**CHAPTER 4: COMPETING IN WORLD MARKETS**

**Chapter Overview**

This chapter travels through the world of international business to see how both large and small companies approach globalization. First, we consider the reasons nations trade, the importance and characteristics of the global marketplace, and the ways nations measure international trade. Then, we examine barriers to international trade that arise from cultural and environmental differences. To reduce these barriers, countries turn to organizations that promote global business. Finally, we look at the strategies firms implement for entering foreign markets and the way they develop international business strategies.

**Glossary of Key Terms**

**Balance of payments:** overall money flows into and out of a country

**Balance of trade:** difference between a nation’s exports and imports

**Central America–Dominican Republic Free Trade Agreement (CAFTA-DR):** agreement among the United States, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua to reduce tariffs and trade restrictions

**Countertrade:** barter agreement whereby trade between two or more nations involves payment made in the form of local products instead of currency

**Devaluation:** reduction in a currency’s value relative to other currencies or to a fixed standard

**Dumping:** selling products abroad at prices below production costs or below typical prices in the home market to capture market share from domestic competitors

**Embargo:** total ban on importing specific products or a total halt to trading with a particular country

**Exchange control:** restriction on importation of certain products or against certain companies to reduce trade and expenditures of foreign currency

**Exchange rate:** value of one nation’s currency relative to the currencies of other countries

**Exports:** domestically produced goods and services sold in other countries

**European Union (EU):** 27-nation European economic alliance

**Foreign licensing agreement:** international agreement in which one firm allows another to produce or sell its product, or use its trademark, patent, or manufacturing processes, in a specific geographical area in return for royalties or other compensation

**Franchise:** contractual agreement in which a franchisee gains the right to produce and/or sell the franchisor’s products under that company’s brand name if they agree to certain operating requirements

**General Agreement on Tariffs and Trade (GATT):** international trade accord that substantially reduced worldwide tariffs and other trade barriers

**Global business strategy:** offering a standardized, worldwide product and selling it in essentially the same manner throughout a firm’s domestic and foreign markets

**Imports:** foreign goods and services purchased by domestic customers

**Infrastructure:** basic systems of communication, transportation, and energy facilities in a country

**International Monetary Fund (IMF):** organization created to promote trade, eliminate barriers, and make short-term loans to member nations that are unable to meet their budgets

**Joint venture:** partnership between companies formed for a specific undertaking

**Multidomestic business strategy:** developing and marketing products to serve different needs and tastes of separate national markets

**Multinational corporation (MNC):** firm with significant operations and marketing activities outside its home country

**North American Free Trade Agreement (NAFTA):** agreement among the United States, Canada, and Mexico to break down tariffs and trade restrictions

**Quota:** limit set on the amounts of particular products that can be imported

**Subcontracting:** international agreement that involves hiring local companies to produce, distribute, or sell goods or services in a specific country or geographical region

**Tariff:** tax imposed on imported goods

**World Bank:** organization established by industrialized nations to lend money to less developed countries

**World Trade Organization (WTO):** 153-member international institution that monitors GATT agreements and mediates international trade disputes

**Learning Objective 1: Explain why nations trade.**

*The United States is both the world’s largest importer and the largest exporter, although less than 5 percent of the world’s population lives within its borders. With the increasing globalization of the world’s economies, the international marketplace offers tremendous opportunities for U.S. and foreign businesses to expand into new markets for their goods and services. Doing business globally provides new sources of materials and labor. Trading with other countries also reduces a company’s dependence on economic conditions in its home market. Countries that encourage international trade enjoy higher levels of economic activity, employment, and wages than those that restrict it.*

*Nations usually benefit if they specialize in producing certain goods or services. A country has an absolute advantage if it holds a monopoly or produces a good or service at a lower cost than other nations. It has a comparative advantage if it can supply a particular product more efficiently or at a lower cost than it can produce other items.*

**Annotated Lecture Outline**

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| **Opening Vignette:  Fiat Takes Over Chrysler in Global Expansion**  Those in the auto industry are impressed with the successful relationship between the executives of Chrysler and Fiat after Fiat bought Chrysler. Sergio Marchionne, CEO of both firms, say that all decisions are made as a team. The two firms plan to produce a combined total of 6 million cars by 2014. Marchionne is working on the latest model known as a Dodge Dart, which is based on Chrysler’s Jeep Grand Cherokee, and a Maserati Kubang based on the chassis and technological capabilities of Fiat’s Alfa Romero. Both vehicles will be made in the United States to demonstrate the country’s true potential for manufacturing vehicles. The company had its first profitable year since 2005, demonstrating the successful handling of global changes and demands. |  |
| * 1. U.S. and foreign companies recognize the importance of international trade for their success. |  |
| * 1. Economic interdependence is increasing as companies seek markets for goods and services. |  |
| * + 1. Exports are domestically produced goods and services sold in other countries. |  |
| * + 1. Imports are foreign-made products and services purchased by domestic customers. |  |
| * + 1. Exports and imports now make up about 25 percent of the gross domestic product (GDP) in the United States. |  |
| * + 1. The total for foreign trade has more than doubled during the last decade. |  |
| * 1. Global transactions include cultural, social, and economic issues. |  |
| ***WHY NATIONS TRADE*** | PowerPoint Slide 3 |
| * 1. As domestic markets mature and growth slows, firms see the importance of developing markets in other countries. | *Lecture Enhancer:* *What are some risks due to global economic interdependence?* |
| * 1. The U.S. market, with the world’s highest purchasing power, attracts foreign companies. |  |
| * 1. International trade provides new markets, improves production and distribution systems, and allows firms to rely less on the economies of their home nations. |  |
| 1. **International Sources of Factors of Production** | PowerPoint Slide 4 |
| * 1. Business decisions to operate abroad depend on the availability of: | *Class Activity:*  *Ask students to provide examples of goods they have purchased which were made in other countries.* |
| * + 1. labor |  |
| * + 1. natural resources |  |

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| * + 1. capital |  |
| * + 1. entrepreneurship. |  |
| * 1. It allows a company to spread risk throughout nations in different stages of the business cycle or phases of development. |  |
| * 1. If demand falls in one country, other countries help firms maintain profits. |  |
| 1. **Size of the International Marketplace** | PowerPoint Slide 6 |
| * 1. The size of the global marketplace attracts firms. |  |
| * 1. Only 1 in 6 of the world’s population of nearly 6 billion lives in a well-developed country. | *Class Activity:*  *Global companies are aggressively pursuing establishing new markets in the so-called “BRIC” countries (Brazil, Russia, India, and China). Ask students why this is occurring.* |
| * + 1. Share of world’s population in less-developed countries will grow in coming years. |  |
| * + 1. Global birthrate is slowing overall. |  |
| * 1. China and India each have more than 1 billion people; but consumer demand requires purchasing power. | PowerPoint Slide 7 Table 4.1 The World’s Top Ten Nations Based on Population and Wealth |
| * + 1. Developing nations show lower per-capita incomes, but the number of households represents growing markets. |  |
| * + 1. Developing countries have significant jumps in annual GDP. |  |
| * + 1. U.S. GDP rises about 4.4 percent annually, whereas China saw a 10.1 percent increase and India’s grew 7.5 percent. |  |
| * 1. Top trading partners with the United States currently are Canada, China, Mexico, Japan, and Germany. | PowerPoint Slide 8Figure 4.1 Top Ten Trading Partners with the United States  *Lecture Enhancer: Choose one of these nations and discuss the goods and services that might be involved with U.S. trade.* |
| * 1. Foreign trade makes up a large portion of many individual states’ business activity, especially Texas and California. |  |
| 1. **Absolute and Comparative Advantage** | PowerPoint Slide 9 |
| * 1. Few countries can produce all the goods and services they need. |  |
| * 1. Trade meets the demand for products not produced domestically. |  |
| * 1. A country produces what it does best, exports the surplus, and buys what it needs. |  |
| * 1. A country has an absolute advantage if it has a monopoly on producing a product or can produce it at a lower cost than any competitor. |  |
| * 1. It gives one nation a clear advantage over others (e.g., China’s advantage in silk production). |  |
| * 1. A nation has a comparative advantage in a product if it can supply it more efficiently and at a lower price than other nations. |  |
| * + 1. China has a comparative advantage in the textile production. |  |
| * + 1. A nation also can develop a comparative advantage by ensuring its workforce is well-educated. |  |

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**Assessment Check Answers**

**1.1 Why do nations trade?**

*Nations trade because trading boosts economic growth by providing a market for products and access to needed resources. This makes production and distribution systems more efficient and reduces dependence on the economy of the domestic market.*

**1.2 Cite some measure of the size of the international**

**marketplace.**

*Although developing countries have lower per-capita incomes than developed nations in North America and western Europe, their populations are large and growing. China’s population is about 1.3 billion and India’s is roughly 1.1 billion.*

**1.3 How does a nation acquire a comparative advantage?**

*Comparative advantage exists when a nation can supply a product more efficiently and at a lower price than it can supply other goods, compared with the outputs of other countries.*

**Learning Objective 2: Describe how trade is measured between nations.**

*Countries measure the level of international trade by comparing exports and imports and then calculating whether a trade surplus or a deficit exists. This is the balance of trade, which represents the difference between exports and imports. The term* balance of payments *refers to the overall flow of money into or out of a country, including overseas loans and borrowing, international investments, and profits from such investments. An exchange rate is the value of a nation’s currency relative to the currency of another nation. Currency values typically fluctuate, or “float,” relative to the supply and demand for specific currencies in the world market. When the value of the dollar falls compared with other currencies, the cost paid by foreign businesses and households for U.S. products declines, and demand for exports may rise. An increase in the value of the dollar raises the prices of U.S. products sold abroad, but it reduces the prices of foreign products sold in the United States.*

**Annotated Lecture Outline**

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| ***MEASURING TRADE BETWEEN NATIONS*** | PowerPoint Slide 10 |
| * 1. Global business is measured by balance of trade, balance of payments, and exchange rates. |  |
| * 1. Balance of trade is the difference between a nation’s exports and imports. |  |
| * + 1. A *trade surplus* occurs when a nation exports more than it imports. |  |
| * + 1. A *trade deficit* occurs when a nation imports more than it exports. |  |
| * + 1. The United States has had a trade deficit since 1976; it is the world’s top exporter but buys more foreign goods than it sells. |  |
| * 1. Balance of payments is the overall flow of money into and out of a country. |  |
| * + 1. It is affected by overseas loans, overseas investments, profits from these, and foreign aid payments. |  |
| * 1. A *balance-of-payments surplus* means more money has moved into a nation than out of it. |  |
| * 1. A *balance-of-payments deficit* means more money has gone out of a country than into it. |  |
| 1. **Major U.S. Exports and Imports** |  |
| * 1. With combined exports and imports of about $2.5 trillion, the United States leads the world in trade. | PowerPoint Slide 11 Table 4.2 Top Ten U.S. Merchandise Exports and Imports |
| * 1. The United States imports more goods than it exports, but the opposite is true for services. | *Class Activity*  *Survey the class to see how many students have visited countries other than the United States.* |
| * + 1. U.S. exporters sell more than $507 billion in services annually. |  |
| * + 1. Much of this is from travel and tourism, but other services include business and technical, financial, legal, and entertainment plus royalties and licensing fees. |  |
| * 1. With annual imports reaching nearly $2 trillion, the United States is the world’s largest importer. |  |
| 1. **Exchange Rates** | PowerPoint Slide 12 |
| * 1. The exchange rate is the ratio at which one nation’s currency is exchanged for the currencies of other nations. |  |
| * + 1. Exchange rates are quoted in terms of another currency, therefore, so many pesos equal one U.S. dollar. |  |
| * + 1. The euro, used in Europe, has shifted from 90 cents when first issued to $1.44 more recently. |  |
| * 1. Factors that influence exchange rates: |  |
| * + 1. economic and political conditions |  |
| * + 1. central bank intervention |  |
| * + 1. balance-of-payment position |  |
| * + 1. speculation over future currency values. |  |
| * 1. In the system of *floating exchange rates,* currency traders create a market for the world’s currencies based on each country’s relative trade and investment prospects. |  |
| * + 1. In theory, exchange rates vary according to supply and demand. |  |
| * + 1. In practice, national governments intervene to adjust rates. |  |
| * 1. Nations influence exchange rates: |  |
| * + 1. They form blocs to link their rate to each other. |  |
| * + 1. They set up protection policies to guard their economies. |  |
| * + 1. They devalue their currency to increase exports and attract foreign business. |  |
| * 1. Devaluation is a drop in currency’s value relative to other currencies or to a fixed standard. |  |
| * + 1. This makes investing in the country relatively cheap. |  |
| * + 1. Business transactions are conducted in the currency of the region in which they take place. |  |
| * 1. Exchange rate changes can create or destroy a competitive advantage. |  |
| * + 1. In Europe, a declining dollar means the price of ten euros is worth more, so companies lower prices. |  |
| * + 1. But it also means Americans get less for their dollar when visiting Europe. |  |
| * 1. *Hard currencies* are those that are easily converted (e.g., the euro, yen, and American dollar). |  |
| * 1. *Soft currencies* are harder to convert (e.g., Russian ruble); exporters barter or accept payment in oil, timber, or items for resale. |  |
| * 1. Foreign currency exchanges make up the largest financial market in the world with a daily volume in excess of 3 trillion U.S. dollars. |  |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Assessment Check Answers**

**2.1 Compare balance of trade and balance of payments.**

*Balance of trade is the difference between exports and imports; balance of payments is the overall flow of money into or out of a country.*

**2.2 Explain the function of an exchange rate.**

*A nation’s exchange rate is the rate at which its currency can be exchanged for the currencies of other nations to make it easier for them to trade with one another.*

**2.3 What happens when a currency is devalued?**

*Devaluation describes a fall in a currency’s value relative to other currencies or to a fixed standard.*

**Learning Objective 3: Identify the barriers to international trade.**

*Businesses face several obstacles in the global marketplace. Companies must be sensitive to social and cultural differences, such as languages, values, and religions, when operating in other countries. Economic differences include standard-of-living variations and levels of infrastructure development. Legal and political barriers are among the most difficult to judge. Each country sets its own laws regulating business practices. Trade restrictions such as tariffs and administrative barriers also present obstacles to international business.*

**Annotated Lecture Outline**

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| ***BARRIERS TO INTERNATIONAL TRADE*** |  |
| 1. **Barriers** | PowerPoint Slide 13 |
| * 1. All businesses encounter barriers with or without foreign trade. | *Class Activity:*  *Ask students who are from other countries or who have traveled internationally about the differences they have seen in the way products such as Coca Cola or McDonald’s are offered around the world.* |
| * 1. Cultural and regional differences form barriers. | *Lecture Enhancer: Choose one of the four barriers shown, and discuss how it affects trade between the United States and another country.* |

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| * + 1. Some nations regulate retailers’ hours and days of operation. |  |
| * + 1. Companies reformulate products to accommodate local tastes. |  |
| * 1. Legal and political differences form barriers. | Figure 4.2 Barriers to International Trade |
| 1. **Social and Cultural Differences** | PowerPoint Slide 14 |
| * 1. Language, customs, educational background, social values, and religious holidays need to be understood and respected by foreign businesses. |  |
| * 1. Business must consider local attitudes, forms of address, and expectations regarding dress, body language, and timeliness. | *Lecture Enhancer:  Can you think of a specific issue, tradition, or social norm within another culture that an American should be particularly sensitive to when doing business within that culture?* |
| * 1. Language | **Business Etiquette:** **Tips for Understanding Japanese Culture** |
| * + 1. English is the second most widely spoken language in the world after Mandarin Chinese. |  |
| * + 1. Understanding a colleague may make the difference between closing an international transaction and losing the sale. |  |
| * + 1. Representatives in foreign markets must choose correct and appropriate words and translate words correctly to convey intended meanings. |  |
| * + 1. Companies must be careful not to present messages through inappropriate media, overlook local customs and regulations, or ignore differences in taste. |  |
| * + 1. Business Web sites must be sensitive to cultural issues because visitors to a site may be from anywhere in the world. |  |
| * + 1. It is important to be aware of the symbolic meanings of certain gestures and gifts within another culture. | *Lecture Enhancer: Give an example of a gift that has a specific symbolic meaning within American culture.* |
| * 1. Values and religious attitudes |  |
| * + 1. Values and attitudes, including feelings about work, differ widely among countries. | *Class Activity:*  *Lead a discussion of products sold within the United States which vary significantly by region, and the reasons.* |
| * + 1. Europeans value benefits and vacation time more highly than efficiency or employment rates as Americans do. |  |
| * + 1. U.S. culture values unity, with tolerance for differences; Europeans resist the idea of being a European citizen first. |  |
| * + 1. Religious cycles, major holidays, and food or beverage restrictions need to be understood. |  |

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| 1. **Economic Differences** | PowerPoint Slide 15 |
| * 1. Size, per-capita income, and stage of economic development are factors to consider in a global economic venture. | **Hit & Miss:** **The Tiny Nano—A Potential Hit for Tata Motors** |
| * 1. Infrastructure |  |
| * + 1. Infrastructure refers to basic systems of communication, transportation, energy facilities, technology, and Internet access. |  |
| * + 1. Aviation facilities are in demand in India due to increased international air traffic. |  |
| * + 1. Financial systems are part of infrastructure, with availability of banking services, checks, and credit cards varying among nations. |  |
| * 1. Currency conversion and shifts |  |
| * + 1. Foreign currency fluctuations present problems for global businesses because rate shifts make pricing difficult. |  |
| * + 1. Rate shifts influence the attractiveness of business decisions. |  |
| 1. **Political and Legal Differences** | PowerPoint Slide 16 |
| * 1. Today’s managers must understand international legislation because of trade restrictions and regulations. | *Class Activity:*  *Discuss the recent difficulties Google has faced doing business in China.* |

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| * 1. Political climate |  |
| * + 1. Stability of a nation’s political climate is an investment factor. |  |
| * + 1. Nations with frequent changes in political structure pass laws to protect their interests. |  |
| * 1. Legal environment |  |
| * + 1. Three dimensions of law in international business: U.S. law, international regulations, and the laws of countries in which trade is planned. |  |
| * + 1. The *Foreign Corrupt Practices Act* forbids U.S. firms from bribing foreign officials, political candidates, or government authorities. |  |
| * + 1. The United States, France, Germany, and 37 others banned corruption by signing the Organization for Economic Cooperation and Development Anti-Bribery Convention. |  |
| * + 1. The Corruption Perceptions Index rates the degree of corruption observed by business and the public. | PowerPoint Slide 17  Figure 4.3 Corruption in Business and Government  *Lecture Enhancer: Which countries seem to have the most corruption?* |
| * + 1. Theft of patents, brand names, trademarks, and copyrights is hard to police globally. |  |
| * 1. International regulations |  |
| * + 1. The United States and other countries have signed *friendship, commerce, and navigation treaties* to define business conduct and protect some activities. |  |
| * + 1. Other types of treaties address product standards, patents, trademarks, taxes, export controls, travel, and communications. |  |
| * + 1. Lack of international policy causes problems, such as with the use or protection of water supplies. | **Going Green:  Canon Aids Global Reforestation Program** |
| * + 1. Many other types of local regulations affect business actions in an international market, such as regional advertising laws. |  |
| 1. **Types of Trade Restrictions** | PowerPoint Slide 18 |
| * 1. Reasons for trade restrictions: |  |
| * + 1. protect safety, health, or jobs of a population |  |
| * + 1. protect security and national defense |  |
| * + 1. preserve domestic jobs |  |
| * + 1. promote trade with certain countries |  |
| * + 1. protect some countries from unfair competition. |  |
| * 1. Tariffs |  |
| * + 1. Tariffs are taxes, surcharges, or duties on foreign products. |  |

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| * + 1. Revenue tariffs generate income for the government, such as the duty paid by travelers on goods brought back to the United States. |  |
| * + 1. Protective tariffs raise price of imported products to match or exceed price in the home country, to “level the playing field.” |  |
| * + 1. Tariffs create a disadvantage to companies that want to export to the countries imposing the tariffs. |  |
| * 1. Nontariff barriers |  |
| * + 1. Nontariff barriers include administrative restrictions or subsidies on imports. |  |
| * + 1. Quotas are limits to the amount of a particular product that can be imported during a specific time period. |  |
| * + 1. Dumping is selling products abroad at prices below the cost of production, or exporting a product at lower prices than at home to drive down the domestic price. |  |
| * + 1. An embargo is a total ban on importing a specified product or a total halt on trading with a nation (e.g., Cuba). |  |
| * + 1. Exchange controls through central banks or government agencies  regulate the buying and selling of currency to shape foreign  exchange in accordance with national policy. |  |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Hit & Miss:**

**The Tiny Nano—A Potential Hit for Tata Motors**

**Summary**

The Tata Nano is a safe and sturdy car that sells for $2,500 in India, making it the world’s most affordable car. Tata’s strategic plan is to achieve international stature by solving the transportation problems of low-income car markets in the developing world. It will sell the Nano in Nigeria next and already has hurdled Europe’s crash-safety test. In just a few years, slightly higher-priced Nanos may roam the streets of Europe and even North America.

**Questions for Critical Thinking**

**1. Do you think Tata’s goal of making transportation affordable in developing countries is realistic? Why?**

*Tata’s goal of making transportation affordable in developing countries is realistic because it already has demonstrated success in India. Tata’s policy of using existing parts and a highly simplified design helps the company limit costs when producing the Nano.*

**2. Can you think of any disadvantages for low-income markets of having a sudden influx of cars on the road?**

*One disadvantage for a low-income market suddenly having an influx of cars on the road might be that the infrastructure does not support the large growth in traffic, or that there are not enough repair and service companies to support the vehicles.*

**Going Green:**

**Canon Aids Global Reforestation Program**

**Summary**

The $45 billion global imaging company Canon has made reforesting efforts one of their priorities. Its Canon Forestry Program has currently helped to plant 100,000 trees in both in partnership with Arbor Day efforts in states like Wisconsin and South Carolina, to countries like Vietnam where reforesting helps minimize the deadly impacts of floods and reduce hazardous carbon dioxide in the air.

**Questions for Critical Thinking**

1. **Where else in the world do you think Canon could take an active role in reforestation?**

*Canon’s reforestation efforts could be successful in areas like large cities where there is a lower air quality and less vegetation.*

**2. Canon USA also plants trees in response to consumers’ purchase of its environmentally conscious “Generation Green” brand products. Do you think this strategy would work globally? Why or why not?**

*Canon’s strategy could work globally if Canon strategically conducted business in countries like Vietnam who prioritize the environment or have environmental concerns for their area.*

**Assessment Check Answers**

**3.1 How might values and attitudes form a barrier to trade, and how can they be overcome?**

*Marked differences in values and attitudes, such as religious attitudes, can form barriers between traditionally capitalist countries and those adapting new capitalist systems. Many of these can be overcome by learning about and respecting such differences.*

**3.2 What is a tariff? What is its purpose?**

*A tariff is a surcharge or duty charged on foreign products. Its purpose is to protect domestic producers of those items.*

**3.3 Why is dumping a problem for companies marketing goods internationally?**

*Dumping is selling products abroad at prices below the cost of production or exporting products at a lower price than charged in the home market. It drives the cost of products sharply down in the market where they are dumped, thus hurting domestic producers of those products.*

**Learning Objective 4: Discuss reducing barriers to international trade.**

*Many international organizations seek to promote international trade by reducing barriers among nations. Examples include the World Trade Organization, the World Bank, and the International Monetary Fund. Multinational economic communities create partnerships to remove barriers to the flow of goods, capital, and people across the borders of members. Three such economic agreements are the North American Free Trade Agreement, CAFTA-DR, and the European Union.*

**Annotated Lecture Outline**

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| ***REDUCING BARRIERS TO INTERNATIONAL TRADE*** | PowerPoint Slide 19 |
| * 1. Overall, the world is moving toward free trade. |  |
| * 1. Several organizations ease barriers to trade, monitor policies, and offer financial assistance. |  |
| 1. **Organizations Promoting International Trade** | PowerPoint Slide 20 |
| * 1. General Agreement on Tariffs and Trade (GATT) |  |
| * + 1. The General Agreement on Tariffs and Trade (GATT) is an international trade accord sponsored by a series of negotiations, called “rounds.” | *Class Activity: Ask the class why a set of rules such as GATT is needed to provide a foundation for international trade.* |
| * + 1. Founded in 1947, it acts to reduce tariffs, import quotas, and other barriers worldwide. |  |
| * + 1. The last round of negotiations cut tariffs by one-third, by more than $700 billion. |  |
| * + 1. It established the WTO, an organization of 153 nations. |  |
| * 1. World Trade Organization (WTO) |  |
| * + 1. The World Trade Organization, since 1995, has monitored GATT agreements among member nations, mediated disputes, and acted to reduce trade barriers. |  |
| * + 1. The WTO’s decisions are binding on parties involved in disputes. |  |
| * + 1. WTO decisions have become controversial due to their effect on human rights and the environment in member nations. |  |
| * + 1. Developing countries lose their low-cost advantage by adding labor and environmental laws. |  |
| * + 1. U.S. giants may wipe out small foreign businesses that cater to local tastes. |  |
| * + 1. Trade unions complain that the WTO encourages firms to move jobs to low-wage nations. |  |
| * + 1. Smaller firms, 97 percent of firms that export goods and services, have benefited from WTO actions. |  |
| * + 1. The most recent WTO round, the Doha Round, addressed ways to help farmers in developing countries compete in the global marketplace. |  |
| * 1. World Bank |  |
| * + 1. The World Bank was established after WWII to lend money to developing nations. |  |

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| * + 1. It funds projects that build or expand a nation’s infrastructure, such as transportation, education, and medical systems. |  |
| * + 1. It provides the largest source of assistance to developing nations. |  |
| * + 1. In exchange for loans, it sets requirements that build the economies of borrower nations. |  |
| * + 1. The World Bank has been criticized for making loans with conditions that ultimately hurt the borrower nation. |  |
| * + 1. Some say the World Bank also should consider the environmental and social impact of such loans. |  |
| * 1. International Monetary Fund (IMF) |  |
| * + 1. The International Monetary Fund promotes trade through financial cooperation and eliminates barriers. |  |
| * + 1. The IMF makes short-term loans to member countries that are unable to meet budgetary expenses, so it is a lender of last resort to struggling nations. |  |
| * + 1. In exchange, it demands significant commitments from borrowers to address the problems that led to the financial crisis. |  |
| * + 1. Critics feel the IMF puts poor nations in impossible positions, with loans they cannot repay. |  |

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| 1. **International Economic Communities** | PowerPoint Slide 21 |
| * 1. International economic communities reduce trade barriers and allow more regional trade. |  |
| * + 1. In a *free-trade area,* members trade freely among themselves without tariffs or restrictions. |  |
| * + 1. A *customs union* establishes uniform tariffs for all members’ trade with nonmembers. |  |
| * + 1. A *common market* brings all trade rules into agreement (e.g., NAFTA). |  |
| * 1. North American Free Trade Agreement (NAFTA) |  |
| * + 1. The North American Free Trade Agreement (NAFTA), created in 1994 between the United States, Canada, and Mexico, is the world’s largest free-trade zone. |  |
| * + 1. It serves a population of 450 million, with a total GDP of more than $15 trillion, creating one of the world’s most attractive markets. |  |
| * + 1. The United States dominates North American business, with $14 trillion GDP, or about one-fifth of total world output. |  |
| * + 1. Canada is less populated than the United States, but its economy has grown at a faster rate than the U.S. economy in recent years. |  |

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| * + 1. The United States and Canada are each other’s biggest trading partners; 78 percent of Canada’s exports go to and 53 percent of its imports come from the United States. |  |
| * + 1. Mexico is becoming an industrial nation; its U.S. and Canadian trade has tripled since NAFTA, although 18 percent of its people still live in poverty. |  |
| * + 1. The United States is Mexico’s largest trading partner, accounting for 80 percent of Mexico’s exports and 50 percent of its imports. |  |
| * + 1. Trade among the partners has more than doubled since the agreement took effect. |  |
| * 1. Central America–Dominican Republic Free Trade Agreement (CAFTA-DR) |  |
| * + 1. The Central America Free Trade Agreement (CAFTA) of 2005 created a free-trade area among the United States, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. |  |
| * + 1. It ended most tariffs on $33 billion in products. |  |
| * + 1. Farmers should gain under relaxed trade rules, but U.S. sugar producers fought when subsidies were dropped, and labor unions complained about job loss. |  |
| * + 1. Overall, CAFTA-DR’s effects should be positive, increasing trade among its partners like NAFTA did. |  |
| * 1. European Union (EU) |  |
| * + 1. The European Union (EU) is a common market involving 27 countries and 500 million people. | Figure 4.4 The 27 Nations of the European Union |
| * + 1. It has a total GDP of more than $12 trillion. |  |
| * + 1. Goals include economic and social progress, European citizenship to complement national citizenship, and a significant role in international affairs. | *Lecture Enhancer:* *What are some concerns that member countries might have regarding new countries joining the EU?* |
| * + 1. The Treaty of Lisbon (2009) was made to make the EU governance more efficient. |  |
| * + 1. The EU is removing barriers to free trade by standardizing business regulations, import duties, taxes, and customs issues. | *Class Activity:*  *Lead a discussion of the factor contributing to the recent tension between the more prosperous European countries and the so-called “PIGS” (Portugal, Ireland and Iceland, Greece, Spain) members of the EU.* |
| * + 1. The EU uses the euro, which eliminates currency exchange and simplifies price comparisons. |  |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Assessment Check Answers**

**4.1 What international trade organization succeeded GATT, and what is its goal?**

*The World Trade Organization (WTO) succeeded GATT with the goal of monitoring GATT agreements, mediating disputes, and continuing the effort to reduce trade barriers throughout the world.*

**4.2 Compare and contrast the goals of the World Bank and the International Monetary Fund.**

*The World Bank funds projects that build or expand nations’ infrastructures, such as transportation, education, and health systems and facilities. The International Monetary Fund makes short-term loans to member nations that are unable to meet their budgets. The fund operates as a lender of last resort.*

**4.3 What are the goals of the European Union, and how do they promote international trade?**

*The European Union’s goals include promoting economic and social progress, introducing European citizenship as a complement to national citizenship, and giving the EU a significant role in international affairs. Unifying standards and laws is expected to contribute to international trade and economic growth.*

**Learning Objective 5: Explain the decisions to go global.**

*Exporting and importing, the first level of involvement in international business, involves the lowest degree of both risk and control. Companies may rely on export trading or management companies to help distribute their products. Contractual agreements such as franchising, foreign licensing, and subcontracting offer additional options. Franchising and licensing are especially appropriate for services. Companies also may choose local subcontractors to produce goods for local sales. International direct investment in production and marketing facilities provides the highest degree of control but also the greatest risk. Firms make direct investments by acquiring foreign companies or facilities, forming joint ventures with local firms and setting up their own overseas divisions.*

**Annotated Lecture Outline**

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| ***GOING GLOBAL*** | PowerPoint Slide 22 |
| * 1. Before going global a company must: |  |
| * + 1. determine which foreign markets to enter |  |
| * + 1. analyze the costs to enter a new market |  |
| * + 1. decide how to organize the overseas operation. |  |
| * 1. Other factors: |  |
| * + 1. Research local demand for the product, available resources, and local workforce, competition, tariffs, currency, and investment barriers. |  |
| * + 1. The U.S. Department of Commerce offers business advice, marketing data, and business contacts in many nations. | PowerPoint Slide 23  Table 4.3 International Trade Research Resources on the Internet  *Lecture Enhancer: Looking at Table 4.3, which site do you think would be the most objective?* |
| 1. **Levels of Involvement** | PowerPoint Slide 24 |
| * 1. Risk and control increase with the level of involvement. |  |
| * + 1. exporting or importing |  |
| * + 1. entering into contractual agreements (e.g., franchising, licensing, and subcontracting) |  |
| * + 1. directly investing in a foreign market (e.g., acquisitions, joint ventures, or an overseas division). |  |
| * 1. Importers and exporters |  |
| * + 1. Importers bring in goods from abroad to sell domestically. |  |
| * + 1. Exporters produce or purchase goods at home and sell them in overseas markets. |  |
| * + 1. *Export trading companies* handle sales, shipping, and paperwork by finding local merchandise and reselling it overseas. |  |
| * + 1. *Indirect exporting* occurs when a product becomes a part of another product sold in foreign markets. |  |
| * + 1. *Direct exporting* occurs when a company sells its products overseas. |  |

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| * + 1. *Export management companies* handle paperwork, contact local buyers, and comply with laws on safety, labeling, and testing. |  |
| * + 1. *Offset agreements* match a subcontractor to a major international firm. |  |
| * 1. Countertrade is an international form of barter, involving payments made in the form of local products, not currency. | PowerPoint Slide 25 |
| * + 1. Foreign currency may be unstable, so the seller accepts merchandise instead. |  |
| * + 1. It may be the only way to enter developing nations with much debt or unreliable currency. |  |
| * 1. Contractual agreementsare arrangements between firms more experienced in foreign trade and local parties. |  |
| * + 1. Franchising is a contractual agreement in which a franchisee gains the right to produce and/or sell the franchisor’s products under that company’s brand name if they agree to certain operating requirements. | *Lecture Enhancer:**What issues might present a barrier to the success of a franchise in a foreign country?* |
| * + 1. Foreign licensing lets one firm allow another to produce or sell its product, trademark, patent, or manufacturing process in a particular area, in exchange for a royalty or fee. |  |
| * + 1. Subcontracting involves hiring local companies to produce, distribute, or sell goods and services. |  |

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| * 1. Offshoringis the relocation of business processes to lower-cost nations overseas. | PowerPoint Slide 26 |
| * + 1. Global firms say they must keep their costs low to stay competitive. | *Class Activity:*  *What countries are likely attracting little international direct investment because of political instability, crime, war, or disease?* |
| * + 1. Critics believe the real answer is development by firms at home, not shipping work overseas. |  |
| * 1. International direct investment | **Hit & Miss: Groupon’s Goal: Spread Deals Around the World** |
| * + 1. Investing directly in production and marketing abroad is the highest level of global involvement. |  |
| * + 1. An acquisition occurs when a firm buys another company in a host country. |  |
| * + 1. A joint venture allows firms to share risks, costs, profits, and management with one or more host firms. |  |
| 1. **From Multinational Corporation to Global Business** | PowerPoint Slide 27 |
| * 1. A multinational corporation (MNC) is a firm with significant operations and marketing activities outside its home country. | Table 4.4 The World’s Top Ten Leading Companies |
| * 1. More than half the world’s largest MNCs are American firms. |  |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Hit & Miss:**

**Groupon’s Goal: Spread Deals Around the World**

**Summary**

Groupon’s phenomenal success has made it one of the hottest Internet start-ups, with the world’s largest ad network. Led by its 30-year-old CEO, Andrew Mason, Groupon brings together people and local businesses, creating a buzz of billions in profit. Still, it has experienced some slips in its efforts globally, such as in Japan when a local restaurant was overwhelmed with orders for the New Year’s meal. Learning from these mistakes, Groupon is moving forward in its efforts to “enrich people’s lives.”

**Questions for Critical Thinking**

**1. Why should Groupon establish itself locally in each market it serves?**

*Bringing buyers and sellers together is the quintessential definition of a market, and Groupon’s ability to do this well adds value to the process and can be compensated for that value. Providing those connections locally fills a niche in every local market.*

**2. Besides apologizing, what steps might Mason and Groupon take to rebuild its image in Japan? What lessons might be learned from this as the company seeks to gain ground in China?**

*Refunds to those affected would be a good start. Continuing to provide value to both the buyers and sellers is also essential, and having contingency plans for higher than expected demand would be beneficial. Primarily, however, Groupon needs to be aware of local culture and online usage to effectively establish itself in any market.*

**Assessment Check Answers**

**5.1 Name three possible strategies for beginning overseas business operations.**

*Three possible strategies for beginning overseas business operations are: 1) exporting and importing; 2) contractual agreements such as franchising, licensing, or subcontracting; and 3) making direct investments in foreign markets through acquisition, joint venture, or establishment of an overseas division.*

**5.2 What is countertrade?**

*Countertrade consists of payments made in the form of local products rather than currency.*

**5.3 Compare and contrast licensing and subcontracting.**

*In a foreign licensing agreement, one firm allows another to produce or sell its product or use its trademark, patent, or manufacturing process in a specific geographical area in return for royalty payments or other compensations. In subcontracting, a firm hires local companies abroad to produce, distribute, or sell its goods and services.*

**5.4 Describe joint ventures.**

*Joint ventures allow companies to share risks, costs, profits, and management responsibilities with one or more host country nationals.*

**Learning Objective 6:**

**Discuss developing a strategy for international business.**

*A company that adopts a global (or standardization) strategy develops a single, standardized product and marketing strategy for implementation throughout the world. The firm sells the same product in essentially the same manner in all countries in which it operates. Under a multidomestic (or adaptation) strategy, the firm develops a different treatment for each foreign market. It develops products and marketing strategies that appeal to the customs, tastes, and buying habits of particular nations.*

**Annotated Lecture Outline**

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| ***DEVELOPING A STRATEGY FOR INTERNATIONAL BUSINESS*** | PowerPoint Slide 28 |
| * 1. Managers need to evaluate objectives, strengths, weaknesses, and strategies in global business. |  |
| * 1. They then choose between a global and a multidomestic strategy. |  |
| 1. **Global Business Strategies** |  |
| * 1. A global business (or standardization) strategy allows a firm to sell the same product throughout the world using the same marketing methods. |  |
| * 1. It works for products and services with universal appeal (e.g., jewelry). |  |
| 1. **Multidomestic Business Strategies** |  |
| * 1. A multidomestic business (or adaptation) strategy treats each national market in a different way. | *Lecture Enhancer:*  *Give an example of a U.S. company that uses a multidomestic business strategy.* |
| * 1. Products and marketing strategies appeal to customs, tastes, and buying habits of particular national markets. |  |

**Notes:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Assessment Check Answers**

**6.1 What is a global business strategy? What are its advantages?**

*A global business strategy specifies a standardized competitive strategy in which the firm sells the same product in essentially the same manner throughout the world.* *It works well for goods and services that are common to many nations and allows the firm to market them without making significant changes*.

**6.2 What is a multidomestic business strategy? What are its advantages?**

*A multidomestic business strategy allows the firm to treat each foreign market in a different way to appeal to the customs, tastes, and buying habits of particular national markets*. *It allows the firm to customize its marketing appeals for individual cultures or areas*.

**Answers to Review Questions**

**1. How does a business decide whether to trade with a foreign country? What are the key factors for participating in the information economy on a global basis?**

*Many U.S. businesses have decided to trade after realizing that their domestic markets were maturing, sales were slowing, and they wanted to spread their risk by developing markets elsewhere. They tend to make decisions based on potential for growth as well as the factors of production that are available abroad: labor (availability, cost, and quality), natural resources, capital, and entrepreneurship.*

*Many U.S. firms are taking part in the information economy on a global basis and are boosting sales by taking advantage of improved technology, electronic communications, large populations, substantial resources, rising standards of living—and therefore more money to spend—abroad.*

**2. Why are developing countries such as China and India becoming important international markets?**

*China and India now each have more than 1 billion people, representing huge purchasing power as these nations continue to develop. The sheer number of households represents significant markets as they grow and become more lucrative. China’s GDP recently saw a 10.1 percent rise, more than twice of what is seen in the United States. Many firms want to position themselves in these nations in order to benefit once they do experience more economic growth and see a higher standard of living.*

**3. What is the difference between absolute advantage and comparative advantage? Give an example of each.**

*A country has an absolute advantage if it has a monopoly on a product or can produce it at a much lower cost than any other nation, giving it a clear advantage over others (examples: China and its silk production for centuries; Spain and its cultivation of very expensive saffron, which has not been grown elsewhere). A nation has a comparative advantage in a product if it can supply it more efficiently and at a lower price than other nations (examples: China and its textile industry; India and its software industry, due to its highly educated workforce and low wages).*

**4. Can a nation have a favorable balance of trade and an unfavorable balance of payments? Why or why not?**

*Yes. Balance of trade is the difference between exports and imports. So a nation has a favorable balance, or trade surplus, when it exports more than it imports. Balance of payments is the overall flow of money into and out of a country. An unfavorable balance of payments occurs when more money goes out of a country than into it. This is created not only by balance of trade but also by overseas loans, overseas investments, profits from these, and foreign aid payments. It is possible for a country to have a positive balance of trade and negative balance of payments.*

**5. Identify several potential barriers to communication when a company attempts to conduct business in another country. How might these be overcome?**

*On a broad scale, language, cultural, religious, and political barriers come into play. Regarding the practical side of communication, issues might include differences in translation, cultural meanings, literal versus figurative uses, and formal versus informal references used in many cultures.*

*Companies can overcome some of these barriers by being aware of cultural and language differences when choosing the correct word, translating words into the intended meaning, and naming products or writing slogans. Potential communication barriers include more than mistranslation. They also need to consider media messages, unusual customs and regional tastes, local regulations, icons and symbols, the significance of color, hand signs and body language, and gift-giving traditions*.

**6. Identify and describe briefly the three dimensions of the legal environment for global business.**

*Three dimensions of law regarding global business include U.S. law (those that affect U.S. businesses in their trade with other nations), international regulations (those that affect all countries), and the laws of countries in which trade is planned (varies widely depending on the country). Some of these protect the rights of foreign countries to compete in the United States, but many dictate rules for U.S. firms when conducting business in other nations. For instance, the Foreign Corrupt Practices Act forbids U.S. companies from bribing foreign officials, political candidates, or government authorities.*

**7. What are the major nontariff restrictions affecting international business? Describe the difference between tariff and nontariff restrictions.**

*Major nontariff restrictions used today include quotas, dumping, embargos, and exchange controls. Tariff restrictions are taxes, surcharges, or duties on foreign products, which make imports more expensive. Nontariff restrictions are more subtle regulations, such as administrative restrictions and subsidies on imports, including quotas, embargos, and exchange controls.*

**8. What is NAFTA? How does it work?**

*The North American Free Trade Agreement (NAFTA), begun in 1994 between the United States, Canada, and Mexico, created the world’s largest free-trade zone. It serves a combined population of more than 450 million, with a total GDP of $15 trillion, creating one of the world’s most attractive and stable markets.* *NAFTA has allowed the three countries to simply ship goods across borders with no restrictions. It also has eased banking laws and set uniform requirements concerning intellectual property, customs, and labeling.*

**9. How has the EU helped trade among European businesses?**

*The European Union (EU) is a common market involving 27 countries and 500 million people, with a total GDP of more than $12 trillion. It has helped trade by pushing for economic and social progress, introducing the concept of European citizenship, and giving Europe a more significant role in international affairs. The EU also works to remove barriers to free trade among its members, a complex process including standardizing business regulations, import duties, taxes, and customs issues.*

**10. What are the key choices a company must make before reaching the final decision to go global?**

*A company must determine which foreign markets to enter, analyze the costs needed to launch a new market, decide on how to organize overseas operations, and consider its level of involvement before deciding on any of these. It also should do extensive research on local demand for the product, available resources, and cost and quality of local workforce. It should look into the potential barriers, including trade restrictions, language issues, competition, tariffs, currency, and investment barriers.*

**Projects and Teamwork Applications**

1. Ask students why they think the Hong Kong/China agreement will hold up. Have them discuss how Hong Kong can value its freedom but also, since 1997, get used to being part of China, particularly Communist China. They may have a number of reactions to this type of question.

2. Have students share their suggestions for protecting trademarks and brands online. These might include avoiding intellectual property problems from the beginning, learning how to recognize when there has been a possible theft or infringement, knowing what to do if you suspect that a problem has occurred, etc. Did they cite any particular companies? How have those firms dealt with the issue?

3. Start a discussion by asking students about their thoughts on linking the possibility of trade to a country’s human rights and environmental policies. The United States has had trade bans with certain countries (Cuba, some Middle Eastern nations) or regarding certain goods (ivory). Ask students to give examples of nations where trade bans made some progress in effecting social change. Can they think of other nations where this might work? Where it may not?

4. Generate a discussion as to whether students think the EU will last for 20 years or more. Have them consider the number of countries who have invested in this union, have offered European citizenship as well as their own, and have discarded their national currency and switched to the euro. Ask about the goals as well as pros and cons of the EU structure for these nations.

5. Have students share their results from researching the *Fortune* Global 500 list. Start a discussion about how the list is made, how the firms are ranked, the countries with the most represented firms, and the top-ranked firm in the noted industries.

**Web Assignments**

1. **WTO.** Visit the Web site of the World Trade Organization (<http://www.wto.org>). Research two current trade disputes. Which countries and products are involved? What, if anything, do the two disputes have in common? What procedures does the WTO follow in resolving trade disputes between member countries?
2. **EU.** Europa.eu is the Web portal for the European Union. Go to the following Web site (<http://europa.eu/index_en.htm>) and answer the following questions:
   1. What are the steps a country must take to become a member of the EU?
   2. How many EU members have adopted the euro? Which countries will be adopting the euro during the next few years?
   3. What is the combined GDP of EU members? Which EU member has the largest GDP? Which has the smallest GDP?
3. **Nestlé.** Nestlé is one of the world’s largest global corporations. Visit the firm’s Web site (<http://www.nestle.com>). Where is the company headquartered? What are some of its best-known brands? Are these brands sold in specific countries or are they sold worldwide? Make a list of three or four issues Nestlé faces as a global corporation.

*Note:* Internet Web addresses change frequently. If you do not find the exact sites listed, you may need to access the organization’s or company’s home page and search from there or use a search engine such as Bing or Google.

**Case 4.1**

**Apple Navigates China**

**Answers to Questions for Critical Thinking**

1. **Workers at Apple’s Chinese suppliers often accept low wages, minimal benefits, and dormitory housing. Should Apple improve their situation or find other suppliers? What effects will such changes have on Apple’s products?**

*If Apple improves their situation or finds other suppliers to use, they could gain more customer support from customers who are passionate about knowing where and how their products are made.*

1. **Do you think reports of unsafe working conditions among its suppliers have hurt Apple’s reputation? Why or why not?**

*The reports of unsafe working conditions for employees working for Apple suppliers will probably not hurt Apple’s reputation in the long run as long as the company continues to make efforts to changes these conditions and release reports about their suppliers and working conditions to the public.*

**Case 4.2**

**TOMS Shoes Takes One Step at a Time**

**Answers to Questions for Critical Thinking**

**1. Do you think TOMS’ One for One business model is sustainable for the long term? Why or why not?**

*Yes, TOMS’ business model would be sustainable as long as their pricing structure enables the company to absorb the variable costs of each pair of shoes they are donating. In other words, the bundle price must cover the out-of-pocket costs.*

**2. Mycoskie says his customers provide “the best type of marketing you can have” because when asked about their footwear, “they never say ‘TOMS.’ They tell the whole story. They say, ‘When I bought this pair of shoes, a child got a pair.’” What lesson do you think other socially responsible firms can learn from TOMS’ business practices?**

*Other firms can learn that being socially responsible can provide excellent marketing opportunities for the firm while also contributing to the improvement of society.*

**CHAPTER 4: COLLABORATIVE LEARNING EXERCISES**

## 1 – Cultural Differences

Learning Objective: 3

Purpose:

### To illustrate the importance of understanding cultural differences.

Background:

### Clearly, from a business perspective, understanding cultural differences can be absolutely crucial. Knowing the local culture—traditions, customs, and norms—can mean the difference between the success and failure of your business in any given country. This exercise is designed to demonstrate that point as vividly as possible!

Relationship to Text:

Cultural Differences – Learning Objective 3

Estimated Class Time:

Approximately 15 minutes

Preparation/Materials:

Recruit a male colleague or student to role-play a Saudi Arabian businessman at a business lunch with you. Clue him in beforehand that you will be violating virtually every cultural norm; his job is to be as polite as he can in the face of your ignorant behavior. (Review the scenario below with him in advance, and consider doing a practice run.) Choose someone who will ham it up!

Exercise:

Scenario: You have invited a Saudi businessman to lunch at a U.S. restaurant of your choice to discuss the possibility of his becoming the Saudi distributor for your entertainment company. Closing this deal would be a major coup for your company, but you have not bothered to learn about Saudi culture before the lunch. You are therefore a boor (and do not forget to exaggerate!). Even though you should let your imagination run wild, you may want to consider the following tactics:

Arrive late, with insincere, overblown apologies

Attempt to bring up business before the food arrives

Order a cocktail and pork chops (and offer him a taste with your left hand)

If you are a woman, wear a tight, low-cut dress

Allude jokingly to your latest romantic escapades

Give him at least one big “thumbs-up” sign

Ask for a follow-up meeting on a Friday.

After a few minutes of role-playing, ask your class what went wrong. (If necessary, help them identify the more subtle issues, e.g., the left hand is considered unclean, Friday is the Muslim Sabbath.) When your list is complete, ask for two volunteers to role-play the lunch the way it should have happened. Students typically love this exercise (and they seem to really remember the point behind it!).

## 2 – Cultural Influences

Learning Objective: 3

Purpose:

### To highlight the cultural shifts that have resulted from economic globalization.

Background:

During the past 25 years, the United States has been accused with increasing frequency of cultural imperialism, visible in the ubiquitous presence of fast food, hip-hop music, and Hollywood blockbusters. But the cultures of other countries have profoundly influenced the United States as well. This discussion-based exercise is designed to explore the cultural exchanges that inevitably result from economic globalization.

Relationship to Text:

Social and Cultural Differences – Learning Objective 3

Estimated Class Time:

### Approximately 10 minutes

Preparation/Materials:

### None needed

Exercise:

Discussion Questions:

Ask your class for examples of how U.S. culture has spread to other countries around the world. American students who have traveled are a great source of information, along with international students, if you have any. Ask them how U.S. products have been modified, if at all, to suit other cultures.

If you have computer projection, you also may want to take your students through the McDonald’s Web site (<http://www.mcdonalds.com>), which shows how key foods have been modified in other countries (e.g., seaweed fries and red-bean sundaes in Hong Kong).

Now ask for examples of how other countries have influenced U.S. culture. You may need to kick off the discussion with a few examples of your own, but once they get started, most classes easily develop long (and interesting!) lists. Possibilities include Salsa dancing, Pokeman, soccer, ultra-lightweight cell phones, import beers, the band U2, etc.

**3 – Language and the Internet**

Learning Objective: 3

Purpose:

To demonstrate the importance of multilingualism in e-commerce.

Background:

Although English is commonly known as the language of business, companies that operate in multiple languages—especially on the Internet—enjoy a growing competitive advantage. This quick exercise (which is more informational than activity-based) is designed to highlight the importance of multilingualism AND to spur students to study at least one additional language in order to hone their personal competitive edge.

Relationship to Text:

Language Barriers to Business – Learning Objective 3

Estimated Class Time:

5–10 minutes

Preparation/Materials:

### None needed

Exercise:

Ask your class how many students are fluent in at least one language other than English. Ask them to lower their hands if they speak only one other language, two other languages, etc. In some parts of the country, it is common to have at least one student who is fluent in five languages.

If you have students who are non-native English speakers, ask them to comment: Do they prefer shopping in their native language? Why? Which sites are easiest for them to navigate? Are there unsettling differences in color or icons? (One common—and very interesting—response to these questions is that in their non-native language, it is difficult to trust that you have fully understood the fine print.)

## 4 – Economic Barriers

Learning Objective: 3

Purpose:

### To share a somewhat startling anomaly that affects international business.

Background:

Many students are surprised to learn that the United States is one of only three countries that have not converted to the metric system. This exercise is designed to highlight how odd that is on the world stage.

Relationship to Text:

Economic Barriers to Business – Learning Objective 3

Estimated Class Time:

### Approximately 5 minutes

Preparation/Materials:

### None needed

Exercise:

Ask your students to guess which other countries have not converted to the metric system. Guesses typically range around the world, including every country but the correct ones, which are… Liberia and Burma! (Source: Michigan Department of Agriculture.)

Follow-up questions: Why hasn’t the U.S. converted to the metric system? What are the implications for global business (both imports and exports)? How has the metric system slipped into our economy (examples include scientific equipment, car repair tools, soft-drink and liquor bottles, etc.)? Do they think the U.S. will ever fully convert? Why? When?

## 5 – Bribery

Learning Objective: 3

Purpose:

To help students understand the implications of the Foreign Corrupt Practices Act.

Background:

Although U.S. companies are explicitly forbidden from paying bribes by the Foreign Corrupt Practices Act, bribery remains an accepted business practice in many parts of the world. Ironically, many of the countries with the highest growth potential have the highest level of corruption. This exercise is designed to more fully explore the ethics and implications of the U.S. position (and students typically have very strong feelings about these issues).

Relationship to Text:

Legal Barriers to Business – Learning Objective 3

Estimated Class Time:

### Approximately 15 minutes

Preparation/Materials:

### None needed

Exercise:

Divide your class into groups of three to five students. Give the groups 5–10 minutes to develop a position on whether we should change the laws that prohibit bribery. Reconvene as a class, and ask your students to indicate via a show of hands, how they feel individually about this issue, regardless of their group’s position. Using the material they developed in their groups, write a list on the board of the pros and cons for each position. Possibilities include precedent, competitiveness, national morality, etc.

Follow-up questions: Do they think the law will ever change? Why or why not? Are “almost-bribes” (tickets to the Lakers, a donation to your favorite charity) okay? Where should the line be drawn?

## 6 – The Impact of NAFTA

Learning Objective: 4

Purpose:

### To help students understand the impact of NAFTA on U.S. labor.

Background:

As NAFTA has eased regulations and lowered trade barriers, unskilled production work has flowed into Mexico, decimating the power of many unions in the United States. More recently, semi-skilled, and even some highly skilled jobs, have moved to Mexico as well. This exercise is designed to dramatize the impact of these trends.

Relationship to Text:

NAFTA – Learning Objective 4

Estimated Class Time:

### Approximately 20 minutes

Preparation/Materials:

### Copy the scenario and directions below for each student (see the Appendix for a copy-friendly version).

Exercise:

Divide your class into four groups. Direct each group to appoint a CEO, a union negotiator, a plant manager, and an observer. Once they are settled, share with them the scenario and directions below:

#### Scenario: Bott Laboratories is a medium-sized electronics company based in Los Angeles. They design and produce a small range of parts that are ultimately used in military hardware. Their products are all manufactured on-site, by a semiskilled workforce of mostly Asian immigrants. Given recent gains in the quality of Mexican manufacturing, the plant manager believes that they could now move production to Ciudad Juarez, Mexico (directly south of El Paso), with minimal risk of quality glitches. The average wage in the U.S. Bott factory is $15 per hour, versus $6 per hour for comparable workers in Ciudad Juarez.

Directions: In five minutes, a meeting will begin that includes the CEO, the union negotiator, and the plant manager. Each player will need to present his or her case to the CEO, without interruption. Be sure to explore the full range of issues. The CEO then must decide which direction to take, and communicate that decision to the other two. When each group is finished, the observers will report both the process and the results to the rest of the class.

Follow-up discussion questions: What are the issues to consider beyond wage? What arguments were most powerful on either side (possibilities include risk, transportation costs, workforce stability, rental costs, facility refurbishing costs, etc.)? What was the most effective way for the CEO to communicate bad news?