CHAPTER 2

Global Marketplaces and Business Centers

Chapter Objectives

After studying this chapter, students should be able to:

1. Evaluate the impact of the political and economic characteristics of the world's various marketplaces on opportunities available to international businesses.
2. Appreciate the uses of national income data in making business decisions.
3. Discuss North America as a major marketplace and business center in the world economy.
4. Describe Western Europe as a major marketplace and business center in the world economy.
5. Discuss Asia as a major marketplace and business center in the world economy.
6. Assess the development challenges facing African, Middle Eastern, and South American countries.

LECTURE OUTLINE

OPENING CASE: *Trade Is Blossoming*

The opening case explores the boom in the floral industry around the world in countries including Colombia, Ecuador and China, which in turn is driving economic growth in these regions.

<u>Key Points</u>

- The growth in the floral industry is the result of technological changes and trade liberalization.

- The Netherlands had long been the center of the international commercial flower industry. FLORAHOLLAND has been the most important flower auctioneer in the world.

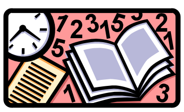
- In 2009, they had auctioned over €3.9 billion worth of plants and flowers.

- They used e-commerce to expand beyond their regional market.
- This growing trade has also impacted other industries (i.e. airline industry).
- These opportunities were the result of globalization and the company's ability to obtain market research information, which has been the key to their ability to internationalize the operations.

CHAPTER SUMMARY

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

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



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

THE MARKETPLACES OF NORTH AMERICA

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

The United States

- The United States is the world's largest economy. It accounts for 24 percent of the world's $58.2 trillion GDP (as of 2009). It has the highest per capita income in North America.

> **EMERGING OPPORTUNITIES**
> ***Classifying Countries by Income Level***
> This box discusses the importance of knowing income levels when internationalizing. The box explains the differences among high-income countries (at least $12,196 GDP/capita), middle-income countries (GDP/capita less than $12,196 and $993), and lower-income countries (GDP/capita of $993 or less) and their attractiveness to foreign direct investment.

- The size and political stability of the United States provide the country with a unique position in the world economy. It accounts for one-tenth of world trade in goods and services, and therefore attracts the exports of lower-income nations that are trying to develop. Also, it is a favorite target for firms from higher-income countries. In addition, the U.S. dollar serves as the **invoicing currency** in approximately half of all international transactions, making it an important component of the foreign currency reserves owned by governments around the globe. It also attracts money (known as **flight capital**) fleeing political turmoil in other countries and longer-term investments.

- International trade, although growing in recent years, is still a relatively small component of the U.S. economy. This phenomenon is probably due in part to the large geographic size of the country. Transactions that might constitute international trade and investment in other parts of the world are just domestic transactions in the United States.
- Many of the world's 500 largest industrial companies (as of the year 2010) are headquartered in the United States. **Discuss Figure 2.2 here.**

Canada

- Although the second largest country in the world, Canada has a relatively small population of 34 million, most of which is concentrated along its southern border with the United States. The country has close political and economic ties with the United States, although it has tried to retain a separate cultural identity.
- The United States is a dominant market for Canadian products, receiving more than three-quarters of Canada's output in a typical year. The trading relationship between the United States and Canada is the single largest bilateral trading relationship in the world.
- Canada's strong infrastructure and proximity to the U.S. market make it an attractive location for international businesses.
- Canada's political stability is currently being threatened by a long-standing conflict between French-speaking Canada and English-speaking Canada. The conflict is not only affecting investment in the country, but it is also affecting international business because firms exporting products to Canada must be aware of the country's labeling laws.

Mexico

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

Central America and the Caribbean

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

THE MARKETPLACES OF WESTERN EUROPE

- The countries of Western Europe make up the second component of the Triad, and are among the most prosperous nations in the world. They can be divided into (1) the members of the European Union (EU) and (2) the other nations in the region.
- The members of the European Union have agreed to reduce barriers to trade and investment among themselves in an effort to achieve greater prosperity. The EU will be discussed in more detail in Chapter Ten.
- In 2002, twelve of the EU nations eliminated their national currencies, replacing them with the euro.
- Twenty-seven countries belong to the EU.
- Germany, the third largest economy in the world, is the most economically powerful nation in the EU. (See Chapter 6 – Opening Case: The Mittelstand Lead the Way)
- France is politically strong and is a leading proponent of increased political, economic, and military union within Europe, and of increasing the powers of the government of the EU. The United Kingdom has opposed France’s position on this matter, arguing for freer markets and power at the national, rather than supranational, level.
- The newest EU members were either part of the Soviet Union (Estonia, Latvia, and Lithuania) or allied with the Soviet Union politically and economically (Bulgaria, Czech Republic, Hungary, Poland, Slovakia, and Romania).
- Other countries in Western Europe that are not a part of the EU include Iceland, Switzerland, Norway, Andorra, Monaco, and Liechtenstein. These countries, considered rich by the World Bank, follow free market-oriented policies.

Central Europe

- The countries of Central Europe face some common problems as they move toward capitalism. The Czech Republic, Hungary, and Poland are all now classified by the World Bank as "middle-income" countries and are further along in their economic development than some of their former peers. They have become attractive sites to foreign investors.
- Economic development has been slower in Albania, Bulgaria, and Romania because these countries were slower to develop a consensus as to the direction they wanted their economies to take.
- The situation is far worse in the former Yugoslavia. Slovenia, Croatia, and Macedonia have partially avoided the economic ravages of war over control of Bosnia in the late 1990s. Serbia, Montenegro, and Bosnia are still struggling to recover. They are not very attractive places for MNCs to invest.

THE MARKETPLACES OF EASTERN EUROPE AND CENTRAL ASIA

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

- The Soviet Union collapsed in 1991 as a result of economic and political reforms. The various countries, of which Russia is the largest, are now part of the Newly Independent States (NIS).
- The process of transforming their economies from a communist to a capitalist system was not easy. One of the most important challenges in this process is that of **privatization** (selling state-owned property to the public sector). The process is a painful one that has caused massive unemployment.
- Under the leadership of Boris Yeltsin, Russia's central government staggered from one financial crisis to another. Vladimir Putin, Yeltsin's successor, overhauled Russia's taxation system and has helped somewhat stabilize the economy. The initiative worked, and government revenues increased.
- The five Central Asian republics of the former Soviet Union (Kazakhstan, Uzbekistan, Tajikistan, and Kyrgyzstan) declared their independence when the Soviet Union dissolved in 1991. They are primarily Muslim countries suffering from scarcity of arable land and from poverty. Per capita incomes range from $700 per year in Tajikistan to $6,740 in Kazakhstan.
- Afghanistan was invaded by Russia in 1979 (the Russians withdrew ten years later). After the September 11, 2001, Al Qaeda terrorist attacks, the U.S. military deposed the Afghan government (the Taliban), which had harbored the terrorist organization. The new Afghan government faces many challenges as it attempts to consolidate power and promote development.

THE MARKETPLACES OF ASIA

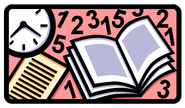
Asia, home to over half the world's population, produces less than 25 percent of the world's GDP. Asia is unique in that it is a source of both high- and low-quality products and of both expensive and inexpensive labor. Further, the region attracts MNC investments, and is a major supplier of capital to non-Asian countries. Moreover, its companies are increasingly pressuring European and North American companies to improve their operations.

Japan

- Japan, with a population of 128 million, has enjoyed rapid growth over the last 50 years in part because of the close relationship between the Ministry of International Trade and Investment and the industrial sector.

- Japan, through the use of **keiretsus**, has also made it difficult for foreign firms to penetrate its marketplace. A keiretsu is a large family of interrelated firms. **Sogo Soshas** (export trading companies that serve as the marketers for the keiretsu in international markets) facilitate the exports of keiretsu members.
- Although Japan is frequently criticized for its exports, it should be recognized that its exports are a smaller portion of its GDP than is the case for many nations. However, the country seemingly restricts importers from competing for its domestic market. This topic will be discussed in more depth in Chapter Nine.

- Japan's economy slowed in the 1990s, averaging only 1.1 percent growth (compared to 2.9 percent average growth in the world economy).



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

Australia and New Zealand

- Australia, one of the traditional industrial powers in Pacific Asia, is one of the 20 largest economies in the world. Some 40 percent of its population lives in Sydney or Melbourne.
- Australia's exports capitalize on its natural resources (gold, iron ore, coal, etc.) and land-intensive agricultural goods (wool, beef, and wheat).
- New Zealand, the other traditional industrial power in Pacific Asia, has aggressively moved to deregulate and privatize its economy. Australia, Japan, and the United States account for approximately half of New Zealand's exports and imports.

The Four Tigers

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

- **South Korea** has grown rapidly through tight cooperation between the government and **chaebol**. Chaebol are large, privately owned conglomerates such as Samsung, Hyundai, and Daewoo. Today, however, many of the chaebol are experiencing financial difficulties as a result of the Asian currency crisis. South Korea has followed a similar recipe for economic growth as Japan, focusing on government leadership in the economy, large economic combines for industrialization, and keeping imports out.
- **Taiwan**, the island off mainland China, has relied on private businesses and export-oriented trade policies to bring about its phenomenal growth. The country exports more than 64 percent of its GDP, mainly to the United States, China, and Japan. Today, Taiwan has outgrown its status as a low-cost manufacturing center, and instead focuses on high-value-added industries, such as electronics and automotive parts. In fact, many of Taiwan's companies are investing in China as they search for low-cost labor.
- **Singapore** is another nation that can no longer compete with low-cost labor countries, and instead has shifted to higher value-added activities, including oil refining and chemical processing. The country gains much of its economic growth through the practice of reexporting. So important are exports to Singapore that, in 2009, they made up 148 percent of the GDP. Singapore thrives on **reexporting**. The country also is active in sophisticated communications and financial services for companies in Pacific Asia.
- **Hong Kong** was ceded back to the PRC in 1997 but will continue to enjoy special privileges under Chinese rule until 2047. Hong Kong has a highly educated and

productive labor force for industries such as textiles and electronics. The country is also active in banking and financial services throughout East Asia. In addition, Hong Kong acts as a middleman for companies that wish to do business with mainland China. Hong Kong exported 194 percent of its GDP in 2009. Hong Kong also serves as a bridge between Taiwan and the PRC by converting goods made in the two enemy nations into Hong Kong goods.

China

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

India

- India, the second most populous country in the world (over one billion persons), is also one of the world's poorest (with per capita income of $1,180/year). It has relied on state ownership of key industries as a key to its economic development. India has also discouraged foreign investment and limited foreign ownership of companies.
- In the past, India has not seen international trade as being important, and instead has subsidized globally uncompetitive firms and relied on its large domestic market. However, in 1991, the Indian government launched a series of economic reforms that lessened restrictions on foreign investment. The reforms have started to pay off, and foreign companies are beginning to consider India for possible expansion. See Chapter 11's closing case for a more detailed discussion.

Southeast Asian Countries

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

THE MARKETPLACES OF AFRICA AND THE MIDDLE EAST

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

Africa

- The African continent is home to 1 billion people. Though countries on the African continent are now independent, some vestiges of colonialism remain and affect international business. The text provides an example of colonial ties, specifically that Chad, Niger, and the Ivory Coast retain their ties with France and in doing so, link their currencies with the French franc and follow the legal, educational, and governmental procedures of France.
- As Africa has shed its colonial rule, the region has undergone political unrest and civil war; but today, it is turning toward market-oriented policies and multi-party democracies, and is attracting international businesses.
- Natural resources, particularly oil, and agricultural production are important to the African economy. Much of the economy still revolves around subsistence farming.
- South Africa is expected to be the dominant power in the continent during the twenty-first century.

VENTURING ABROAD
The New Player in Global Capital Markets: Sovereign Wealth Funds (SWF)

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

Middle East

- The Middle East (the region located between northwestern Asia and northeastern Africa) is home to many oil-rich countries. It is also home to political unrest and conflict, and the region has been plagued with various wars in the last century, including the Arab-Israeli wars, the Iran-Iraq war, and the Persian Gulf wars.
- In 2009, Saudi Arabia had the largest economy ($369 billion GDP), but Israel had the highest per capita income ($25,740 per year).
- Countries in the region are trying to plan for a life after oil and are beginning to diversify their economies. Dubai, for example, is attracting investors by offering all the benefits of a foreign trade zone.

THE MARKETPLACES OF SOUTH AMERICA

- South America's 13 countries not only share a common political history, but also share many economic challenges, such as inflation, inefficient producers, and widespread poverty.
- Until recently, most South American countries have followed an economic policy of **import substitution**. Under such a policy, a nation attempts to stimulate the development of local industry by discouraging imports through high tariff and

nontariff barriers. The trouble with the policy is that in most cases the domestic market is too small to allow producers to gain the necessary economies of scale and mass production. Consequently, domestic prices rise above prices in other markets, putting exporters at a competitive disadvantage. To improve the competitiveness of the companies and maintain employment levels, governments usually resort to subsidies and even nationalization. As a result, the government runs a budget deficit, which leads to inflation and the destruction of middle-class savings.

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

CHAPTER REVIEW

1. *Describe the U.S. role in the world economy.*

The United States has a unique position in the world economy because of its size and political stability. Approximately 32 percent of the world's output is accounted for by the United States. Furthermore, it acts as a magnet for lower-income nations that are attempting to raise their standard of living through export-oriented economic development strategies and for higher-income country firms that target the country's large, well-educated middle class. The U.S. dollar plays an important role in global financial markets. Approximately one-half of all international transactions are denominated in U.S. dollars, and it is an important component of foreign currency reserves owned by governments throughout the world. As a result of the country's political stability, investors frequently invest their money in the United States whenever political conflicts and instability flare up. The United States is also a recipient of long-term investment. International trade remains a relatively small component of the U.S. economy, although it is becoming increasingly more important. (LO 2.3; AACSB: Analytic Skills; Learning Outcome: Discuss the trends and debate over globalization)

2. *How do differences in income levels and income distribution among nations affect international businesses?*

A country's income level is a key indicator of how attractive it will be to international businesses because it provides companies with information about the nature of a nation's consumers and the country's value as a production site. Countries are typically classified according to the World Bank scheme as being high-income, middle-income, or low-income nations. Firms can use this information to help identify the best markets for their products. For example, a firm with a range of products in different price categories might export the most expensive, sophisticated products to high-income countries, and the low-priced, standard products to low-income countries. Similarly, a firm seeking sources of low-cost labor would consider low-income countries, while a firm needing a well-developed infrastructure would look at higher-income countries. (LO 2.2, AACSB: Analytic Skills; Learning Outcome: Discuss trends in and the debate over globalization)

3. *What role did MITI serve in the Japanese economy?*

   MITI, a government agency, partnered with Japanese businesses to help guide corporate production and investment strategies in a manner that helped Japanese businesses concentrate initially on basic industries such as steel, and then later to move into automobiles, electronics, and so on. In this manner, MITI contributed to the rebuilding of the Japanese economy after World War II. (LO 2.5, AACSB: Dynamics of the Global Economy; Learning Outcome: Describe how differences in political economy influence economic development)

4. *What is a keiretsu?*

   A keiretsu is a large family of interrelated companies that share ownership among each other. Typically, a keiretsu is centered around a major Japanese bank that takes primary responsibility for meeting the keiretsu's financing needs. The members often act as suppliers, buyers, and distributors for one another. (LO 2.5, AACSB: Dynamics of the Global Economy; Learning Outcome: Describe how differences in political economy influence economic development)

5. *Who are the Four Tigers? Why are they important to international business?*

   The Four Tigers are South Korea, Taiwan, Singapore, and Hong Kong. The Four Tigers are important to international business because of their rapid strides toward economic development. South Korea is one of the world's fastest-growing nations. Much of its growth has come through exports. Taiwan also enjoys rapid economic growth and today focuses on high-value-added industries, such as electronics and automobiles. Singapore is an export intensive nation, exporting 206 percent of its GDP in 2006. It is also an important port and center for oil refining in Asia, and provides sophisticated communications and financial services for Pacific Rim companies. Finally, Hong Kong's highly educated and productive workforce makes it attractive to industries such as textiles and electronics. It also provides banking and financial services for much of East Asia and is an important link for companies that want to do business in mainland China. (LO 2.5, AACSB: Dynamics of the Global Economy; Learning Outcome: Describe how differences in political economy influence economic development)

6. *What is a chaebol?*

   A chaebol is a conglomerate of privately owned companies. Some examples of chaebol include Samsung, Hyundai, Daewoo, and Lucky-Goldstar. Leaders of chaebol may be related to each other or to top government officials through marriage. (LO 2.5, AACSB: Dynamics of the Global Economy; Learning Outcome: Describe how differences in political economy influence economic development)

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

   Much of Africa's economy is tied to its natural resources. Several countries (such as Nigeria, Gabon, and Angola) rely heavily on oil exports to sustain their economies. In other countries (such as Ivory Coast and Rwanda), agricultural products are their only major export. Apart from exports, in many countries (such as Gambia, Mozambique, Sierra Leone, Tanzania, and Zambia), a major part of the population is "employed" in subsistence farming. (LO 2.6, AACSB: Dynamics of the Global Economy; Learning Outcome: Describe how differences in political economy influence economic development)

8. *How did import substitution policies affect the economies of Brazil and Argentina?*

   Import substitution policies attempt to stimulate the development of local industry by discouraging imports through tariff and nontariff barriers. The policies create problems, however, when a domestic market is too small to allow producers to gain economies of scale from mass production or to permit much competition between local producers. Thus, prices rise above prices in other markets, making exports uncompetitive. Governments are then forced to subsidize domestic producers, and possibly nationalize them as a means of preserving jobs. This leads to governmental budget deficits, inflation, and the destruction of the savings of the middle class. Today, Brazil and Argentina have reversed their import substitution policies and are opening up their economies so that they can compete in the world marketplace. (LO 2.1, AACSB: Dynamics of the Global Economy; Learning Outcome: Define the fundamental concepts of international business.)

QUESTIONS FOR DISCUSSION

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

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

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

The fact that the Japanese market is closed to foreign companies is a popular, and some would argue mistaken, belief among American and European executives. The Japanese keiretsu is a family of interrelated firms in which each firm takes a small ownership position in each of the other companies. The strong ties among keiretsu members may lead to buyer-supplier relationships (if the keiretsu is a vertical one) and may allow firms to take on high-risk investments. Many American and European executives believe that such relationships make it difficult for them to supply their products to Japanese firms, and even break into the market itself. Furthermore, they believe that the keiretsu puts European and American firms at a distinct competitive disadvantage when dealing with the Japanese. Others, however, will argue that with patience and hard work, companies (for example, Toys "R" Us) can enjoy success in the Japanese market. (LO 2.5, AACSB: Analytical Skills; Learning Outcome: Discuss trends in and the debate over globalization)

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

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

4. *South Korea is prominently featured in many lists of "emerging markets." (For example: see Table 1.2 on page 11) Is South Korea an emerging market? Defend your answer. How would you define an emerging market?*

   Emerging markets are countries whose recent growth or prospects for future growth exceed that of traditional markets. Economic growth is defined as the increasing capacity of the economy to satisfy the wants of the members of society. Economic growth is enabled by increases in productivity, which lowers the inputs (labor, capital, material, energy, etc.) for a given amount of output. Lowered costs increase demand for goods and services. Economic growth is also the result of population growth and of the introduction of new products and services. (LO 2.5, AACSB: Analytical Skills; Learning Outcome: Discuss trends in and the debate over globalization)

5. *What can African countries do to encourage more foreign investment in their economies?*

   The nations of Africa are in a difficult situation. Years of political unrest and civil war have labeled the region as a high risk one. If Africa expects foreign firms to invest in the region, it must try to lose the label. The process has already been started with the implementation of new market-oriented policies, and the region is beginning to attract the attention of international firms. To continue the process, Africa can develop more tax-free zones such as the one located in Mauritius, and provide other incentives to attract foreign companies. In addition, efforts must be made to contain any remaining civil unrest, particularly attacks against foreigners. (LO 2.6, AACSB: Dynamics of the Global Economy; Learning Outcome: Describe how differences in political economy influence economic development)

BUILDING GLOBAL SKILLS

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

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

1. *What was the total value of U.S. imports from Belgium last year? Of U.S. exports to Belgium?*

   U.S. imports from Belgium (2010) = $15.5 Billion
   U.S. exports to Belgium (2010) = $25.4 Billion
   Source = U.S. Census Bureau

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

2. *What is the total level of U.S. investments in Belgium? Of Belgian investments in the U.S.?*

   These figures include foreign direct investment as of 2010:
   U.S. FDI in Belgium = $73.5 Billion
   Belgian FDI in U.S. = $39 Billion

   LO 2.1; AACSB: Analytic Skills; Learning Outcome: Define the fundamental concepts of international business)

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

   Belgian GDP (PPP adjusted) = $466.8 Billion (2010)
   Belgian GDP/capita = $43,220 (2010)
   Belgian GDP growth = 2.2 percent (2010)

Major exports = transportation equipment, diamonds, metals and metal products, foodstuffs and devices
Major imports = machinery and equipment, chemicals, diamonds, foodstuffs, pharmaceuticals, transportation equipment and oil products
Major trading partners = EU (roughly 75 percent), U.S. (roughly 6 percent)

LO 2.1; AACSB: Analytic Skills; Learning Outcome: Define the fundamental concepts of international business)

4. *Profile the people of Belgium: What language do they speak? What is their average educational level? What is their life expectancy? How fast is their population growing?*

   Population: 10,839,905 (2010)
   Official languages: Dutch (60 percent), French (40 percent), German (less than 1 percent)
   Education: 99 percent literacy, 16 years average education
   Life expectancy: Males = 76.35 years, Females = 82.81 years, Overall = 79.51 years
   Population growth = 0.7 percent (2010)

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

Other Applications

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

CLOSING CASE

China's Quest for Natural Resources

The case explores the boom in the mining industry caused in large part by China's rapid economic growth, and their long term concerns over prices and availability.

Key Points:

- The mid-2000s have been very profitable for mining firms and their supplies.
- Urbanization and the growth in Chinese manufacturing are leading to a tremendous increase in the demand for raw materials.
- China is estimated to consume 47 percent of the world's cement output; 37 percent of its cotton; 30 percent of its coal; 26 percent of its steel; and 21 percent of its aluminum.

- A significant portion of their needs are provided by foreign suppliers.
- The Chinese government is concerned about the pricing power foreign companies have over them in the supply of these materials a fear that economic growth would be jeopardized should access to these needed raw materials be threatened.
- To address these concerns, the Chinese government has been increasing their purchases and attempting to identify new sources of supplies.
- Additionally, the Chinese government has also started to heavily invest in many of these foreign companies.
- Critics have raised concerns over the state owned Chinese companies making these investments.

Case Questions

1. *How important is it for nations to control natural resources? Is China's growth threatened if it needs to rely on foreign owned sources of raw materials?*

   It has been shown that economies abundant in natural resources have tended to grow slower than countries without abundant natural resources. Resource poor economies often outperform resource rich economies (i.e. Libya, Nigeria, etc.) in economic growth. (LO 2.5; AACSB: Analytical Skills; Learning Outcome: Discuss trends in and the debate over globalization)

2. *Should there be separate rules for state owned acquirers like SINOPEC?*

   Sinopec Limited was established as a joint stock entity under the China Petrochemical Corporation Group (Sinopec Group) in February 2000. The company was simultaneously listed in Hong Kong, New York, and London in October 2000. A Shanghai listing was completed in June 2001. It could be argued that they should have separate rules however, with a significant portion of private investment, one could argue the other position. (LO 2.5; AACSB: Analytical Skills; Learning Outcome: Discuss trends in and the debate over globalization)

3. *Should countries have special rules for acquisitions of natural resource companies by foreign-based companies?*

   Understanding the political situation of a country is an important consideration. Ideological forces such as communism, socialism, capitalism, liberalism, and conservatism must be evaluated when determining whether a country imposes any special acquisition rules. While the current situation is important, understanding the direction of ideological forces may be more critical. A recent trend is movement away from government owned businesses to privately owned operations. (LO 2.1; AACSB: Analytical Skills; Learning Outcome: Discuss trends in and the debate over globalization)

4. *If China's growth rate slows, what will be the impact on commodity prices?*

   China's global weight has risen significantly since the early 1980s, accounting for more than 9% of global GDP in 2010 up from less than 2% in 1980, making it the second-largest economy in the world. Moreover, China has contributed over 25% to global growth between 2004 and 2007, with that contribution rising sharply in the global crisis years 2008-09. Given the sluggish growth rates in industrialized countries this share is set to surpass 30% over the coming years. Because of the importance of this region, a slowdown in growth would probably result in a decline in commodity prices. (LO 2.5; AACSB: Analytical Skills; Learning Outcome: Discuss trends in and the debate over globalization)