

1 Globalization

Learning Objectives

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

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

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

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

The opening case explores the reasons Apple moved production into China and then began to pull out of that country. The advantages of producing in China include lower labor costs, the ability of Chinese subcontractors to scale up or down quickly, the availability of great numbers of engineers, and the fact that many of the factories producing needed components were located near the iPhone assembly plant in China. However, events such as the Trump administration's tariffs on Chinese imports, rising geopolitical tensions, and the COVID-19 pandemic

caused Apple to begin diversifying the locations of its production facilities to countries such as Vietnam and India. The closing case explores how globalization influences strategic decision making at TruckLabs, a U.S. company producing panels designed to improve the aerodynamics of cargo trucks and save on fuel costs. In 2015, TruckLabs set up manufacturing in Asia, but by 2017, the company had decided

to shift production back to the United States. The low wage rates and large pool of skilled labor that had made production in China attractive from a cost perspective had been wiped out by high tariffs levied by the United States on products imported from China.

OUTLINE OF CHAPTER 1: GLOBALIZATION

Opening Case: Apple Moves Production Out of China

Introduction

What Is Globalization?

- The Globalization of Markets

- The Globalization of Production

 - Management Focus: Boeing's Global Production System

The Emergence of Global Institutions

Drivers of Globalization

- Declining Trade and Investment Barriers

- Role of Technological Change

The Changing Demographics of the Global Economy

- The Changing World Output and World Trade Picture

 - Country Focus: India's Software Sector

- The Changing Foreign Direct Investment Picture

- The Changing Nature of the Multinational Enterprise

 - Management Focus: Dr. Reddy's Laboratories Ltd.

- The Changing World Order

- Global Economy of the Twenty-First Century

The Globalization Debate

- Antiglobalization Protests

 - Country Focus: Donald Trump's America First Policies and Their

 - Aftermath

- Globalization, Jobs, and Income

- Globalization, Labor Policies, and the Environment

- Globalization and National Sovereignty

- Globalization and the World's Poor

Managing in the Global Marketplace

Chapter Summary

Critical Thinking and Discussion Questions

Research Task

Closing Case: TruckLabs

CLASSROOM DISCUSSION POINT

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

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

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

OPENING CASE: Apple Moves Production Out of China

Summary

The opening case explores how globalization has influenced strategic decision making at Apple. In its early days, Apple manufactured within the United States, but by 2004, many of its products were manufactured in foreign countries. For example, 90 percent of the components of the iPhone were made abroad, and final assembly took place in China. The advantages of producing in China include lower labor costs, the ability of Chinese subcontractors to scale up or down quickly, the availability of great numbers of engineers, and the fact that many of the factories producing needed components were located near the iPhone assembly plant in China. After the Trump administration imposed 25 tariffs on Chinese imports in 2016, however, Apple decided to start diversifying its supply chain. Other global events that strengthened this decision were the Russian invasion of Ukraine, fears that China would try to retake Taiwan, and the impact on production of the COVID-19 pandemic. Discussion of the case can begin with the following questions:

QUESTION 1: Of the various strong points of producing Apple components in China, which were clearly advantages over U.S.-based production?

ANSWER 1: China had lower labor costs, more qualified industrial engineers, and an entire supply chain in that country. The Chinese subcontractors also had the ability to scale up or down very quickly, but the text does not specifically state if this was in contrast to U.S. producers.

QUESTION 2: When Apple decided to diversify its production, why do you think the company chose to open additional production facilities in India and Vietnam instead of Europe?

ANSWER 2: The company probably determined that concentrating on Asia would help lower shipping costs and thus keep production costs close to what they had been in China. Also, many Asian countries are developing strong technology sectors, which makes them attractive to a company like Apple.

QUESTION 3: How has geopolitics influenced strategy at Apple?

ANSWER 3: After 2016, Apple, along with thousands of other companies, got caught in the middle of a trade war between China and the United States. Incoming president Donald Trump, concerned that the United States was losing jobs to China and other Asian countries, had promised voters that he would implement policies designed to bring manufacturing back to the United States. Shortly after taking office, he levied high tariffs on various imports from China with the goal of forcing companies to reshore production, a policy the Biden administration continued. This forced Apple to move some of its production into other Asian countries that were not subject to the tariffs. Another geopolitical event that affected Apple was the Russian invasion of Ukraine, which China did not protest. That conflict and the threat that China would take similar action against Taiwan also made it risky to concentrate too much of Apple's production in China despite its economic advantages.

Teaching Tip: More details on Apple's supply chain can be found at <https://www.apple.com/supply-chain/>.

Another Perspective: To learn more about the tariffs imposed by the Trump administration, consider *Trump Plan for Tariffs Draws Backlash at Home and Abroad* and *Why a U.S.-China Trade War Could Hurt Asia*. Both can be found in the International Business Library at <http://bit.ly/MHEIBVideo>. Click "Ctrl+F" on your keyboard to search for the video title.

CONNECT

Case Analysis

Apple Moves Production Out of China

Summary

This activity focuses on the strategy of Apple in China. For decades, Apple has outsourced production of its products to China, capitalizing on the country's highly efficient workforce. Recently however, rising tensions between the United States and China, geopolitical risks, and fallout from the pandemic have prompted Apple to reevaluate its strategy. While Apple continues to rely on subcontractors in China, the company has also shifted some production to other countries including Vietnam and India. The company hopes that diversifying its production will act as a hedge against the challenges it faces.

Activity

Students are asked to read a short case exploring the challenges faced by Apple when it was forced to reconsider its decision to produce almost all of the components that go into the iPhone in China.

Class Discussion

Globalization has transformed production. Many companies today outsource production to China to capitalize on the country's relatively low wage rates, skilled workforce, high efficiency, and varied producers. However, changes in the macro environment including substantial U.S. tariffs on many goods imported from China and growing geopolitical tensions and conflicts have forced international companies to reevaluate their production strategies. Discuss the benefits and drawbacks of outsourcing production to China. Is Apple doing enough to diversify its production? What forces are causing a large percentage of Apple's production to remain in China despite the potential drawbacks?

LECTURE OUTLINE

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

Slides 1-3 Introduction

National economies are merging into an interdependent, integrated global economic system. Benefits of this transformation are in dispute, and potential for geopolitical conflict is greater than at any time in last half century.

Slides 1-4 – 1-6 What Is Globalization?

Globalization is a shift toward a more integrated and interdependent world economy. Globalization has two components: the globalization of markets and the globalization of production.

The Globalization of Markets

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

The Globalization of Production

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

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

Slides 1-7 – 1-12 The Emergence of Global Institutions

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

Teaching Tip: A research guide to GATT is available at <https://guides.law.columbia.edu/c.php?g=1221777&p=8949902>.

The World Trade Organization (WTO) is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties. The International Monetary Fund (IMF) was created to maintain order in the international monetary system, and the World Bank was set up to promote economic development. The United Nations (UN) was created to preserve peace through international cooperation. The Group of Twenty (G20) is comprised of the finance ministers and central bank governors of the 19 largest economies in the world, plus representatives from the European Union and the European Central Bank. The G20 represents 85 percent of global GDP and 75 percent of international global trade.

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

Another Perspective: The WTO offers videos that explain various trade issues. To learn more, go to https://www.wto.org/english/res_e/webcas_e/ltt_e/ltt_e.htm.

CONNECT

Click and Drag (*A keyboard navigable alternate version of the Click and Drag exercise is available in Connect for students with accessibility needs.*)

Global Institutions

Summary

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

Activity

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

Class Discussion

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

Slides 1-13 – 1-17 Drivers of Globalization

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

Declining Trade and Investment Barriers

International trade occurs when a firm exports goods or services to consumers in another country.

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

The growing integration of the world economy into a single, huge marketplace is increasing the intensity of competition in a range of manufacturing and service industries. However, declining barriers to cross-border trade and investment cannot be taken for granted.

Role of Technological Change

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

Important technological changes have occurred in communications, the Internet, and transportation. These have implications for the globalization of both production and markets.

Another Perspective: Advances in transportation technology have allowed cargo companies to operate ever-larger vessels. However, greater size is not always compatible with older waterways. To learn more, consider *Suez Canal Blockage Is Delaying an Estimated \$400 Million an Hour in Goods* in the International Business Library at <http://bit.ly/MHEIBVideo>. Click “Ctrl+F” on your keyboard to search for the video title.

CONNECT

Click and Drag (*A keyboard navigable alternate version of the Click and Drag exercise is available in Connect for students with accessibility needs.*)

Drivers of Globalization

Summary

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

Activity

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

Class Discussion

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

Slides 1-18 – 1-26 The Changing Demographics of the Global Economy

The Changing World Output and World Trade Picture

In the 1960s, the U.S. dominated the world economy and the world trade picture, U.S. multinationals dominated the international business scene, and about half the world—the centrally planned economies of the communist world—was off limits to Western international business.

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

The Changing Foreign Direct Investment Picture

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

CONNECT

Click and Drag *(A keyboard navigable alternate version of the Click and Drag exercise is available in Connect for students with accessibility needs.)*

Demographics of the Global Economy

Summary

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

Activity

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

Class Discussion

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

The Changing Nature of the Multinational Enterprise

A **multinational enterprise (MNE)** is any business that has productive activities in two or more countries. In the 1960s, U.S. multinationals dominated the global marketplace, but by 2023, that share had dropped as multinationals from other countries, including developing economies, have emerged as significant players. The global landscape is also changing with the rise of mini-multinationals.

The Changing World Order

Many of the former communist nations of Europe and Asia seem to share a commitment to democratic politics and free market economics, and these nations present a host of

export and investment opportunities for Western businesses. However, disturbing signs of growing unrest and totalitarian tendencies in several eastern European and central Asian states, including Russia, make these countries risky. Moreover, Russia's invasion of Ukraine in February 2022 signaled a sharp break in the world order as it had existed since the early 1990s, raising the specter of a multipolar world in which conflict will again start to limit cross-border business opportunities.

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

Global Economy of the Twenty-First Century

Current trends indicate the world is moving toward an economic system that is more favorable for international business despite recent developments such as the higher tariffs imposed by the United States.

Another Perspective: Donald Trump, in a departure from long held U.S. policy, pursued a more nationalistic agenda, threatening the leadership of the United States as a supporter of global trade. To learn more, consider *Global Trade Without U.S. Leadership: Does Donald Trump Care?* in the International Business Library at <http://bit.ly/MHEIBVideo>. Click “Ctrl+F” on your keyboard to search for the video title.

Slides 1-27 – 1-35 The Globalization Debate

Firms should be aware that while the more integrated global economy presents new opportunities, it also could result in political and economic disruptions that may throw plans into disarray

Antiglobalization Protests

Is the shift toward a more integrated and interdependent global economy a good thing? Antiglobalization protesters now turn up at almost every major meeting of a global institution. Protesters fear that globalization is forever changing the world in a negative way. In a sharp break from long-held U.S. policy, one of globalization's most prominent critics, Donald Trump, worked to move the United States away from globalization with his “America First” agenda.

Globalization, Jobs, and Income

Critics of globalization worry that jobs are being lost to low-wage nations.

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

Globalization, Labor Policies, and the Environment

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

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

Globalization and National Sovereignty

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

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

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

Globalization and the World's Poor

Critics of globalization argue that the gap between rich and poor nations has gotten wider and that the benefits of globalization have not been shared equally.

Another Perspective: Villagers in Namibia are trying to stop a Canadian multinational from drilling for oil in their community. The company believes that the land could hold one of the world's biggest stores of oil, but the villagers fear that it could damage the land they rely for their livelihoods. To learn more, consider *Namibian Villagers Fight Against Oil Giant* in the International Business Library at <http://bit.ly/MHEIBVideo>. Click "Ctrl+F" on your keyboard to search for the video title.

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

CONNECT

Click and Drag (*A keyboard navigable alternate version of the Click and Drag exercise is available in Connect for students with accessibility needs.*)

The Globalization Debate

Summary

This activity focuses on the debate on globalization. While globalization has long been viewed as a beneficial trend, more recently, certain segments of the population have voiced their strong

opposition to the trend. Anecdotes, evidence, and arguments can be collected to support each side of the debate.

Activity

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

Class Discussion

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

Slide 1-36 Managing in the Global Marketplace

Managing an **international business** (any firm that engages in international trade or investment) is different from managing a domestic business because countries differ, managers face a greater and more complex range of problems, international companies must work within the limits imposed by governmental intervention and the global trading system, and international transactions require converting funds and being susceptible to exchange rate changes.

CONNECT

Video Case

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

Summary

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

Activity

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

Class Discussion

Understanding the benefits and drawbacks of globalization from the perspective of different stakeholders is important for international businesses and policy makers. Discuss what is driving

globalization and what that means for international businesses and policy makers. How do the drivers impact trade and investment decisions? How do they impact policy decisions?

CRITICAL THINKING AND DISCUSSION QUESTIONS

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

ANSWER 1: Over the last 30 years, there has been a shift away from a world in which national economies are relatively self-contained entities, isolated by barriers to trade and investment, and differences in government regulation, culture, and business systems and toward a world where barriers to trade and investment are declining, cultures are converging, and national economies are merging into an integrated, interdependent global economic system. As companies from Japan and emerging markets like China play a more vital role in the world economy, the dominance of companies from the United States and Western Europe has diminished. The United Kingdom's withdrawal from the European Union has significant implications for international businesses that will now be outside the political and economic bloc. At minimum, they are likely to face new customs checks and other administrative issues as they export to, or import from, European Union countries. Further, it is likely that the United Kingdom will be seeking new trade deals with countries like the United States and other major trading partners. Similarly, in the wake of Brexit, non-UK businesses will need to decide just how they will approach the United Kingdom. North American firms also need to look beyond traditional markets in Europe and explore growing opportunities in developing markets. The recently negotiated United States-Mexico-Canada Agreement (USMCA) will have implications for international businesses inside and outside member countries. Recent protests in Hong Kong against what is perceived to be heavy handedness by Beijing have upended what had been a stable business environment. Before the protests, Hong Kong had been viewed as a gateway to the immense market of mainland China, but now there is less certainty in the market as it relates to mainland China. International businesses based in all three locations are facing new opportunities and threats.

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

ANSWER 2: Globalization is changing the world economy. Firms, even small ones, can no longer ignore events going on outside their borders because what occurs in one country has implications for the rest of the world. Individuals who believe they can act in isolation by working for a small firm are not being realistic, but rather myopic and insular. Today, thanks to advances in technology, many small firms sell and source internationally very early in their evolution. Those that fail to take advantage of international opportunities may not achieve their full potential, and ultimately may fail as

competitors who do recognize the importance of international business will dominate. In the United States, for example, almost 98 percent of firms that export employ fewer than 500 people. They also account for 33 percent of U.S. exports.

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

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

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

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

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

ANSWER 5: Internet usage has exploded over the last two decades. In 1990, there were fewer than 1 million people connected to the Internet. By 2020 that figure had risen to almost 5 billion, some 62 percent of the global population! One of the biggest implications of the internet is its role as an equalizer. Firms are no longer constrained by size, location, scale, and time zones. Instead, firms operate in a 24/7/365 world with real time access. In North America, e-commerce sales were about \$800 billion in 2020. For companies, location is no longer an issue because the internet makes it possible to work and to reach customers anywhere in the world, operations can be linked via the Internet allowing firms to produce in advantageous locations, and global communications are

facilitating a cultural convergence making it easier for companies to sell standardized products.

QUESTION 6: If current trends continue, China may emerge as the world's largest economy by 2035. Discuss the possible implications for such a development for

- a. the world trading system.
- b. the world monetary system.
- c. the business strategy of today's European- and U.S.-based global corporations.
- d. global commodity prices.

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

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

- a. What are the benefits to Boeing of outsourcing manufacturing of components for the Boeing 787 to firms based in other countries?
- b. What are the potential costs and risks to Boeing of outsourcing?
- c. In addition to foreign subcontractors and Boeing, who else benefits from Boeing's decision to outsource component part manufacturing assembly to other nations? Who are the potential losers?
- d. If Boeing's management decided to keep all production in America, what do you think the effect would be on the company, its employees, and the communities that depend on it?
- e. On balance, do you think that the kind of outsourcing undertaken by Boeing is a good thing or a bad thing for the American economy? Explain your reasoning.

ANSWER 7:

- a. Student answers will vary. In some respects, outsourcing to overseas suppliers probably keeps company and consumer costs down, allowing Boeing to spend more money on research and innovations to create more products in the United States. When a supply chain becomes too complex to manage effectively, however, its advantages are soon outweighed by inefficiencies, cost overruns, and delays that negatively affect the company, workers, and consumers.
- b. Many of the costs and risks associated with outsourcing were underscored by Boeing's experience with the 787. Boeing lost much of the control it once had over the complex production process, resulting in failures of communication, unexpected delays, and mismatched parts. Ultimately, delivery of the first 787 was pushed back by four years and Boeing suffered millions of dollars in penalties for late deliveries. For its next jet, Boeing has decided to bring production of some elements in-house.

- c. By awarding many manufacturing contracts to overseas suppliers, Boeing created thousands of jobs in foreign countries—jobs that would normally be held by workers in the United States. This not only benefits foreign workers and their families (while negatively affecting workers in the United States) but also benefits state and local governments in areas where subcontractors are located, generating higher tax revenues and lowering unemployment rates.
- d. Boeing faced extensive criticism in the United States for its decision to outsource jobs overseas, particularly after the 787 project began to experience setbacks. By bringing production back to the United States, Boeing will benefit from positive publicity and improved morale among its employees, which, in turn, could result in higher sales to domestic airlines and improved productivity. However, it may also face negative publicity in the foreign press and could potentially lose some of the business it secured from foreign airlines.
- e. There are several reasons that Boeing decided to outsource manufacturing to foreign firms. First, outsourcing offers Boeing the chance to build loyalty. Many of the firms are located in countries that are home to major airlines. Awarding large contracts to businesses in these countries may result in those airline companies placing larger orders for Boeing aircraft. Second, outsourcing offers Boeing the opportunity to optimize production. Boeing's foreign suppliers are world leaders in producing the parts they are supplying, resulting in a higher quality product. Third, by outsourcing production, Boeing could transfer some of the risks and costs associated with manufacturing to its suppliers.

Teaching Tip: Students can find out more about Boeing at <http://www.boeing.com>.

Another Perspective: Boeing continues to face challenges with its 787 aircraft. To learn more, consider <https://www.wsj.com/video/series/current-features/boeing-dreamliner-a-timeline-of-the-787s-string-of-production-problems/264F6701-A052-4E84-A4D8-04960800F580> and <https://www.cnn.com/travel/article/boeing-787-dreamliner-10th-anniversary/index.html>.

Another Perspective: To learn more about Boeing, consider *How the Boeing Max Became Boeing's Fastest Selling Plan*, *Bombardier Wins Big in Boeing Dispute*, and *China's COMAC Aims to Rival Boeing and Airbus in the World's Biggest Market* in the International Business Library at <http://bit.ly/MHEIBVideo>. Click “Ctrl+F” on your keyboard to search for the video title.

CLOSING CASE: TruckLabs

Summary

The case explores how globalization influenced strategic decision making at TruckLabs, a U.S. company producing panels designed to improve the aerodynamics of cargo trucks generating savings on fuel costs. In 2015, TruckLabs set up manufacturing operations in

Asia where labor costs were relatively low and skilled technicians were readily available. Low tariffs and efficient shipping options facilitated the outsourcing strategy. Activities essential to TruckLabs' competitive advantage remained in the United States. In 2017, recently elected Donald Trump levied 25 percent tariffs on many imports from China including TruckLabs' panels. Because the tariffs effectively raised prices by 25 percent, the cost advantages of outsourcing production to Asia that had been present in 2015 disappeared. After considering moving production to other countries in Asia, TruckLabs concluded that it made more sense to move production to the United States where most of its customers were located. An unanticipated benefit of the change in manufacturing strategy emerged in 2021, when domestic production enabled TruckLabs to avoid many of the pandemic related supply chain disruptions challenging companies relying on manufacturing in Asia. A discussion of the case can begin with the following questions:

Another Perspective: To learn more about the tariffs imposed by the Trump administration and their implications for business, consider *How Trump's Tariffs Changed the Fates of These Two Factories*, *How U.S.-China Trade War Is Pinching Maine's Lobster Industry*, and *How Trump's Trade Wars Are Affecting American Farmers* in the International Business Library at <http://bit.ly/MHEIBVideo>. Click "Ctrl+F" on your keyboard to search for the video title.

QUESTION 1: What was the logic behind Burrows's original decisions to (a) outsource production for TruckWings components to Taiwan and China and (b) keep research and software functions in the United States? Did this distribution of different activities make sense in the world that existed prior to 2017? What were the benefits, and what were the costs and risks of these decisions?

ANSWER 1: TruckLabs, like other multinational companies, capitalized on the opportunities associated with globalization. The U.S. company initially outsourced production of its aerodynamic truck panels to Asia where labor rates were relatively low and skilled technicians were readily available. At the time, low tariffs and efficient shipping options made the strategy attractive. TruckLabs kept some key operations, such as advanced research, software, firmware, and cybersecurity, in Silicon Valley in the United States because these activities were central to TruckLabs' competitive advantage. The company did not want to give away any advantage it might have by outsourcing them. This distribution of activities made sense prior to 2017 because the U.S. unemployment rate was very low, and the necessary supply of skilled labor wasn't there. Low tariffs on goods traded among the United States, China, and Taiwan, along with efficient shipping, also made the outsourcing decision logical. The risk, as later events demonstrated, is that global conditions are not static, and the cost advantages of foreign production may evaporate when conditions or policies change.

QUESTION 2: How did the imposition of a 25 percent tariff on imports from China by the Trump administration affect TruckLabs? Who benefited from this decision? Who lost out? Can you see any potential unintended consequences of these tariffs?

ANSWER 2: Following Donald Trump's decision to levy tariffs on many imports from China, including TruckLabs' panels, the company was forced to reevaluate its strategy.

The tariffs effectively increased TruckLabs' costs by 25 percent, wiping out the cost differential that had made production in China an attractive option. TruckLabs started to move production back to the United States. Because most of TruckLabs' customers were in North America, Burrows reasoned that bringing production back to the United States would save time and money in shipping and clearing parts through customs, and it would enable TruckLabs to respond more quickly to customer demands. When the COVID-19 pandemic hit in early 2020, and supply chains faltered as nations entered lockdown, the value of moving production back home increased. By late 2020, TruckLabs had moved 60 percent of its overseas production back to the United States. The company now works with parts suppliers in Ohio, Pennsylvania, and Arizona, and it assembles many of its TruckWings units at a factory in North Carolina. U.S. workers and suppliers benefited, and their Chinese counterparts lost out. TruckLabs experienced growth, so the company also benefited. Students answers about unintended consequences will vary.

QUESTION 3: In the long run, do you think that bringing production back to the United States is a plus for TruckLabs, or will it become a liability if global conditions return to the pre-2017 norm?

ANSWER 3: As of 2023, the decision to bring production back to the United States has continued to produce positive results. If the tariffs are removed or if the United States faces a severe labor shortage, the decision might prove to be a liability because labor will once again be much cheaper elsewhere.

QUESTION 4: What does this case teach you about the benefits, costs, and risks associated with outsourcing value-creation activities to different locations around the world?

ANSWER 4: Many students will likely note that this case clearly suggests that the benefits of international trade and globalization are not static. Companies that have capitalized on the cost advantages of production in lower cost countries in Asia must always be aware of how geopolitical events can upend their strategies. Students should also recognize the interdependency of the various factors related to globalization and geopolitics and how policies can have both intended and unintended effects. Events like global pandemics can affect even the best-laid plans. TruckLabs' decisions have produced positive results so far, but unexpected events that disrupt supply chains or the size of the workforce may drive their costs up again.

Teaching Tip: Students can learn more about TruckLabs at <https://trucklabs.com>.

Another Perspective: Students can learn more about the acquisition of TruckLabs at <https://www.fleetmaintenance.com/equipment/article/53077603/conmet-acquires-truckwings-maker-trucklabs>.

CONNECT

Case Analysis

TruckLabs

Summary

This activity focuses on how companies capitalize on the globalization of production. In 2015, TruckLabs, a producer of aerodynamic panels for trucks, set up manufacturing operations in China to take advantage of the country's relatively low wage rates, skilled workforce, and high efficiency. In 2018, TruckLabs was forced to reevaluate its strategy after the Trump administration levied high tariffs on various imports from China including TruckLabs' panels. The tariffs increased costs significantly, essentially eliminating the cost benefits associated with producing its product in China. After exploring production possibilities in various other southeast Asian locations, TruckLabs made the decision to move production to the United States where the majority of its customers are located.

Activity

Students are asked to read a short case exploring the challenges faced by TruckLabs when it was forced to reevaluate its decision to produce its products in China and then respond to a series of questions related to the case.

Class Discussion

Globalization has transformed production. Many companies today outsource production to China to capitalize on the country's relatively low wage rates, skilled workforce, and high efficiency. However, changes in the macro environment including the decision by the Trump administration to levy substantial tariffs on many goods imported from China have forced international companies to reevaluate their production strategies. Discuss the benefits and drawbacks of outsourcing production to China. Should TruckLabs move its production back to China if the tariffs levied by the Trump administration are eventually lifted? Can TruckLabs continue to make a profit if it produces its products in the United States in the longer term?

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

CONNECT

Geography

Summary

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

Activity

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

Class Discussion

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

RESEARCH TASK: globaLEDGE™ Research Exercises

Use the globaLEDGE™ website {globaledge.msu.edu} to complete the following exercise:

Exercise 1

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

Answers to Exercise

Exercise 1 Answer

Search phrase: *FDI Confidence Index*

Resource Name: A.T. Kearney: Foreign Direct Investment Confidence Index

Website: <http://globaledge.msu.edu/global-resources/rankings>

globalEDGE™ Category: [Rankings](#)

Additional Info:

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

INCORPORATING APPLICATION-BASED ACTIVITIES

Student Packs: Navigating a Global Marketplace

I. Introduction

In this activity, you've been invited to participate in an emergency meeting of senior management at Student Packs, a company producing innovatively designed backpacks with a snap on system that enables students to tailor their packs to their daily needs. Founded 8 years ago, Student Packs has evolved into an international company with a multinational supply chain. Student Packs sources the fabric and zippers used to construct the packs in China. Special interlocking toggles are added to the zippers in the United States and the fabric is treated with a patented weatherizing spray. Final assembly of the product is completed in Mexico. Today's meeting has been called to address the implications of new tariffs just announced by the President on certain products imported from China. Because Student Packs will be affected by the tariffs, the company's founder and CEO wants to discuss steps to minimize any negative impact. As part of the discussion, the team will revisit the concept of globalization and how it creates opportunities for companies like Student Packs, but also creates additional risks like the tariffs the company will soon face. The team will also consider the pros and cons of shifting part, or all, of its outsourced production to a new location. Nick knows that the decisions they make could have implications for the company's plans to expand its business in existing and new markets. The meeting includes Nick, the company founder and CEO; Elizabeth, the VP of manufacturing; Eleanor, the VP of marketing; and Sam, the VP of business development.

II. Learning Objectives

1. Understand the concept of globalization.
2. Analyze the forces behind globalization and their implications for business.
3. Evaluate the business opportunities and challenges created by globalization.
4. Evaluate variables contributing to the attractiveness of a country as a place in which to conduct business.

III. Scoring Dimensions

The following theoretical concepts from the chapter are covered and scored in the simulation:

Theoretical Concepts	Percentage of Simulation
Globalization of Markets and Production	25%
Drivers of Globalization	25%
Global Institutions	25%
Managing in the Global Marketplace	25%

IV. Follow-up Activity

Four students can be assigned to take on the roles of Nick, Elizabeth, Eleanor, and Sam. Other students can be assigned to act as staff members in their departments. Using their assigned identities, students can continue the role play as Student Packs determines how to move forward given the changes in the competitive environment. Students should further explore the option of moving some production to Vietnam, and then, one year later, review whether they made the right decision. Students can use some real time data as well as other materials in their analysis. One option is <https://ustr.gov/countries-regions/china-mongolia-taiwan>.

Following the role play, students should discuss the opportunities presented by globalization as well as the drawbacks and challenges it creates for companies. Students should understand the strategic implications of the globalization of markets and the globalization of production for business.