

PREFACE TO THE U.S. EDITION

It is now two decades since I began work on the first edition of *International Business: Competing in the Global Marketplace*. By the third edition, the book was the most widely used international business text in the world. Since then, its market share has only increased. I attribute the success of the book to a number of goals I set out for myself when I embarked on the first edition of the book. Specifically, I wanted to write a book that (1) was comprehensive and up-to-date, (2) went beyond an uncritical presentation and shallow explanation of the body of knowledge, (3) maintained a tight, integrated flow between chapters, (4) focused on managerial implications, and (5) made important theories accessible and interesting to students.

Over the years, and through eight editions, I have worked hard to adhere to these goals. It has not always been easy. An enormous amount has happened over the last two decades, both in the real world of economics, politics, and business, and in the academic world of theory and empirical research. Often, I have had to significantly rewrite chapters, scrap old examples, bring in new ones, incorporate new theory and evidence into the book, and phase out older theories that are increasingly less relevant to the modern and dynamic world of international business. That process continues in the current edition. As noted below, there have been significant changes in this edition, and that will no doubt continue to be the case in the future. In deciding what changes to make, I have been guided not only by my own reading, teaching and research, but also by the invaluable feedback I receive from professors and students around the world who use the book, from reviewers, and from the editorial staff at McGraw-Hill. My thanks go out to all of them.

COMPREHENSIVE AND UP-TO-DATE

To be comprehensive, an international business textbook must:

- Explain how and why the world's countries differ.
- Present a thorough review of the economics and politics of international trade and investment.
- Explain the functions and form of the global monetary system.
- Examine the strategies and structures of international businesses.
- Assess the special roles of an international business's various functions.

I have always endeavored to do all of these things in *International Business*. In my view, many other texts paid insufficient attention to the strategies and structures of international businesses and to the implications of international business for firms' various functions. This omission has been a serious deficiency. Many of the students in these international business courses will soon be working in international businesses, and they will be expected to understand the implications of international business for their organization's strategy, structure, and functions. This book pays close attention to these issues.

Comprehensiveness and relevance also require coverage of the major theories. It has always been my goal to incorporate the insights gleaned from recent academic work into the text. Consistent with this goal, over the last six editions I have added insights from the following research:

- The new trade theory and strategic trade policy.
- The work of Nobel Prize-winning economist Amartya Sen on economic development.
- The work of Hernando de Soto on the link between property rights and economic development.
- Samuel Huntington's influential thesis on the "clash of civilizations."
- The new growth theory of economic development championed by Paul Romer and Gene Grossman.
- Empirical work by Jeffery Sachs and others on the relationship between international trade and economic growth.
- Michael Porter's theory of the competitive advantage of nations.
- Robert Reich's work on national competitive advantage.
- The work of Nobel Prize-winner Douglas North and others on national institutional structures and the protection of property rights.
- The market imperfections approach to foreign direct investment that has grown out of Ronald Coase and Oliver Williamson's work on transaction cost economics.
- Bartlett and Ghoshal's research on the transnational corporation.

- The writings of C. K. Prahalad and Gary Hamel on core competencies, global competition, and global strategic alliances.
- Insights for international business strategy that can be derived from the resource-based view of the firm.

In addition to including leading-edge theory, in light of the fast-changing nature of the international business environment, every effort is being made to ensure that the book is as up-to-date as possible when it goes to press. Much has happened in the world since the first edition of this book was published in 1993. The Uruguay Round of GATT negotiations was successfully concluded and the World Trade Organization was established. In 2001, the WTO embarked upon another major round of talks aimed to reduce barriers to trade, the Doha Round. The European Union moved forward with its post-1992 agenda to achieve a closer economic and monetary union, including the establishment of a common currency in January 1999. The North American Free Trade Agreement passed into law. The former Communist states of Eastern Europe and Asia continued on the road to economic and political reform. As they did, the euphoric mood that followed the collapse of communism in 1989 was slowly replaced with a growing sense of realism about the hard path ahead for many of these countries. The global money market continued its meteoric growth. By 2009, over \$2 trillion per day was flowing across national borders. The size of such flows fueled concern about the ability of short-term speculative shifts in global capital markets to destabilize the world economy. The World Wide Web emerged from nowhere to become the backbone of an emerging global network for electronic commerce. The world continued to become more global. Several Asian Pacific economies, including most notably China, continued to grow their economies at a rapid rate. Outsourcing of service functions to places like China and India emerged as a major issue in developed Western nations. New multinationals continued to emerge from developing nations in addition to the world's established industrial powers. Increasingly, the globalization of the world economy affected a wide range of firms of all sizes, from the very large to the very small.

Also, unfortunately, in the wake of the terrorist attacks on the United States that took place on September 11, 2001, global terrorism and the attendant geopolitical risks emerged as a threat to global economic integration and activity.

Reflecting this rapid pace of change, in this edition of the book I have tried to ensure that all material and statistics are as up-to-date as possible as of 2009. However, being absolutely up-to-date is impossible since change is always with us. What is current today may be outdated tomorrow.

The success of the first seven editions of *International Business* was based in part upon the incorporation of leading edge research into the text, the use of up-to-date examples and statistics to illustrate global trends and enterprise strategy, and the discussion of current events within the context of the appropriate theory. Building on these strengths, my goals for this revision have been threefold:

1. To incorporate new insights from recent scholarly research wherever appropriate.
2. To make sure the content of the text covers all appropriate issues.
3. To make sure the text is as up-to-date as possible with regard to current events, statistics, and examples.

As part of the overall revision process, *changes have been made to every chapter in the book*. All statistics have been updated to incorporate the most recently available data. New examples, cases, and boxes have been added and older examples updated to reflect new developments. Almost all of the chapter opening and closing cases are new to this edition. New material has been inserted wherever appropriate to reflect recent academic work or important current events.

Most notably for this edition, ***detailed discussion of the global financial crisis that occurred in 2008 and 2009, and its implications for international business, has been added to many chapters***. For example, one of the Management Focus features in Chapter 6 discusses the impact of the global financial crisis on attitudes towards protectionism in many countries. Similarly, the Country Focus feature on Latvia in Chapter 10 profiles how the global financial crisis triggered economic turmoil and a currency crisis in that country.

Elsewhere, Chapter 6 has been updated to discuss progress on the current round of talks sponsored by the WTO aimed at reducing barriers to trade, particularly in agriculture (the Doha Round). Chapter 7 now discusses the slump in foreign direct investment flows that took place in 2008 and 2009, and explains how the global financial crisis of 2008 contributed to it. Chapter 9 discusses the weakness in the U.S. dollar between 2004 and 2008, and its paradoxical rebound in late 2008 in the midst of a severe financial crisis in the United States and elsewhere. And so on.

BEYOND UNCRITICAL PRESENTATION AND SHALLOW EXPLANATION

Many issues in international business are complex and thus necessitate considerations of pros and cons. To demonstrate both sides of issues to students, I have



adopted a critical approach that presents the arguments for and against economic theories, government policies, business strategies, organizational structures, and so on.

Therefore, I have attempted to explain the complexities of the many theories and phenomena unique to international business so the student might fully comprehend the statements of a theory or the reasons a phenomenon is the way it is. I believe these theories and phenomena are explained in more depth in this book than they are in competing textbooks, the rationale being that a shallow explanation is little better than no explanation. In international business, a little knowledge is indeed a dangerous thing.

FOCUS ON MANAGERIAL IMPLICATIONS

I have always believed that it is important to show students how the material covered in the text is relevant to the actual practice of international business. This is explicit in the later chapters of the book, which focus on the practice of international business, but it is not always obvious in the first half of the book, which considers many macroeconomic and political issues, from international trade theory and foreign direct investment flows to the IMF and the influence of inflation rates on foreign exchange quotations. Accordingly, at the end of each chapter in Parts Two, Three, and Four—where the focus is on the environment of international business, as opposed to particular firms—a section titled “Implications for Managers” clearly explains the managerial implications of the material discussed in the chapter. For example, Chapter 5, “International Trade Theory,” ends with a detailed discussion of the various trade theories’ implications for international business management.

In addition, each chapter begins with a *case* that illustrates the relevance of chapter material for the practice of international business. Chapter 2, “National Differences in Political Economy,” for example, opens with a case that profiles the economy of Indonesia under the government of the late President Suharto.

I have also added a *closing case* to each chapter. These cases are also designed to illustrate the relevance of chapter material for the practice of international business. The closing case for Chapter 2, for example, looks at the state of Indonesia’s economy after the downfall of President Suharto’s government and in the aftermath of the Asian financial crisis.

Another tool that I have used to focus on managerial implications is a *Management Focus* box. There is at least one Management Focus in each chapter. Like the opening case, the purpose of these boxes is to illustrate the relevance of chapter material for the practice of international

business. One of the Management Focus boxes in Chapter 2, for example, looks at how Starbucks has been able to enforce its trademark in China. It illustrates the important role that national differences in the protection of intellectual property rights can play in international business.

ACCESSIBLE AND INTERESTING

The international business arena is fascinating and exciting, and I have tried to communicate my enthusiasm for it to the student. Learning is easier and better if the subject matter is communicated in an interesting, informative, and accessible manner. One technique I have used to achieve this is weaving interesting anecdotes into the narrative of the text stories that illustrate theory. The opening cases and focus boxes are also used to make the theory being discussed in the text both accessible and interesting.

Each chapter has two kinds of focus boxes—a Management Focus box (described above) and a *Country Focus* box. Country Focus boxes provide background on the political, economic, social, or cultural aspects of countries grappling with an international business issue. In Chapter 2, for example, one Country Focus box discusses the impact of corruption on the economy and business environment in the Philippines.

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Charles W. L. Hill

PREFACE TO THE ASIAN EDITION

It has been our privilege and pleasure to write an Asian edition of Professor Charles W. L. Hill's *International Business—Competing in the Global Marketplace*. As educators in this very particular domain, we have remained quite appreciative of the strengths and value of this leading text, while understanding the need for a more globally integrated, multi-perspective edition of this book. Our aim in working on this edition has been to preserve the unique value of the original text—namely, its comprehensiveness, practical relevance, and integrated flow—and to add value along the same lines. In keeping with this broad mission, we have specifically aimed to:

- Add more information and content on Asian phenomena.
- Substitute U.S.-centric managerial implications for more global approaches.
- Discuss the implications of theories and phenomena from the perspectives of developing nations, in addition to the dominant Western perspectives.

Indeed, this attitude of seeking balance and the approach of respectful acceptance of global social, cultural, and economic differences—in order to move forward and succeed in the competitive global environment—forms one of the key “Asian” values that we seek to infuse into this text, and to make it truly global.

WHY AN ASIAN EDITION?

The teaching of international business to today's global students is both an engaging and challenging task. Increasingly, students now want to go beyond the dominant perspectives of typical Western Multinational Enterprises (MNEs) doing business in challenging international environments. The reason for this, we believe, is twofold.

First, students today are no longer the prototypical Western manager seeking to learn how to do business in other countries. The contemporary MNE may well be of Asian, European, or South American origin and its managers intend for it to compete in well-established and developed markets against well-known multinational brands. As a result, any international business course must now equip students to participate in a global world by giving them a complete, multi-focal view of the global environment.

Second, we also see that the needs of the audience are varied. In current times, international business is not a subject meant for managers alone, but is of interest to policy-makers, legislators, and even social activists. As educators in this domain, we are now required to take a multi-perspective approach to the topic of international business—one that considers not just the needs of corporations, but also the impact and implications of international business on various constituents.

These outcomes are the result of changes in the global environment—the very environment that forms the focus of our scrutiny through this text. It is with this in mind that we have proceeded to re-craft and rewrite this leading text.

Our sincere thanks go out to all at McGraw-Hill Education (Asia) for their support and involvement in this project.

ASIA AND THE NEED FOR A DIFFERENT APPROACH TO INTERNATIONAL BUSINESS

An Asian edition of this textbook becomes all the more relevant—even imperative—in the Asian context. With the rise of Asian multinationals, the move from production to consumption trends in key Asian economies, and the rise of China and India as economic powers (all of which we deal with in detail in the chapters that follow), a new breed of managers have emerged—both of Asian and other origin—who represent the interests of Asian firms competing in a global environment. Our text is of interest and use to this emerging breed of managers—as well as to the more traditional managers in Western MNEs—looking to expand outwards to Asia and other parts of the world.

Our multi-focal view—an approach to international business which considers Asia as a key locus of global business activity—thus becomes relevant. Business no longer follows the pattern of originating in the West and expanding into the East, but may well follow the converse. This changes our understanding of international business and with it, our approach to global decision-making.

At the same time, debates on the impact of globalization and the consequent push toward greater foreign investments and privatization of enterprises have gained greater impetus. As the effects of the era of liberalization, free trade, and structural adjustment of the 1990s

now begin to show, discussions on the future of world trade and the global business regime take on a new depth. Critical evaluation of the practical implications and effects, particularly on the various affected stakeholder groups, now replaces pure theoretical discussion based largely on polarized political viewpoints.

In this age of new eco-political perspectives, the study of international business becomes more important—and perhaps more challenging—than ever. We aim to make this book an indispensable and valuable tool to educators and students taking up this challenge.

GLOBAL TRENDS

Recent global events, particularly the financial crisis of 2008 and 2009, have forced many—critics included—to reconsider their unequivocal support of unregulated free markets in favor of more balanced views. At the same time, broad economic philosophies that espouse sustainable development and human welfare over growth and profit alone have become well-established and gained much acceptance. As a result, many elements of the international business environment are now the subject of debate and refinement.

We believe this reflects the long overdue convergence of various political, social, and economic systems that affect the international business environment—a convergence that values the risk-reducing benefits of homogenization, along with a positive outlook, and an attitude of acceptance towards the socio-cultural differences that still permeate the global business world.

Indeed, this is a true effect of globalization—the basic building block on which the domain of international business rests. The formation of this hybrid global environment heralds in a new era in international business and in business education. It is our humble hope that this text stands as one of the first steps in that direction.

WHAT'S NEW IN THE ASIAN EDITION

In this edition, we introduce both theoretical and practical content that enhances focus on the global business environment, as well as cases based on Asian firms. This involves changes to the main narrative of chapters and the introduction of new and interesting anecdotes by means of the Country Focus and Management Focus boxes—a highlight of this leading text to date.

For example, in Chapter 2 we introduced a Management Focus box on international corporate governance

regimes and in Chapter 8, which deals with Regional Economic Integration, new material on ASEAN, APEC, and SAARC were included. Also, in Chapter 15 a Country Focus box on the Export Processing Zone Authority of Pakistan was presented. (For a more detailed overview of all the changes in this edition, we direct the reader to the chapter synopses that follow this preface.)

Finally, we have also updated all statistics and other information, as far as possible, from the Eighth Edition of the U.S. text.

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