent States (NIS)
    - Commonwealth of Independent States (CIS)

The Marketplaces of Eastern Europe and Central Asia: Russia

- Difficult transformation from communism to a free-market system
- The world's second largest oil producer and exporter
- Collapse of Oil price in the 2010s: Slow GDP growth

The Marketplaces of Eastern Europe & Central Asia: The 5 Central Asian Republics

- Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan, and Kyrgyzstan
- Common characteristics
  - Russian Influence
  - Religion: Dominantly Islam
  - Language: Turkic/Persian roots
  - Scarce Arable Land
  - Low Per Capita Income
  - Fossil Fuel Reserves

The Marketplaces of Asia (1 of 2)

- Source of both high-quality and low-quality products
- Source of both skilled and unskilled labor
- Major destination for foreign investments by MNCs
- Major supplier of capital to non-Asian countries
- Aggressive and efficient entrepreneurs

The Marketplaces of Asia: Japan

- One of the world's economic superpowers
- Japan's economic success
  - Partnership between MITI and Keiretsu
  - Sogo shosha
- Japan's challenges
  - Slow economic growth in the 1990s
  - Adjustments to changes in the the world economy
  - Trade practices
  - Growing demographic crisis

The Marketplaces of Asia (2 of 2)

Australia

- Rich in natural resources
- Relatively small workforce
- Merchandise exports
  - 17% of its 2017 GDP
  - Natural resource industries
  - Land-intensive agricultural goods

New Zealand

- Greater reliance on market-based policies
- Exports
  - 18% of its 2017 GDP
  - Extensive pasture lands

The Marketplaces of Asia: The Four Tigers

- Pacific Asia is one of the world's most rapidly industrializing regions
- South Korea, Taiwan, Singapore, and Hong Kong
  - The "Four Tigers"
  - The newly industrialized countries (NICs)
  - The newly industrialized economies (NIEs)
  - "Emerging Markets"

The Marketplaces of Asia: The Four Tigers: South Korea

- One of the world's fastest-growing economies
- Merchandise exports accounted for 37% of its 2017 GDP
- Tight cooperation between the government and large conglomerates
- Chaebol: Samsung, Hyundai, Daewoo Group, and LG

The Marketplaces of Asia: The Four Tigers: Taiwan

- One of the world's fastest-growing economies
- Reliance on family-owned private businesses
- Reliance on export-oriented trade policies
- Exports accounted for 63% of its 2017 GDP

The Marketplaces of Asia: The Four Tigers: Singapore

- Thrives on reexporting
  - Exports accounted for 166% of its 2017 GDP
  - Excellent port facilities
- Center for oil refining
- Sophisticated communications and financial services
- High-technology center

The Marketplaces of Asia: The Four Tigers: Hong Kong

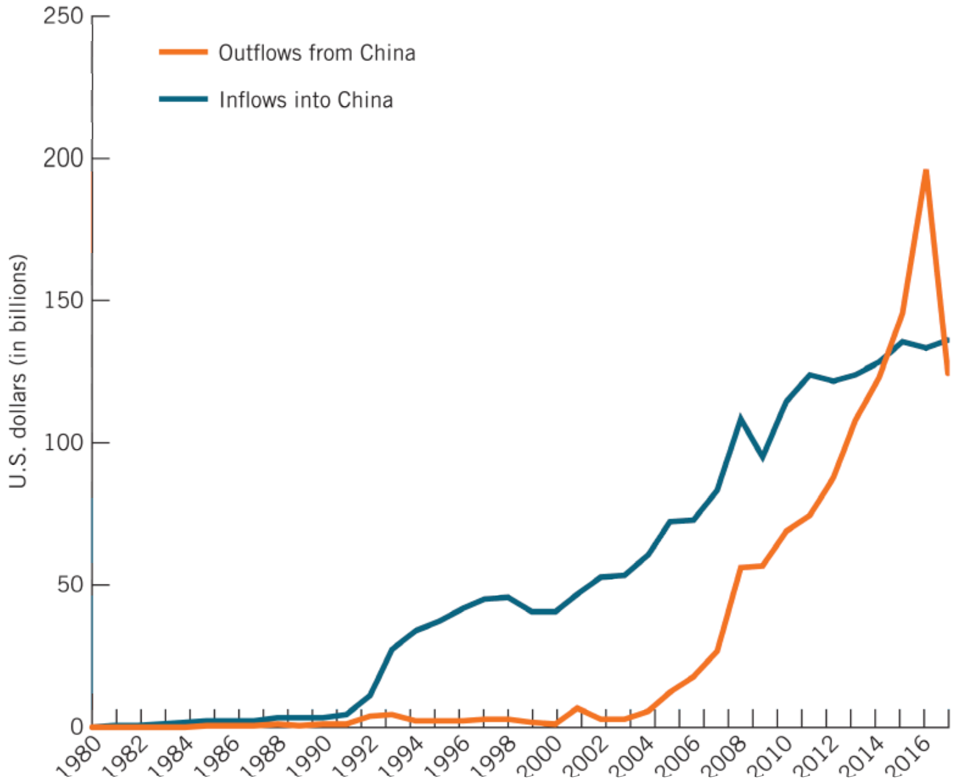
- Enjoys a fair degree of autonomy
- Attractive to international businesses
  - Deep, sheltered harbor
  - Entry point to mainland China
  - Highly educated, highly productive labor
  - Banking and financial services
- Reexporter
  - Exports accounted for 161% of its 2017 GDP

The Marketplaces of Asia: China (1 of 2)

- Mixed system
  - Communist Party-led state
  - Market-oriented economic policies
- Vibrant economy
  - Grew 10.9% a year from 2000 to 2009
  - FDI in China has exploded since 1992
  - Urbanization
  - China’s outbound FDI has skyrocketed since 2005

The Marketplaces of Asia: China (2 of 2)

Figure 2.3 China's Inward and Outward Foreign Direct Investment Flows, Annual, 1980–2017



Source: Based on United Nations Conference for Trade and Development Database.

The Marketplaces of Asia: India

- One of the poorest countries
- British Influence
- 1991 market-opening reforms
  - Reduced trade barriers
  - Opened the doors to increased FDI
  - Modernized the country's financial sector
- Challenges
  - Corruption is widespread
  - Infrastructure is overburdened
  - Red Tape

The Marketplaces of Asia: Southeast Asian Countries

- Promising records of economic development
- Thailand, Malaysia, and Indonesia
  – Low labor costs
  – Recipients of significant FDI
- Vietnam
  – Becoming important to MNCs
  – Inexpensive, young, and trainable workforce

The Marketplaces of Africa & the Middle East: Africa

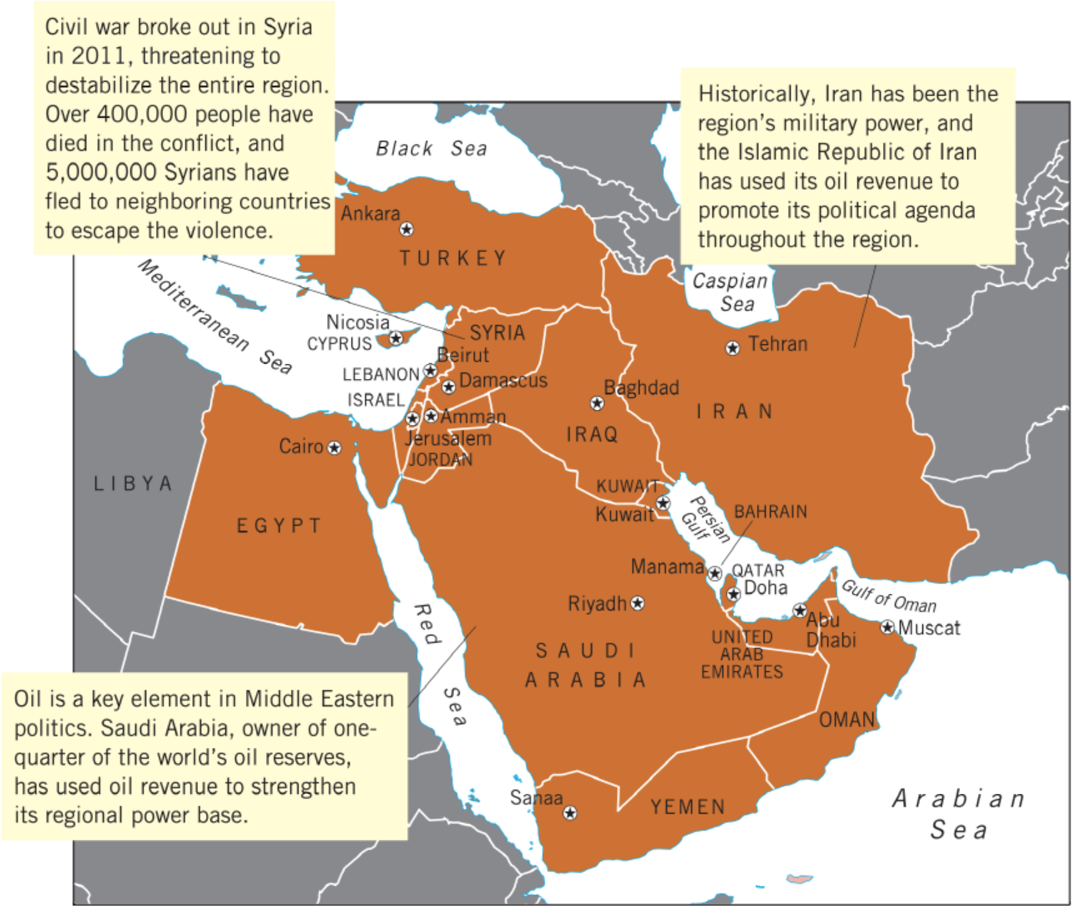
- European Colonial influence
- Commodities
- Agriculture
- South Africa: The continent’s growth engine

The Marketplaces of Africa & the Middle East: Middle East (1 of 2)

- "Cradle of Civilization"
- History of conflict and political unrest
- Home to many oil-rich countries
- Diversification: "Life After Oil"

The Marketplaces of Africa & the Middle East: Middle East (2 of 2)

Map 2.7 The Middle East



The Marketplaces of South America (1 of 2)

- Common political, social, and economic history
- Huge income disparities
- Widespread poverty
- Political instability
- Destructive **import substitution policies**
- Reversed import substitution policies in the late 1980s
- Economic boom during the 1990s

The Marketplaces of South America (2 of 2)

Map 2.8 South America

Review Questions

- Describe the U.S. role in the world economy.
- How do differences in income levels and income distribution among countries affect international businesses?
- What role did MITI serve in the Japanese economy?
- What is a keiretsu?
- Who are the Four Tigers? Why are they important to international businesses?
- What is a chaebol?
- Discuss the role of natural resources and agriculture in Africa's economy.
- How did import substitution policies affect the economies of Brazil and Argentina?

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