Instructor’s Manual

GLOBAL BUSINESS TODAY

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6th Edition

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**Learning Objectives**

1. Define the terms globalization, globalization of markets, and globalization of production.
2. Examine the rise and functions of global institutions.
3. Recognize why globalization and innovation are now proceeding at a rapid rate.
4. Describe the changing demographics of the global economy.
5. Explain the main arguments in the debate over the impact of globalization on job security, income levels, labour and environmental policies, and national sovereignty.
6. Show how the process of globalization is giving rise to numerous opportunities and challenges that business managers must confront in Canada and beyond.
7. Understand how establishing and committing to a global supply chain code of conduct can result in sustainable international operations.

**CHAPTER SUMMARY**

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

The chapter also describes the changing demographics of the global economy, with a special emphasis on the increasingly important role of developing countries in world trade. This discussion is complemented by a description of the changing world order, and the rise of China and the global economy of the twenty-first century. It also addresses some of the changing views towards globalization. The chapter ends with a candid overview of the pros and cons of globalization and how to manage in the global marketplace.

**OPENING CASE: The Globalization of Production at Boeing**

**Summary**

The opening case describes the globalization of Boeing’s jet line. The Global line is especially complex as the planes need to meet national and international standards for performance and safety while also meeting the demands for global business travel. The line is an international effort made possible by the globalization of production and lack of barriers to trade and international collaborations. Only the future will tell if the company will be able to recover from some of its decisions, particularly regarding Airbus. A discussion of the case can revolve around the following questions:

1: What strategies is Boeing using to recover its reputation as it continues with globalizing its production of its jet line?

*Answer*: Several opportunities exist including the development and production of a new mid-size regional jet line, improvement of its supply chain network, and maintaining its position as a competitor in the aviation industry.

2: What challenges will it face as this firm globalizes?

*Answer*: Most companies are aware that despite the trend toward globalization in the industry it is also necessary to have a centralized way of managing this process. Almost all global businesses face this constant struggle between global production, while also having strong centralized management to maintain cost and production schedules.

**INTRODUCTION**

A) Globalization refers to the trend towards a more integrated global economic system.

*Teaching Tip*: Ask students how globalization impacts them on a daily basis, using the example of a Canadian who drives a German-designed car (see second paragraph that begins with, “The global dispersal of production …”).

B) Globalization raises a multitude of issues for businesses to consider. These include both new opportunities like:

• Expanding revenues

• Driving down costs, and

• Boosting profits.

It also includes new challenges like:

• How best to expand into a foreign market,

• Whether and how to customize product offerings, marketing, human resource practices, and business strategies take into account cultural differences, and

• How best to address efficient foreign competitors entering their home marketplace.

C) The Opening Case, Globalization of Production at Boeing, describes how a multinational conglomerate is managing globalization, and the challenges that arise for the company.

*Teaching Tip*: Give students time to review the opening case in class, if necessary. Discussion questions could include:

* How is a national company defined?
* Is Boeing now an American company?
* What are other examples of similar “American” companies with large global supply chains (e.g. Apple, Nike)? How are they defined (e.g. if they make or sell products outside the U.S.)?

Discussion of the Bombardier case provides a natural lead-in to the next topic - the globalization of the world economy and the drivers of globalization.

**LO 1 WHAT IS GLOBALIZATION?**

A) Globalization involves a shift towards a more integrated and interdependent economy. Markets, production, and consumers are each becoming globalized.

**The Globalization of Markets**

B) The globalization of markets refers to the trend across many industries with historically distinct national markets to merge into one single global marketplace where consumer tastes and preferences in different nations are beginning to converge upon a new global norm for their products (e.g. Coca-Cola, McDonalds). At the same time, significant differences between countries means that product features and marketing strategies still need to be customized to local conditions (e.g. automakers will produce different models based on factors such as local fuel costs, income levels, and cultural values).

*Teaching Tip*: To gain insight into current challenges that Canadian firms have when going global visit Export Development Canada at http://www.edc.ca.

**The Globalization of Production**

C) The globalization of production refers to the practice of many industries to source goods and services from multiple locations in an attempt to take advantage of national differences in the cost and quality of components of production, thereby allowing them to compete more effectively against their rivals. The Opening Case and examples in this chapter illustrate how production is dispersed, but at the same time highlight that trade and investment barriers still exist due to transportation costs, political environments and economic risk.

**LO 2 THE EMERGENCE OF GLOBAL INSTITUTIONS**

A) Post-World War II, a number of global institutions have been created to help manage, regulate, and police the global marketplace, and to promote the creation of multinational treaties.

* The World Trade Organization (WTO) (which replaced the General Agreement on Tariffs and Trade (GATT) in 1995) ensures that nations adhere to treaty rules.
* The International Monetary Fund (IMF) monitors the world’s currencies and provides stability to the international monetary system, while its partner organization, the World Bank works primarily with developing countries to reduce poverty and promote economic development.
* The United Nations (UN) maintains international peace and security, develops friendly relations among nations, fosters cooperation in solving international problems, and promotes human rights through various bodies such as the International Court of Justice.

*Teaching Tip*: Discuss the roles of these international organizations generally. Questions could include:

* What are their various strengths and weaknesses?
* How well do they function?
* Are they still relevant today? How? Or why not?

**LO 3 DRIVERS OF GLOBALIZATION**

Two macro factors underlie the trend toward greater globalization: the reduction of barriers to the free flow of goods, services, and capital that has been advanced since the end of World War II, and technological change.

**Declining Trade and Investment Barriers**

Under the GATT, established after World War II, over 100 nations negotiated decreases in tariffs and made significant progress on a number of non-tariff issues (e.g. intellectual property, trade in services). With the establishment of the WTO in 1995 (replacing the GATT), a mechanism now exists for dispute resolution and the enforcement of trade laws. The WTO’s slow processes, however, indicate a lack of consensus about the benefits of reducing trade barriers.

This removal of barriers to trade has taken place in conjunction with increased international trade (the export of goods or services to consumers in another country), world output, and foreign direct investment.

The growth of foreign direct investment (the investment of resources and business activities outside a company’s home country) is a direct result of nations liberalizing their regulations to allow foreign firms to invest in facilities and acquire local companies. With their investments, these foreign firms often also bring expertise and global connections that allow local operations to have a much broader reach than would have been possible for a purely domestic company.

*Teaching Tip*: The WTO web site provides information about recent trade disputes, "hot" areas of international trade, the status of current talks, data and other information. See <http://www.wto.org> .

**The 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.

Microprocessors and Telecommunications: Since the end of World War II, there have been major advances in communications and information processing. For example, Moore’s Law predicts the power of microprocessor technology doubles, and its cost of production falls in half, every 18 months. As this happens, the cost of global communication plummets, which in turn lowers the cost of coordinating and controlling a global organization.

The Internet and the World Wide Web: Viewed globally, the Internet rolls back some of the constraints of location, scale, and time zones. As the text states, “… it makes it much easier for buyers and sellers to find each other, wherever they may be located and whatever their size… allows businesses, both small and large, to expand their global presence at a lower cost than ever before [and] … enables enterprises to coordinate and control a globally dispersed production system in a way that was not possible 25 years ago.”

Transportation Technology: In economic terms, the most important advancements are probably the development of commercial jet aircraft and super freighters, and the introduction of containerization, which greatly simplifies trans-shipment from one mode of transport to another.

The Globalization of Production: Improvements in transportation technology, including jet transport, temperature controlled containerized shipping, and coordinated ship-rail-truck systems have made firms better able to respond to international customer demands.

The Globalization of Markets: People now work with individuals and companies from many countries, and while communications technology the universality of English as the language of business has decreased the absolute level of cultural difficulties individuals face, the frequency with which they face inter-cultural and international challenges has increased. It both provides opportunities and is more complex and competitive than a generation ago.

**MANAGEMENT FOCUS:** Hisense and the Market for Flat Panel TVs

**Summary**

This feature explores the world of exacting quality demands and specifications in producing components such as sheets of glass for the Hisense flat panel TV. These parts are then shipped to Mexico’s maquiladoras (factories in Mexico near the US border) where they are cut to size, combined with products shipped from Asia, and assembled into flat-panel TVs. This case demonstrates the intricacies of global manufacturing and cross-border trade, and the benefits of economies of (sales) scale. Once manufactured, these televisions are sold through large-scale retailers such as Costco and Sam’s Club (Walmart).

Hisense has emerged as one of China’s leading multinationals, with origins as a state-owned manufacturer. In the 1970s, the state-owned factory diversified into the manufacture of TV sets; by the 1980s, it was one of China’s leading manufacturers of color TVs, making sets designed by Matsushita under license. Through the 1990’s, Hisense entered a period of rapid growth, product diversification, and global expansion. By 2013, the company had sales of more than $15 billion and emerged as one of China’s premier makers of TV sets, air conditioners, refrigerators, personal computers, and telecommunications equipment. International sales accounted for more than 15 percent of total revenue. The company had established overseas manufacturing subsidiaries in Algeria, Hungary, Iran, Pakistan, and South Africa and was growing rapidly in developing markets, where it was taking share away from long-established consumer electronics and appliance makers.

**Questions**

1. Those who benefit from such outsourcing include workers in low-cost locations (Mexico, South Korea, China), and consumers who benefit from lower prices. Those who are negatively affected include manufacturers in high-cost locations (such as Japan and the United States), as well as manufacturers of traditional technologies.

2. Companies with extensive linkages are found in many sectors including manufacturing (e.g. auto production, or the Boeing jet line discussed in the Opening Case), light assembly (such as Nike, which designs, manufactures, produces, and markets) from different locations around the world, and even service firms such as global law firms, accounting firms, and consulting firms such as McKinsey and Company.

3. To remain competitive Hisense will have to continue to innovate, as it has in the past. This is particularly important in consumer brands, and in particular in electronics which is a constantly changing and improving marketplace. Refer to <https://www.hisense-canada.com> for further information for in-class discussion. Reference can also be made to Apple and its ever-evolving suite of products.

**LO4 THE CHANGING DEMOGRAPHICS OF THE GLOBAL ECONOMY**

A) As late as the 1960’s, the global economy was characterized by: U.S. dominance in 1) the world economy and 2) the world trade picture, 3) the dominance of large, multinational U.S. firms on the international business scene, and 4) that roughly half of the globe - the centrally-planned economies of the communist world - was off-limits..

**The Changing World Output and World Trade Picture**

B) In the early 1960s, the U.S. was the world’s dominant industrial power by far. In 1960 it accounted for 38.3 percent of world output, measured by gross domestic product (GDP). By 2018, it accounted for 24.4 percent of world output, still the world’s largest industrial power but down significantly in relative size. This was a relative decline, reflecting the faster economic growth of several other economies, particularly in Asia.

*Teaching Tip*: Refer to Table 1.1. From 1960 to 2018, China’s share of world output 15.4 percent, making it the world’s second largest economy. Note that Canada was at 2.1% in 2018, down from 3% in 1960.

C) Most forecasts now predict a rapid rise in the share of world output by developing nations such as China, India, Indonesia, Thailand, South Korea, Mexico, and Brazil, and a commensurate decline in the share enjoyed by rich industrialized countries like Canada, Great Britain, Germany, Japan, and the United States.

**The Changing Foreign Direct Investment Picture**

E) The share of world output generated by developing countries has been on a steady increase since the 1960s, while the stock (total cumulative value of foreign investment) generated by rich industrial countries has been on a steady decline. This trend is expected to continue.

*Teaching Tip*: Refer to Table 1.2, Canada has historically been the top trading partner of the U.S., and vice-versa. This is still the case when it comes to exports, although Mexico and China have been growing at a faster rate. China is now the second-largest trading partner to Canada.

F) Similarly, the flow of FDI (amount invested across national borders each year) has been directed at developing nations. As barriers to the free flow of goods, services, and capital have fallen, and as other countries increased their shares of world output, non-U.S. firms increasingly began to invest across national borders.

*Teaching Tip*: Refer to Table 1.3. It illustrates the variability of FDI in the recent years due to global economic trends. Note that in 2018, developing economies accounted for a growing share of global FDI at 54 percent, up from 46 percent in 2017. Among developing nations, the largest recipient of FDI has been China.

**The Changing Nature of the Multinational Enterprise**

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

**Non-U.S. Multinationals**

H) The globalization of the world economy, together with Japan's rise to the top rank of economic power, has resulted in a relative decline in the dominance of U.S. (and, to a lesser extent, British) firms in the global marketplace. There is also significant growth in the number of multinationals from developing economies.

**The Rise of Mini-Multinationals**

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

*Teaching Tip*: Canadian examples include International Road Dynamics, from Saskatoon, Saskatchewan, and Iceculture Inc., from a small town north-west of London, Ontario.

**The Changing World Order**

J) Wide political change poses new opportunities and threats for international business. For example, China represents a huge and still largely untapped market. On the other hand, China’s new firms are proving to be very capable competitors, and they could take global market share away from Western and Japanese enterprises. Indian counterparts appear posed to do the same. Elsewhere, the growth and market reforms in Mexico and Latin America present tremendous new opportunities both as markets and as sources of materials and production.

**The Global Economy of the 21st Century**

L) The path to full economic liberalization and open markets is not without obstruction. Economic crises in Latin America, South East Asia, and Russia all caused difficulties in the late 1990s. While international businesses must be prepared to take advantage of an ever more integrated global economy, they must also prepare for political and economic disruptions that can throw their plans into disarray.

**LO 5 THE GLOBALIZATION DEBATE**

A) While many economists, politicians, and business leaders seem to think it is generally a good thing, globalization is not without its critics. Globalization stimulates economic growth, raises the incomes of consumers, and helps to create jobs in all countries that choose to participate in the global economy. Some of this growth, however, creates “sweatshop” jobs, increases pollution, and draws people from the countryside into ever more crowded cities and slums that lack the infrastructure needed to support growth.

**Antiglobalization Protests**

B) Since 1999, when protesters targeted the WTO meeting in Seattle, antiglobalization protesters have turned up at almost every major meeting of a global institution. Large sections of the population in many countries believe that globalization harms living standards and the environment. Both theory and evidence suggest that many of these fears are exaggerated. The United Kingdom's 2016 vote to withdraw from the European Union, known as "Brexit" (short for British exit), covered in later chapters, is one expression of antiglobalization sentiment.

**COUNTRY FOCUS:** Antiglobalization Protests in France

**Summary**

This feature describes antiglobalization protests in France. French President Emmanuel Macron, in the wake of the 2016 Paris Climate Change Agreement, introduced a carbon tax on fuel in an effort to reduce CO2 emissions and finance low gas emissions and development. The agreement was largely seen by many in France as yet another global institution interfering and putting pressure on the country’s internal affairs and the economic well-being of French working class.

The government move to raise taxes was seen to largely benefit large and multinational corporations, who were now in a position to raise gasoline, diesel, and heating prices and therefore earn additional revenues at the expense of the poor and middle class. Protests, first started in the late fall of the 2018, initially originated with motorists from rural areas that were required for safety purposes to wear yellow vests (gilets jaunes). In the aftermath, the French government offered some token concessions, including cancellation of the fuel tax, a decrease in fuel and motor taxes, elimination of the tax on overtime wages, and lowering prices on electricity. The movement, while set in France, moved on to many other countries around the world.

**Questions**

1. How might the Macron government have done a better job at explaining the Paris Agreement and carbon taxes?
2. What lessons can we take from the gilets jaunes protests and the role of global agencies and globalization?

**Globalization, Jobs, and Income**

C) In developed countries, labour leaders lament the loss of good paying jobs to low wage countries. While this has been most notable in the United States with the election of Donald Trump in 2016, it has happened in Canada as well. For example, Canadian banks have been outsourcing certain types of jobs for many years.

**Globalization, Labour Policies, and the Environment**

D) A second source of concern is that free trade encourages firms from advanced nations to move manufacturing facilities offshore to less developed countries that lack adequate regulations to protect labour and the environment from abuse by the unscrupulous. This argument was used repeatedly by those who opposed the 1994 formation of NAFTA. Supporters of free trade and greater globalization express serious doubts about this scenario. They point out that tougher environmental regulation and stricter labour standards go hand in hand with economic progress.

E) Lower labour costs are only one of the reasons why a firm may seek to expand in developing countries. These countries may also have lower standards on environmental controls and workplace safety. Nevertheless, since investment typically leads to higher living standards, there is often pressure to increase safety regulations to international levels. No country wants to be known for its poor record on health and human safety. Thus, supporters of globalization argue that foreign investment often helps a country to raise its standards.

**Globalization and National Sovereignty**

F) A final concern voiced by critics of globalization is that in today's increasingly interdependent global economy, economic power is shifting away from national governments with elected representatives, and toward supranational organizations such as the WTO, the European Union, and the United Nations, thereby undermining the sovereignty of those states.

G) With the development of the WTO and other multilateral organizations such as the EU and agreements such as the Canada-US-Mexico (CUSMA), countries and localities necessarily cede some authority over their actions.

**Globalization and the World’s Poor**

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

**LO 6 MANAGING IN THE GLOBAL MARKETPLACE**

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

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

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

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

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

**LO 7. SUSTAINABILITY IN PRACTICE: THE ADIDAS GROUP**

A) The Adidas Group is the second-largest sportswear manufacturer in the world. Its German holding company, Adidas AG, produces products under the Reebok, Rockport, and Ashworth brands among others, including the flagship Adidas brand. Existing as a company for almost a hundred years, and with operations all over the world, the company has taken a highly visible and integrated approach to sustainability as it relates to its supply chain management and supplier labour standards. It adopted a “Workplace Standards” set of policies that establish a supply chain code of conduct, which includes provisions covering workers’ health and safety and environmentally sound factory operations. To enforce compliance the company enlists a two- pronged approach: (1) multilevel monitoring and enforcement, and (2) unannounced independent assessments to demonstrate the credibility of the information collected.

**IMPLICATIONS FOR BUSINESS**

The international business arena is becoming increasingly open. Business managers need to see the world of strengths, weaknesses, opportunities and threats in a global sense. Businesses must now address the broader scope of commercial realities brought forth by GATT and evolved through the WTO.

**The North-South Divide**

The WTO is aiming for a world free of customs duties and trade barriers. However, there is a continuing divergence of opinions on the benefits of this world, resulting in a north (wealthy) versus south (developing countries) divide.

**The Role of Technology in International Trade**

Without technology, the degree of globalization would be far less today. Technology has allowed for rapid border clearance and reduced communications costs.

**LEARNING OBJECTIVES SUMMARY**

1. Over the past several decades, we have witnessed the globalization of markets and production. The globalization of markets implies that national markets are merging into one huge marketplace. However, it is important not to push this view too far as differences in cultures, social norms, and restrictions may offer pause.
2. As markets globalize, institutions need to help manage, regulate, and police the global marketplace, and to promote the establishment of multinational treaties to govern the global business system. During the past 50 years, a number of important global institutions have been created to help perform these functions; some of them are the United Nations, World Trade Organization, World Bank, and International Monetary Fund.
3. Several factors seem to underlie the trend toward globalization: declining trade barriers and changes in communication, information, and transportation technologies.
4. There have been dramatic changes in the demographics of the global economy over the past 50 years. As late as the 1960s, four facts described the demographics of the global economy. The first was U.S. dominance in the world economy and world trade picture. The second was U.S. dominance in world foreign direct investment. The third fact was the dominance of large, multinational U.S. firms on the international business scene. The fourth was that roughly half the globe—the centrally planned economies of the Communist world—was off-limits to Western international businesses. All four of these qualities have either changed or are now changing rapidly with the EU and developing nations taking front stage in the progress of globalization.
5. The benefits and costs of the emerging global economy are being hotly debated among business people, economists, and politicians, not just in the United States but around the world. The debate focuses on the impact of globalization on jobs, wages, the environment, working conditions, Indigenous rights, and national sovereignty.
6. Managers need to recognize that the task of managing an international business differs from that of managing a purely domestic business in many ways. Differences between countries require that an international business vary its practices country by country. Managers within international businesses must develop strategies and policies for dealing with cross-border government interventions.

**CRITICAL THINKING AND DISCUSSION QUESTIONS**

1. Describe the shifts in the world economy over the last 10 years. What are the implications of these shifts for international business in: Great Britain, North America?

*Answer*: The world economy has shifted dramatically over the past 10 years. As late as the 1960s, four stylized facts described the demographics of the global economy. The first was U.S. dominance in the world economy and world trade. The second was U.S. dominance in the world foreign direct investment picture. Related to this, the third fact was the dominance of large, multinational U.S. firms in the international business scene. The fourth was that roughly half of the globe - the centrally planned economies of the Communist world - was off-limits to Western international businesses.

All of these demographic facts have changed. Although the U.S. remains the world's dominant economic power, its share of world output and world exports have declined significantly since the 1960s (see Table 1.1). Canada is still the United States’ largest trading partner. This trend does not reflect trouble in the U.S. economy, but rather reflects the growing industrialization of developing countries such as China, India, Indonesia, and South Korea. This trend is also reflected in the world foreign direct investment picture.

Shifts in the world economy can also be seen through the shifting power of multinational enterprises. Since the 1960s, there have been two notable trends in the demographics of the multinational enterprise. The first has been the rise of non-U.S. multinationals, particularly Japanese multinationals. The second has been the emergence of a growing number of small and medium-sized multinationals, called mini-multinationals. The fall of Communism in Eastern Europe and the republics of the former Soviet Union have brought about the final shift in the world economy. Many of the former Communist nations of Europe and Asia seem to share a commitment to democratic politics and free market economies. Similar developments are being observed in Latin America.

If these trends continue, the opportunities for international business may be enormous. The implications of these shifts are similar for North America and Britain. The United States and Britain once had the luxury of being the dominant players in the world arena, with little substantive competition from the developing nations of the world. That has changed. Today, U.S. and British manufacturers must compete with competitors from across the world to win orders. The changing demographics of the world economy favour a city like Hong Kong, which is now under Chinese rule, is well located with easy access to markets in Japan, South Korea, Indonesia, and other Asian markets. Hong Kong has a vibrant labour force that can compete on par with the industrialized nations of the world. The decline in the influence of the U.S. and Britain on the global economy provides opportunities for companies in Hong Kong to aggressively pursue export markets.

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

*Answer*: As barriers to trade decrease and state of the art technological developments take place throughout the world, new opportunities and threats exist on a worldwide basis. Canada and its businesses do not operate in a vacuum but are part of a rapidly inter-connected world. The rise of the mini-multinationals suggests there are global opportunities for even small firms. But staying attuned to international markets isn't only important from the perspective of seeking profitable opportunities for small firms; it can also be critical for long-term competitive survival. Firms from other countries may be developing products that, if sold internationally, may wipe out small domestic competitors. Scanning international markets for the best suppliers is also important for small firms, for if a domestic competitor is able to tap into a superior supplier from a foreign country, it may be able to seriously erode a small firm's competitive position before the small firm understands the source of its competitor's competitive advantage and can take appropriate counter actions.

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

*Answer*: Changes in technology have contributed to the globalization of markets and of production in a very substantive manner. For instance, improvements in transportation technology have paved the way for companies like Coca-Cola, Bombardier, Sanyo, and McDonalds to make their products available worldwide. Similarly, improvements in communications technology have had a major impact. The ability to negotiate across continents has been facilitated by improved communications technology, and the rapidly decreasing cost of communications has lowered the expense of coordinating and controlling a global corporation. Finally, the impact of information technology has been far reaching. Companies can now gain worldwide exposure simply by setting up a front-page on the Internet. This technology was not available just a few short years ago.

The globalization of production and markets may have been possible without improvements in technology, but the pace of globalization would have been much slower. The falling cost of technology has made it affordable for many developing nations, which has been instrumental in helping these nations improve their share of world output and world exports. The inclusion of these nations has been instrumental in the globalization of markets and production. In addition, improvements in global transportation and communication have made it relatively easy for business executives from different countries to converse with one another. If these forms of technology, including air-travel, e-mail, and overnight delivery of packages were not available, it would be much more difficult for businesses to conduct international trade.

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

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

5. How might the Internet impact international business activity and the globalization of the world economy?

*Answer*: The Internet promises to develop into the information background of the global economy. Today, voice, data, and real time video communication such as videoconferencing are commonplace, as well as a vast array of commercial transactions. This improved technology not only make it easier for individuals and companies in different countries to conduct business with one another, but also further decrease the cost of communications. These improvements are undoubtedly hastening the already rapid pace of globalization. Another distinct attribute of the internet is that it acts as an equalizer between large (resource rich) and small (resource poor) firms.

If current trends continue, China may be the world’s largest economy by 2050. The country has managed to lift 800 million out of poverty. Discuss the possible implications for such a development for:

• the world trading system.

• the world monetary system.

• the business strategy of today’s European- and Canadian-based global corporations.

• opportunities for companies capitalizing on China's markets.

*Answer*: Currently China enjoys a somewhat privileged status within the WTO as a “developing” country. Such a rise to eminence, however, would clearly force it to become a full and equal member, with all of the rights and responsibilities required of members. China would also be in a position to actively affect the terms of trade between many countries. On the monetary front, one would expect that China would have to have fully convertible and trading currency, and it could become one of the “benchmark” currencies of the world. From the perspective of Western global firms, China would represent both a huge market, and potentially some very capable competitors.

**CLOSING CASE: Tim Hortons-A Canadian Company Looking for New Markets**

**Summary**

The closing case describes the success of Tim Hortons, a true Canadian success story. In 1995 the company was purchased by Wendy’s International, but widespread expansion into the United States proved difficult. In 2006 the company was spun off from Wendy’s. The company’s fortunes in the United States are similar to those of the U.S. firm Krispy Kreme, and its efforts to enter the Canadian market. Krispy Kreme which for much of its history was located in the southeastern United States. Beginning in the late 1990s, the company expanded quickly throughout the world. An accounting scandal and changing consumer tastes hit the company hard, and consumers tired of the doughnut chain. Tim Horton’s plans to once again enter the U.S. market over the next few years, where it will face pressure from major chains such as McDonalds, Starbucks, Subway and Dunkin Donuts.

In December 2014, the company was bought by Burger King, with both restaurants operating under the name Restaurant Brands Inc. This new company, now including Popeyes, became the third-largest fast-food chain on the planet, with 26,000 locations in more than 100 countries and U.S.$32 billion in sales. The deal, valued at $12 B and an example of FDI, has laid out plans to open many more restaurants. Time will tell whether access to greater synergies and capital will result in greater fortunes for this global company, which is still headquartered in Canada.

**Case Discussion Questions**

1: How can a company like Tim Hortons maintain its quality when it is operating in different markets around the globe?

*Answer*: Since donuts are an easily produced item, any company operating internationally must recognize that maintaining his quality standards is key to the continued success of the brand. It may be impossible to obtain high quality key ingredients locally in some markets. In this case, either the ingredients must be shipped from home, or local suppliers must be cultivated-a process that can take years. For example, as McDonalds expands across the world, its first step is often to work with local producers of potatoes and eggs to ensure that its standards can be met.

2: Is there anything wrong with a company like Tim Hortons sticking to a marketplace that it knows well?

*Answer*: Answers will vary here. While there is nothing “wrong” with sticking to a domestic market, it is necessary to question where future growth will come from. A company like Tim Hortons may be able to grow by expanding its menu items, adding a dinner menu, or adding locations in new formats (e.g. kiosks) where customers are not currently fully served by a store.

3: Can a company grow too quickly? What are the problems associated with fast growth?

*Answer*: The example of Krispy Kreme shows that companies can indeed grow too quickly. As this company shows, they can saturate a market, and face quality issues as they seek to expand. International growth can provide many opportunities, but also risks.

**Additional Readings and Sources of Information**

International Forum on Globalization: <http://ifg.org>

Economic Policy Institute: <http://www.epi.org/research/trade-and-globalization>

KOF Swiss Economic Institute: <http://globalization.kof.ethz.ch>