CHAPTER 1
An Overview of International Business

AFTER STUDYING THIS CHAPTER, YOU SHOULD BE ABLE TO:

- Discuss the meaning of international business.
- Explain the importance of understanding international business.
- Identify and describe the basic forms of international business activities.
- Discuss the causes of globalization.
- Comprehend the growing role of emerging markets in the global economy.
The Olympics reflect international business at its most intense.

The Business of the Olympics

Every two years, the world's attention turns to the Olympic Games. Given that international business and the global economy play such a dominant role in the world today, it is not surprising that the Olympics have come to reflect international business at its most intense. The games are governed by the International Olympic Committee (IOC), which is based in Switzerland. The IOC decides where the games will be held and which sports will be represented, and it oversees the selection of judges and referees. Each country that wants to send athletes to compete in the games establishes a national committee to organize its Olympic effort. These committees are supervised by and report to the IOC.

Potential host cities must give elaborate presentations to the IOC and make substantial commitments in terms of facilities, a volunteer workforce, and related organizational support. For example, as part of its winning bid to host the 1998 Winter Olympics, Japan promised to build a new high-speed rail line between Tokyo and Nagano, the site of the games.

The infighting among countries to be selected as the games' host can be vicious. French President Jacques Chirac's pique over London's selection over Paris as the host for the 2012 summer games intensified the squabbles between France and the United Kingdom over EU policies dealing with agriculture, taxation, and foreign affairs. China threatened a trade war with the United States after the U.S. Senate passed a resolution that hurt Beijing's chances to host the Summer Olympics in 2000, a prize eventually seized by Sydney, Australia. (Beijing was later awarded the 2008 games.) After Salt Lake City lost its bid for the 1998 games, the city's local organizing committee launched a massive campaign to procure the 2002 games. Unfortunately, its efforts included widespread gift-giving and lavish entertaining of IOC delegates that crossed ethical boundaries. As these facts became public, they triggered a worldwide cry for reform of the IOC.

Why would a city want to host the Olympic Games? Most compete for the privilege because the games would thrust them into the international spotlight and promote economic growth. Further, the tourism benefits are long lived; for example, skiers, skaters, and snowboarders continue to enjoy the facilities at previous Olympic sites such as Turin, Nagano, Lillehammer, Calgary, Albertville, and Lake Placid, pouring money into the local economies long after the Olympic torch has been extinguished. The games also are frequently a catalyst for improving a city's infrastructure. For instance, the high-speed rail line between Tokyo and Nagano halves the travel time between the two cities—a benefit that continues for local residents and for future visitors.
Because of the high cost of running the Olympics, both the IOC and national Olympic committees are always alert for ways to generate revenue. Television coverage provides one significant source of revenue. NBC paid $1.27 billion for the U.S. broadcast rights for the 2000 Sydney summer games and the 2002 Salt Lake City winter games. It then shelled out an additional $2.3 billion to lock up the U.S. broadcast rights for the 2004, 2006, and 2008 games; and paid $2.2 billion for the 2010 and 2012 games—even though their sites had not yet been determined. Broadcast rights for Europe, Australia, Asia, and the rest of the Americas will sell for smaller but still breathtaking amounts to local broadcasters. NBC and these broadcasters, in turn, will sell advertising time to companies eager to market their goods to Olympic fans throughout the world. For instance, despite the high fees it paid, NBC earned $50–$75 million on its 2006 broadcasts from Turin by spreading its offerings among its NBC, Bravo, MSNBC, and USA outlets so diehard fans would not miss a minute of downhill skiing, hockey, biathlon, or curling.

Another important source of revenue for the IOC and for national committees is corporate sponsors, who wish to capture the prestige and visibility of being associated with the games. The highest-profile level—and, at $60–$80 million, the most expensive—is that of worldwide partner, a designation valuable to firms that market their products to consumers throughout the world, such as Coca-Cola, Kodak, Panasonic, and Samsung. The primary benefit of worldwide partnership is that the partners get priority advertising space during Olympic broadcasts, if they choose to buy it. For example, Coca-Cola paid $60 million above and beyond its partnership fee for television advertising during the 1996 and 2000 games.1

The millions of dollars spent on the Olympics by television networks and corporate advertisers reflect the internationalization of business—the result of the desire of firms such as Coca-Cola, Panasonic, and Samsung to market their products to consumers worldwide. The forces that have made the Olympics a growing international business are the same forces that affect firms worldwide as they compete in domestic and foreign markets. Changes in communications, transportation, and information technology not only facilitate domestic firms’ foreign expansion but also aid foreign companies in their invasion of the domestic market. These trends have accelerated during the past decade due to the explosive growth of e-commerce and the reduction in trade and investment barriers sponsored by organizations such as the World Trade Organization and the European Union. Indeed, these changes are so profound that many futurists now talk about the “boundaryless” global economy—an economy in which national borders are irrelevant.

The global economy profoundly affects your daily life, from the products you buy to the prices you pay to the interest rates you are charged to the kind of job you hold. By writing this book, we hope to help you become more comfortable and effective in this burgeoning international business environment. To operate comfortably in this environment, you need to learn the basic ideas and concepts—the common body of knowledge—of international business. Further, you must understand how these ideas and concepts affect managers as they make decisions, develop strategies, and direct the efforts of others. You also need to be conversant with the fundamental mechanics and ingredients of the global economy and how they affect people, businesses, and industries. You need to understand the evolution of the global economy and the complex commercial and political relationships among Asia, Europe, North America, and the rest of the world.

To help ensure your future effectiveness in the international business world, we plan to equip you with the knowledge, insights, and skills that are critical to your functioning in a global economy. To that end, we have included hundreds of examples to help demonstrate how international businesses succeed—and how they sometimes fail. You also will read
tips and extended examples about global companies in special features called “Bringing the World into Focus,” “E-World,” “Emerging Opportunities,” “Point Counterpoint,” and “Venturing Abroad,” and you will have the chance to practice your growing skills in end-of-chapter exercises entitled “Building Global Skills.”

What Is International Business?

International business consists of business transactions between parties from more than one country. Examples of international business transactions include buying materials in one country and shipping them to another for processing or assembly, shipping finished products from one country to another for retail sale, building a plant in a foreign country to capitalize on lower labor costs, or borrowing money from a bank in one country to finance operations in another. The parties involved in such transactions may include private individuals, individual companies, groups of companies, and/or governmental agencies.

How does international business differ from domestic business? Simply put, domestic business involves transactions occurring within the boundaries of a single country, while international business transactions cross national boundaries. International business can differ from domestic business for a number of other reasons, including the following:

- The countries involved may use different currencies, forcing at least one party to convert its currency into another.
- The legal systems of the countries may differ, forcing one or more parties to adjust their practices to comply with local law. Occasionally, the mandates of the legal systems may be incompatible, creating major headaches for international managers.
- The cultures of the countries may differ, forcing each party to adjust its behavior to meet the expectations of the other.
- The availability of resources differs by country. One country may be rich in natural resources but poor in skilled labor, while another may enjoy a productive, well-trained workforce but lack natural resources. Thus, the way products are produced and the types of products that are produced vary among countries.

In most cases the basic skills and knowledge needed to be successful are conceptually similar whether one is conducting business domestically or internationally. For example, the need for marketing managers to analyze the wants and desires of target audiences is the same regardless of whether the managers are engaged in international business or domestic business. However, although the concepts may be the same, there is little doubt that the complexity of skills and knowledge needed for success is far greater for international business than for domestic business. International businesspeople must be knowledgeable about cultural, legal, political, and social differences among countries. They must choose the countries in which to sell their goods and from which to buy inputs. International businesses also must coordinate the activities of their foreign subsidiaries, while dealing with the taxing and regulatory authorities of their home country and all the other countries in which they do business.

Why Study International Business?

There are many different reasons why today’s students need to learn more about international business. First, almost any large organization you work for will have international operations or be affected by the global economy. You need to understand this increasingly important area to better assess career opportunities and to interact effectively with other managers. For example, in your first job assignment, you could be part of a project team that includes members from Mexico, Uruguay, Canada, and the
United States. A basic grasp of international business would help you understand more fully why the team was formed, what the company expects it to accomplish, and how you might most effectively interact with your colleagues. You also need to study international business because you may eventually work for a firm that is owned by a corporation headquartered in another country. For instance, 5.3 million U.S. citizens work for U.S. affiliates of foreign-owned corporations, while foreign subsidiaries of U.S. corporations employ 8.4 million Europeans, Asians, Africans, Australians, Canadians, and Latin Americans.2

Small businesses also are becoming more involved in international business. If one day you start your own business, you may find yourself using foreign-made materials or equipment, competing with foreign firms, and perhaps even selling in foreign markets. The growth of e-commerce has also opened up new opportunities for small businesses. Previously, to enter foreign markets, firms often needed to painstakingly build distribution networks and brand recognition country by country, a process that many times favored large firms over small ones. Today, a well-developed Web site can draw the business of consumers throughout the world without the need to establish a physical presence in each country, making it easier for small businesses to participate in the international marketplace. The Internet may also help small businesses to cut their costs, allowing them to better compete against their larger rivals. Consider the Lee Hung Fat Garment Factory, a family-owned Hong Kong manufacturer. It slashed its costs of communicating with its foreign customers by one-third by relying on the Internet rather than faxes and telephone calls. Instead of express mailing product samples to its customers, the company now uses a Web camera to transmit photos of garment mock-ups over the Internet. Company managers estimate they save 15 to 20 percent in design costs using this technology.3

Another reason for you to study international business is to keep pace with your future competitors. Business students in Europe have traditionally learned multiple languages, traveled widely, and had job experiences in different countries. More European universities are launching business programs, many of which require students to spend one or more semesters in different countries. Asian students, too, are actively working to learn more about foreign markets and cultures, especially those of North American and European countries. These students, training to become managers, will soon be in direct competition with you, either in jobs with competing companies or in positions within your own company. You need to ensure that your global skills and knowledge will aid your career, rather than allow their absence to hinder it.

You also need to study international business to stay abreast of the latest business techniques and tools, because no single country has a monopoly on good ideas. For example, Japanese firms have pioneered inventory management techniques such as just-in-time (JIT) systems. Under JIT, suppliers are expected to deliver necessary inputs just as they are needed. Similarly, European firms such as Volvo and Japanese firms such as Honda were among the first to experiment with such labor practices as empowerment, quality circles, autonomous work groups, and cross-functional teams to raise the productivity and satisfaction of their workforces. Managers who remain ignorant of the innovations of their international competitors are bound to fail in the global marketplace.

Finally, you need to study international business to obtain cultural literacy. As global cultures and political systems become even more intertwined than they are now, understanding and appreciating the similarities and differences of the world’s peoples will become increasingly important. You will more often encounter colleagues, customers, suppliers, and competitors from different countries and cultural backgrounds. Knowing something about how and where their countries and companies fit into the global economy can help you earn their respect and confidence as well as give you a competitive edge in dealing with them (see “Bringing the World into Focus”). Conversely, if you know little or nothing about the rest of the world, you may come across as provincial, arrogant, or simply inept. This holds true regardless of whether you are a manager, a consumer, or just an observer of world events.
A Rose by Any Other Name . . .

All entrepreneurs need to have a basic understanding of standard business, legal, and financial terminology. For an entrepreneur doing business internationally, this terminology takes on additional complexity because different phrases and terms are likely to be used in different countries. Consider, for example, the different terms used to connote business liability in various countries.

Most people in the United States are familiar with the abbreviation Inc. and are accustomed to seeing business names such as Southwest Airlines, Inc. and Lands’ End, Inc. The term, of course, stands for incorporated and means that the financial liability of the company’s owners is limited to the extent of their investments if the company fails or encounters financial or legal difficulties. Other countries have different terminology when dealing with this concept of limited liability.

Germany uses three different terms to reflect different forms of limited liability. Aktiengesellschaft (AG) is used for a large, publicly held firm that must have a management board and a board of directors. Examples include Deutsche Bank AG and Volkswagen AG. Kommanditgesellschaft auf Aktien (KGaA) is used for a firm that is owned by limited partners but has at least one shareholder with unlimited liability. Henkel KGaA, a German chemicals manufacturer, is an example. Finally, Gesellschaft mit beschränkter Haftung (GmbH) applies to smaller, privately held companies.

In Japan kabushiki kaisha (KK) is used for all limited-liability companies. In the Netherlands BV (besloten vennootschap) refers to a privately held, limited-liability firm, and NV (naamloze vennootschap) refers to a publicly held, limited-liability firm, such as Philips NV. The United Kingdom also distinguishes between privately held and publicly held limited-liability companies, using Ltd. for the former and PLC for the latter. Examples are Swire Pacific Ltd. and GlaxoSmithKline PLC. Italy uses SpA (la società per azioni) to denote a limited-liability firm, such as Benetton Group SpA and Fiat SpA. France uses SA (société anonyme) for the same purpose, as in Carrefour SA and Hachette SA.

International Business Activities

Historically, international business activity first took the form of exporting and importing (see “Bringing the World into Focus”). However, in today’s complex world of international commerce, numerous other forms of international business activity are also common.

Exporting and Importing

Exporting is the selling of products made in one’s own country for use or resale in other countries. Importing is the buying of products made in other countries for use or resale in one’s own country. Exporting and importing activities are often divided into two groups. One group of activities is trade in goods—tangible products such as clothing, computers, and raw materials. Official U.S. government publications call this type of trade merchandise exports and imports; the British call it visible trade. The other group of activities is trade in services—intangible products such as banking, travel, and accounting activities. In the United States this type of trade is called service exports and imports; in the United Kingdom it is called invisible trade.

Exports are often critical to a firm’s financial health. For example, in 2005 60 percent of Boeing’s commercial aircraft sales were to foreign customers, creating tens of thousands of jobs at the company and thousands more at the factories of its parts suppliers. International sales often are equally important to smaller firms, such as Markel Corporation, a Pennsylvania manufacturer of tubing and insulated wire, or Zippo Manufacturing, another Pennsylvania family-owned firm. Exports account for 40 percent of Markel’s $26 million annual sales, while Zippo exported a third of its 12-million-unit annual production of its world-famous windproof lighters to customers in Japan and China in 2005.\(^4\)
The Early Era of International Business

International business originally consisted of international trade. Trade between nations can be traced back as far as 2000 B.C., when tribes in northern Africa took dates and clothing to Babylonia and Assyria in the Middle East and traded them for spices and olive oil. This trade continued to expand over the years, encompassing more regions and a growing list of resources and products. Even the Olympic Games have their roots in this early era, with the first games being held in Greece in 776 B.C. By 500 B.C. Chinese merchants were actively exporting silk and jade to India and Europe, and common trade routes were being established.

Success in international trade often led to political and military power. First Greece and then the Roman Empire prospered in part because of exploitation of international trade. Ancient wars were fought to maintain trade dominance. For example, the North African city of Carthage became an international business center that rivaled Rome in the third century B.C., as merchants from Europe brought precious metals and glass to trade for the grains, ivory, and textiles offered by African merchants. Over a period of 100 years, Rome fought three bloody wars with Carthage to maintain its trade supremacy, finally defeating the Carthaginians in 146 B.C. The victorious Romans burned the city and plowed salt into the soil so that crops could not grow, to ensure that Carthage would never again rise as a rival.

During the Middle Ages, Italy became a focal point for international business because of its central location in what was then the world market. The political and military strength of Venice, Genoa, and Florence reflected their roles as major centers of international commerce and banking that linked trade routes between Europe and China. In 1453 these trade routes were severed when the Turks conquered Constantinople (now Istanbul) and gained control of the Middle East. Europe’s trade with China had been particularly profitable, so European governments became interested in finding new ocean routes to the Far East. Backed by the Spanish government, Christopher Columbus sailed west from Europe looking for such routes. His landing in the Caribbean islands served instead to identify an important new source of resources and, eventually, led to the colonization of the Americas by European countries.

As this colonization took place, new avenues of trade opened. Settlers throughout the Americas sold raw materials, precious metals, and grains to Europe in exchange for tea, manufactured goods, and other commodities. Most of the American territories eventually became independent countries and important contributors to the world economy.

Another phenomenon of great importance to international business developed during the colonial period and the subsequent Age of Imperialism: the growth of foreign direct investment (FDI) and multinational corporations (MNCs), both of which involve foreigners supplying and controlling investments in a host country. European capitalists from such imperialist powers as the United Kingdom, France, the Netherlands, Spain, Belgium, and Portugal nurtured new businesses in their colonial empires in the Americas, Asia, and Africa, establishing networks of banking, transportation, and trade that persist to this day. The earliest of these firms included the Dutch East India Company (established in 1600), the British East India Company (1602), and the Hudson’s Bay Company (1670). These and latter-day trading companies, such as Jardine Matheson Holdings, Ltd., owned copper mines, tea and coffee estates, jute and cotton mills, rubber plantations, and the like as part of their global trading empires.

During the nineteenth century the invention and perfection of the steam engine, coupled with the spread of railroads, dramatically lowered the cost of transporting goods over land and thereby made larger factories more economical. This development in turn broadened the extent of FDI. The forerunners of such large contemporary MNCs as Unilever, Ericsson, and Royal Dutch/Shell took their first steps on the path to becoming international giants by investing in facilities throughout Asia, Europe, and the Americas during this period. New inventions promoting technological change further stimulated FDI. For example, in 1852 Samuel Colt built a factory in Great Britain to produce his famous firearms, and later in the century Dunlop built factories in Belgium, France, and Japan to exploit its tire-making expertise.

Trade is important to countries as well. As Figure 1.1 shows, exporting accounts for over 70 percent of the Netherlands’ and Thailand’s gross domestic products (GDP), and over a quarter of the GDPs of Canada, France, Germany, and Mexico.

**International Investments**

The second major form of international business activity is international investments—capital supplied by residents of one country to residents of another. Such investments are divided into two categories: foreign direct investments and foreign portfolio investments. **Foreign direct investments (FDI)** are investments made for the purpose of actively controlling property, assets, or companies located in host countries. (The country in which the parent company’s headquarters is located is called the home country; any other country in which the company operates is known as a host country.) An example of an FDI is the purchase of all the common stock of Sweden’s Volvo Corporation by Ford Motor Company. After the purchase Ford installed its own executives to oversee Volvo’s operations and integrate them into Ford’s global procurement and marketing programs.

**Foreign portfolio investments (FPI)** are purchases of foreign financial assets (stocks, bonds, and certificates of deposit) for a purpose other than control. An example of a portfolio investment is the purchase of 1,000 shares of Sony’s common stock by a Danish pension fund. With this investment the pension fund is trying to raise the rate of return on its asset portfolio rather than control Sony’s decision making. For the same reason many investors in recent years have bought shares of mutual funds that specialize in foreign stocks and bonds.

**Other Forms of International Business Activity**

International business activity can also take other forms. Licensing, franchising, and management contracts are among the most important. **Licensing** is a contractual arrangement in which a firm in one country licenses the use of its intellectual property (patents, trademarks, brand names, copyrights, or trade secrets) to a firm in a second country in return for a royalty payment. The Walt Disney Company may permit a German clothing manufacturer to market children’s pajamas embroidered with Mickey Mouse’s smiling face in return for a percentage of the company’s sales. **Franchising**, a specialized form of licensing, occurs when a firm in one country (the franchisor) authorizes a firm in a second country (the franchisee) to utilize its operating systems as well as its brand names, trademarks,
and logos in return for a royalty payment. For example, McDonald’s Corporation franchises its fast-food restaurants worldwide. Finally, a management contract is an arrangement wherein a firm in one country agrees to operate facilities or provide other management services to a firm in another country for an agreed-upon fee. Management contracts are common, for instance, in the upper end of the international hotel industry. Hoteliers such as Marriott and Hilton often do not own the expensive hotels that bear their brand names throughout the world but rather operate them under management contracts.

A firm that engages in any of these types of transactions can be labeled an international business. More formally, we can define an international business as any organization that engages in cross-border commercial transactions with individuals, private firms, and/or public sector organizations. But note that we have also used the term international business to mean cross-border commercial transactions. Whenever you see this term, you need to determine, from the context in which it is being used, whether it is referring to a general process involving transactions across borders or to a single organization engaging in specific transactions across borders.

The term multinational corporation (MNC) is used to identify firms that have extensive involvement in international business. A more precise definition of a multinational corporation is a firm “that engages in foreign direct investment and owns or controls value-adding activities in more than one country.” In addition to owning and controlling foreign assets, MNCs typically buy resources in a variety of countries, create goods and/or services in a variety of countries, and then sell those goods and services in a variety of countries. MNCs generally coordinate their activities from a central headquarters but may also allow their affiliates or subsidiaries in foreign markets considerable latitude in adjusting their operations to local circumstances. Table 1.1 lists the world’s largest MNCs.

### TABLE 1.1 The World’s Largest Corporations

<table>
<thead>
<tr>
<th>Rank</th>
<th>2005</th>
<th>2004</th>
<th>Headquarters</th>
<th>Revenues $Mil.</th>
<th>% Change from 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3</td>
<td>Exxon Mobil</td>
<td>U.S.</td>
<td>339,938</td>
<td>25.5</td>
</tr>
<tr>
<td>2</td>
<td>1</td>
<td>Wal-Mart Stores</td>
<td>U.S.</td>
<td>315,654</td>
<td>9.6</td>
</tr>
<tr>
<td>3</td>
<td>4</td>
<td>Royal Dutch Shell</td>
<td>Netherlands</td>
<td>306,731</td>
<td>14.2</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>BP</td>
<td>Britain</td>
<td>267,600</td>
<td>(6.1)</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
<td>General Motors</td>
<td>U.S.</td>
<td>192,604</td>
<td>(0.5)</td>
</tr>
<tr>
<td>6</td>
<td>11</td>
<td>Chevron</td>
<td>U.S.</td>
<td>189,481</td>
<td>28.1</td>
</tr>
<tr>
<td>7</td>
<td>6</td>
<td>DaimlerChrysler</td>
<td>Germany</td>
<td>186,106</td>
<td>5.3</td>
</tr>
<tr>
<td>8</td>
<td>7</td>
<td>Toyota Motor</td>
<td>Japan</td>
<td>185,805</td>
<td>7.6</td>
</tr>
<tr>
<td>9</td>
<td>8</td>
<td>Ford Motor</td>
<td>U.S.</td>
<td>177,210</td>
<td>2.9</td>
</tr>
<tr>
<td>10</td>
<td>12</td>
<td>ConocoPhillips</td>
<td>U.S.</td>
<td>166,683</td>
<td>37.0</td>
</tr>
<tr>
<td>11</td>
<td>9</td>
<td>General Electric</td>
<td>U.S.</td>
<td>157,153</td>
<td>2.8</td>
</tr>
<tr>
<td>12</td>
<td>10</td>
<td>Total</td>
<td>France</td>
<td>152,361</td>
<td>(0.2)</td>
</tr>
<tr>
<td>13</td>
<td>17</td>
<td>ING Group</td>
<td>Netherlands</td>
<td>138,235</td>
<td>30.6</td>
</tr>
<tr>
<td>14</td>
<td>16</td>
<td>Citigroup</td>
<td>U.S.</td>
<td>131,045</td>
<td>21.0</td>
</tr>
<tr>
<td>15</td>
<td>13</td>
<td>AXA</td>
<td>France</td>
<td>129,839</td>
<td>6.8</td>
</tr>
<tr>
<td>16</td>
<td>14</td>
<td>Allianz</td>
<td>Germany</td>
<td>121,406</td>
<td>2.1</td>
</tr>
<tr>
<td>17</td>
<td>15</td>
<td>Volkswagen</td>
<td>Germany</td>
<td>118,377</td>
<td>7.0</td>
</tr>
<tr>
<td>18</td>
<td>30</td>
<td>Fortis</td>
<td>Belgium/Netherlands</td>
<td>112,351</td>
<td>48.8</td>
</tr>
<tr>
<td>19</td>
<td>60</td>
<td>Crédit Agricole</td>
<td>France</td>
<td>110,765</td>
<td>87.6</td>
</tr>
<tr>
<td>20</td>
<td>19</td>
<td>American International Group</td>
<td>U.S.</td>
<td>108,905</td>
<td>11.1</td>
</tr>
</tbody>
</table>

Source: Fortune, July 24, 2006, p. 113.
Because some large MNCs, such as accounting partnerships and Lloyd’s of London, are not true corporations, some writers distinguish between multinational corporations and multinational enterprises (MNEs). Further, not-for-profit organizations, such as the IOC and the International Red Cross, are not true enterprises, so the term multinational organization (MNO) can be used when one wants to refer to both not-for-profit and profit-seeking organizations. Because of the common use of multinational corporation in the business press, however, we use it in this book, even though technically its use should be restricted to businesses that are legally organized as corporations.

The Era of Globalization

International business has grown so rapidly in the past decade that many experts believe we are living in the era of globalization. Globalization can be defined as “the inexorable integration of markets, nation-states, and technologies … in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper, and cheaper than ever before.”

There is little doubt that international trade and international direct investment—the two primary vehicles for conducting international business—are becoming increasingly important in the world’s economy. Globalization has led to an intensification of the role of international trade in the economies of the world. As Figure 1.2 indicates, the ratio of international trade to economic activity has risen dramatically. In 1950, merchandise trade accounted for about 1 percent of the total GDP of the world’s nations; by 2004, it represented 22 percent. International trade in services added another 6 percent to this total.

Some of the rapid growth in international trade in services is due to the development of the Internet and associated technologies, which makes international trade in such diverse industries as banking, consulting, education, retailing, and gambling more feasible. For example, many Canadian and U.S. companies have shifted their customer service and

![World Exports as a Percentage of World GDP](source: World Trade Organization Web site, www.wto.org.)
Call centers employ hundreds of thousands of Indian workers, many of whom are graduates of the country’s world-class universities. They are part of the thriving business process outsourcing (BPO) industry, which is an important engine of India’s economic growth. Data entry operations to areas with lower labor costs in and outside North America. As long as the transaction can be performed electronically, the physical location of the facility is of little importance. India, for example, has a growing call-center business, providing customer care and troubleshooting services for customers of numerous MNCs throughout the world. This chapter’s closing case, “A Boom in Bangalore,” explores the impact of the growth in international services trade on the Indian economy.

Another manifestation of globalization is the growing importance of foreign direct investment—investments made by citizens of one country to operate and control assets in another. As Figure 1.3 demonstrates, the importance of foreign direct investment (FDI) in the world’s economy has risen significantly over time. In 1980, the stock of FDI was only 2.4 percent of the world’s GDP; by 2004, the stock of FDI equaled almost 22 percent of that year’s GDP.

The Contemporary Causes of Globalization

The growth of international business in recent years has been clear and dramatic, as was depicted in Figures 1.2 and 1.3. But why has this growth occurred? And why is international business activity likely to continue to skyrocket during the next decade? There are two broad reasons: strategic imperatives, which motivate globalization, and environmental changes, which facilitate it.

Strategic Imperatives

Several basic motives have compelled firms to become more global in both their orientation and actions. These strategic imperatives include leveraging a firm’s core competencies, acquiring resources at low cost, expanding into new markets, and competing with industry rivals.

To Leverage Core Competencies. One major motive for globalization is the opportunity to leverage a core competency that a firm has developed in its home market. A core competency is a distinctive strength or advantage that is central to a firm’s operations. By utilizing its core competency in new markets, the firm is able to increase its revenues and profits. Nokia, for example, developed cutting-edge cellular phone technology that was
eagerly adopted by domestic consumers in Finland. Nokia’s managers quickly recognized that the firm could increase its revenues and profits by expanding its operations and sales in other countries. Similarly, since its birth in 1972, Singapore Airlines has worked hard to develop award-winning standards of customer satisfaction and reliability that have drawn millions of Asian passengers to its flights. Believing that travelers in other markets would welcome the tender loving care for which the carrier is renowned, Singapore Airlines has deftly expanded its services to 88 cities in 34 countries throughout the world.

To Acquire Resources and Supplies. Another important reason for going international is to acquire resources such as materials, labor, capital, or technology. In some cases organizations must go to foreign sources because certain products or services are either scarce or unavailable locally. For example, North American grocery wholesalers buy coffee and bananas from South America; Japanese firms buy forest products from Canada; and firms worldwide buy oil from the Middle East and Africa. In other cases firms simply find it easier and/or more economical to buy from other countries. For instance, many U.S. advertising agencies shoot commercials overseas. Cape Town, South Africa, has become a popular site, because production crews and equipment can be hired there for less than 40 percent of their cost in Los Angeles.\(^7\)

To Seek New Markets. Seeking new markets is also a common motive for international expansion. When a firm’s domestic market matures, it becomes increasingly difficult to generate high revenue and profit growth. For example, the market for toothpaste in Canada, the United States, and the European Union can be classified as mature—most people there understand the value of oral hygiene and have the financial resources to regularly purchase toothpaste. Thus firms like Procter & Gamble, Unilever, and Colgate-Palmolive cannot expect to achieve significant growth in sales from their toothpaste products in these markets and have aggressively moved into emerging markets like China, India, and Indonesia to seek expanded sales. Expansion into new markets carries with it two other benefits. First, a firm may be able to achieve economies of scale, lowering its average costs as its production increases. Second, such expansion diversifies a firm’s revenue stream. As it serves more countries, the firm becomes less dependent on its sales in any one country, thereby protecting itself should that country’s economy turn sour.

To Better Compete with Rivals. Finally, businesses sometimes enter foreign markets to better compete with industry rivals. For example, as Coca-Cola expands aggressively
Many firms participate in international business to acquire resources that are expensive or unavailable in their home markets. European and North American grocery chains purchase bananas, for example, from plantations in Central America, the Caribbean, and Africa, for that tropical fruit would be expensive to grow at home.

around the world, rival Pepsi-Cola has little choice but to follow and try to keep up. Should Pepsi allow Coca-Cola to dominate important markets, Coca-Cola could use profits from those markets to finance attacks on Pepsi in still other markets. Such thinking permeates industries such as earthmoving equipment and photographic films, where the leading firms continually attack and counterattack each other in every region of the world to prevent their rivals from getting a stranglehold in any country.

**The Environmental Causes of Globalization**

These strategic imperatives provide firms with the motivation to internationalize their operations. However, firms would not have been able to expand their international activities to the extent we have observed during the post–World War II period without significant changes in two key areas: the political environment and the technological environment.

**Changes in the Political Environment.** During the first half of the twentieth century, firms wishing to enter new markets were often frustrated by barriers against foreign trade and investment erected by national governments. After World War I, many countries, including the United States, France, the United Kingdom, and Germany, imposed tariffs and quotas on imported goods and favored local firms on government supply contracts. As a result, international trade and investment declined throughout the 1930s. However, after World War II these policies were reversed. The major trading powers negotiated reductions in tariffs and quotas and eliminated barriers to FDI within their borders. Many of the reductions were negotiated through the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO). Regional accords, such as the European Union, the Mercosur Accord, and the North American Free Trade Agreement, also have relaxed trade and investment barriers among their members.

**Technological Changes.** Changes in governmental policies encouraged international business activity. Improvements in technology—particularly in communications, transportation, and information processing—made international business more feasible and more profitable. Think about the difficulties of conducting business internationally when the primary form of transportation was the sailing ship, the primary form of data processing was pencil and paper, and the primary form of communication was the letter delivered by a postman on horseback.
Transportation improvements during the past 150 years—from sailing ship to steamship to seaplane to jet airliner—mean that a manager in London no longer needs to spend weeks traveling in order to confer with colleagues in New Delhi, Toronto, or New York. Advances in transportation also have stimulated growth in international tourism, which is the largest component of international trade in services. (See “Venturing Abroad” for an example of the impact of international tourism on a local economy.) The increasing ability of computers to share, let alone understand, Nishimura’s intense reaction to the island. Yet she is not alone. Thousands of her countrywomen annually make the trek—maybe a better word would be pilgrimage—to visit an old farmhouse in Cavendish that supposedly served as the model for the home where Anne Shirley, the fictional heroine of Lucy Maud Montgomery’s *Anne of Green Gables*, grew up. One Japanese travel magazine found that among its female readers Cavendish was the fourth most popular foreign city among those they wished to visit, topped only by New York, Paris, and London, even though it is not an easy trip. It takes at 

**VENTURING ABROAD**

**Anne of Red Hair**

What was Yoshiko Nishimura’s reaction when she arrived at Cavendish on Prince Edward Island? “I cried for happiness upon arrival. Every Japanese girl dreams of one day paying respect to the land of Anne of Red Hair. She is much beloved.”

Prince Edward Island (PEI), the smallest of Canada’s maritime provinces, routinely attracts summer visitors from Central Canada and the Northeastern United States. Although they enjoy PEI’s rural scenery and charming towns and villages, few North Americans share, let alone understand, Nishimura’s intense reaction to the island. Yet she is not alone. Thousands of her countrywomen annually make the trek—maybe a better word would be pilgrimage—to visit an old farmhouse in Cavendish that supposedly served as the model for the home where Anne Shirley, the fictional heroine of Lucy Maud Montgomery’s *Anne of Green Gables*, grew up. One Japanese travel magazine found that among its female readers Cavendish was the fourth most popular foreign city among those they wished to visit, topped only by New York, Paris, and London, even though it is not an easy trip. It takes at 

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The economy of PEI, home to 140,000 year-round residents, is based on agriculture (particularly potatoes), tourism, and fishing. Each summer 700,000 visitors flock to the 135-mile-long island to enjoy its beaches, water sports, and ties to *Anne of Green Gables.*

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**MAP 1.1**

*Prince Edward Island Is Home to Anne of Green Gables and a Vibrant Tourism Industry*
rapidly process vast quantities of information allows firms to manage offices and factories located in every corner of the globe. Exxon Mobil, for example, relies on its computers to continuously adjust the output of its refineries and the sailings of its tankers to meet changes in worldwide demand for its products. Changes in communications technology, such as the advent of facsimile transmission and electronic mail, enable a manager in Tokyo to receive reports from colleagues in Amsterdam, Abidjan, and Auckland in minutes rather than days. These technological advances make managing distant businesses far easier today than executives would have dreamed possible just a few decades ago, and so have facilitated expansion into international markets.

Globalization and Emerging Markets

We noted above that globalization has led to an intensification of international business activity. It is also marked by an expansion of such activity into new markets previously insulated from the international marketplace.

The political changes discussed above have played a major role in this process. During the cold war between the United States and the Soviet Union, many scholars divided the world into three regions: the First World, consisting of the rich, major trading nations from Western Europe, North America, Australia, and parts of Asia, most of which were allied diplomatically with the United States; the Second World, consisting of the Soviet Union and allied Communist states; and the Third World, consisting primarily of the low- to medium-income countries populating Latin America, Africa, and most of Asia. Most international business activity took place between members of the First World. The Second World walled itself off to commerce with the First World, while the Third World was primarily viewed as a supplier of raw materials and commodities to the First World countries.

This is no longer the case: The collapse of European Communism, the ideological and policy changes undertaken by China and India, and the reduction of trade barriers have transformed the global marketplace. Shakespeare once wrote, “All the world’s a stage.”
Today savvy businesspersons recognize that business opportunities are no longer limited to the traditional markets of Western Europe, North America, or Japan. Indeed, much of the attention of international businesses is focused on the so-called emerging markets, countries whose recent growth or prospects for future growth exceed that of these traditional markets. Many companies are finding that much of their sales and profit growth is attributable to emerging markets. Mexico and Poland account for a fifth of the recent growth of sales of Jack Daniels, the premium bourbon marketed by Brown-Forman; General Electric predicts 60 percent of its revenue growth this decade will be attributable to emerging markets. IBM enjoyed a 25 percent increase in sales to Russia, India, and Brazil in 2005.8

There is no universally accepted definition of the countries to be included in the emerging markets category. Some scholars limit the term to the BRIC countries—Brazil, Russia, India, and China. Other researchers have used the term to describe the so-called Big Ten—Argentina, Brazil, China, India, Indonesia, Mexico, Poland, South Africa, South Korea, and Turkey.9 Other researchers have a more expansive definition, including most non-high-income countries in Africa, Asia, Eastern Europe, and Latin America. Regardless of the definition, it is clear that international businesses that ignore the emerging markets do so at their own risk. Consider that two of these emerging markets, China and India, together account for more than one-third of the world’s population. Their economies are growing significantly faster than that of the world as a whole, as Table 1.2 indicates.

Is Globalization Good for Us?

Many experts have enthused that globalization will lead to a borderless world where nation-states will play a diminished role. Others are not so sure. In his influential book The Lexus and the Olive Tree, New York Times correspondent Thomas L. Friedman argues that globalization and the nation-state will continue to be major, and often antagonistic, forces in our lives. In his metaphor, the Lexus represents globalization of commerce and the forces that homogenize aspirations, opportunities, and viewpoints of people around the world. Conversely, the olive tree

\[\text{represent[s]}\text{ everything that roots us, anchors us, identifies us and locates us in the world. ... Olive trees are what give us the warmth of family, the joy of individuality. ... Indeed, one reason that the nation-state will never disappear, even if it does weaken, is because it is the ultimate olive tree—the ultimate expression of who we belong to.} \] (p. 31)

One of the great challenges facing political and business leaders in the next decades will be to understand and reconcile the competing, often contradictory demands of the global economy (the Lexus) and of the nations (the olive tree) that encompass it.

Furthermore, while globalization has generated many benefits, it is not without costs, in the view of many critics. Human rights, labor rights, and environmental activists believe that globalization allows firms from developed countries to shirk their responsibilities to their workforces and to their communities by shifting production from developed countries to developing countries, where labor laws and environmental protection are less onerous and weakly enforced. Others argue that the dominant institutions of the era of globalization—the World Trade Organization, the World Bank, and the International Monetary Fund—are fundamentally undemocratic and promote the interests of the rich and powerful over those of the poor and dispossessed. Addressing these and related issues presents the nations of the world with major challenges in the years to come.

### TABLE 1.2 Characteristics of Selected Emerging Markets, 2004

<table>
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<tr>
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<tbody>
<tr>
<td><strong>BRIC</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>178.7</td>
<td>604,855</td>
<td>3,090</td>
<td>2.0</td>
</tr>
<tr>
<td>Russia</td>
<td>142.8</td>
<td>582,395</td>
<td>3,410</td>
<td>6.1</td>
</tr>
<tr>
<td>India</td>
<td>1,079.7</td>
<td>691,876</td>
<td>620</td>
<td>6.2</td>
</tr>
<tr>
<td>China</td>
<td>1,296.5</td>
<td>1,649,329</td>
<td>1,290</td>
<td>8.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,697.7</td>
<td>3,528,455</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Big Ten</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Argentina</td>
<td>38.2</td>
<td>151,501</td>
<td>3,720</td>
<td>−0.1</td>
</tr>
<tr>
<td>Brazil</td>
<td>178.7</td>
<td>604,855</td>
<td>3,090</td>
<td>2.0</td>
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<tr>
<td>China</td>
<td>1,296.5</td>
<td>1,649,329</td>
<td>1,290</td>
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<tr>
<td>India</td>
<td>1,079.7</td>
<td>691,876</td>
<td>620</td>
<td>6.2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>217.6</td>
<td>257,641</td>
<td>1,140</td>
<td>4.6</td>
</tr>
<tr>
<td>Mexico</td>
<td>103.8</td>
<td>676,497</td>
<td>6,770</td>
<td>1.5</td>
</tr>
<tr>
<td>Poland</td>
<td>38.2</td>
<td>241,833</td>
<td>6,090</td>
<td>2.8</td>
</tr>
<tr>
<td>South Africa</td>
<td>45.6</td>
<td>212,777</td>
<td>3,630</td>
<td>3.2</td>
</tr>
<tr>
<td>South Korea</td>
<td>48.1</td>
<td>679,674</td>
<td>13,980</td>
<td>4.7</td>
</tr>
<tr>
<td>Turkey</td>
<td>71.7</td>
<td>301,950</td>
<td>3,750</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,118.1</td>
<td>5,467,933</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>World total</strong></td>
<td>6,345.1</td>
<td>40,887,837</td>
<td>6,280</td>
<td>2.5</td>
</tr>
</tbody>
</table>


### An Overview of the Contents of This Book

In writing this book, we have started with the assumption that most readers will eventually work for or own a firm that is affected by international business activity. Our goal is to help them become more confident and effective managers in the competitive global marketplace. To do so, we provide our readers with the knowledge and skills necessary to succeed in international business.

We have structured the contents of the book to move from relatively macro, or general, issues to increasingly micro, or specific, issues that managers deal with regularly. Our rationale is that managers must fully understand the context of international business to work effectively within it. This broad, general context provides the backdrop within which all international business occurs. At each increasingly specific level within that context, the international manager is faced with specific and operational issues, problems, challenges, and opportunities.

Part One comprises Chapters 1 through 5. It provides an overview of the world’s marketplaces. Chapter 1 has supplied some background definitions and discussed the contemporary global business environment. Chapter 2 provides a wealth of economic and geographical information about the world’s major economies and business centers. Chapters 3 and 4 describe the national environments of international business—the more specific, country-level environmental context that affects and impacts business activity and opportunities. Chapter 5 addresses the social responsibility challenges that international businesses must address in the era of globalization.

Parts Two through Four follow a logical progression of topics, moving from the broad, general issues confronting international business to increasingly more specific, focused issues that managers face daily (see Figure 1.4). Part Two discusses the international environment in more detail, addressing the overall context of international business and introducing many of the global forces and conditions that affect organizations.
CHAPTER 1 • AN OVERVIEW OF INTERNATIONAL BUSINESS

FIGURE 1.4
Framework for This Book

and managers. Part Three adopts the perspective of a specific organization, focusing on general management issues such as international strategies, modes of entry into foreign markets, joint ventures and strategic alliances, organization design, organizational control, and organizational behavior in international business. Part Four covers the management of specific international business functions: marketing, operations, finance, accounting, and human resource management.
Summary

International business encompasses any business transaction that involves parties from more than one country. These transactions can take various forms and can involve individual companies, groups of companies, and/or government agencies. International business can differ from domestic business because of differences in currencies, legal systems, cultures, and resource availability.

Studying international business is important for several reasons. First, any organization you work for, even if small, is likely to be affected by the global economy. Someday you may work for a foreign-owned firm. Further, you need to keep pace with other managers who are learning to function in international settings. Finally, you need to be culturally literate in today’s world.

International business activity can take various forms. Exporting involves selling products made in one’s own country for use or resale in another country. Importing involves buying products made in other countries for use or resale in one’s own country. Foreign direct investments are investments made for the purpose of controlling property, assets, or companies located in foreign countries. Other common forms of international business activity include licensing, franchising, and management contracts.

An international business is one that engages in commercial transactions with individuals, private firms, and/or public sector organizations that cross national boundaries. Firms with extensive international involvement are called multinational corporations, or MNCs.

International business has grown dramatically in recent years because of strategic imperatives and environmental changes. Strategic imperatives include the need to leverage core competencies, acquire resources, seek new markets, and match the actions of rivals. Although strategic imperatives indicate why firms wish to internationalize their operations, significant changes in the political and technological environments have no doubt facilitated the explosive growth in international business activity that has occurred since World War II. The growth of the Internet and other information technologies is likely to redefine global competition and ways of doing international business once again.

Review Questions

1. What is international business? How does it differ from domestic business?
2. Why is it important for you to study international business?
3. What are the basic forms of international business activity?
4. How do merchandise exports and imports differ from service exports and imports?
5. What is portfolio investment?
6. What are the basic reasons for the recent growth of international business activity?

Questions for Discussion

1. Why do some industries become global while others remain local or regional?
2. What is the impact of the Internet on international business? Which companies and which countries will gain as Internet usage increases throughout the world? Which will lose?
3. Which markets are more important to international businesses—the traditional markets of North America, the European Union, and Japan, or the emerging markets? Defend your answer.
4. Does your college or university have any international programs? Does this make the institution an international business? Why or why not?
5. What are some of the differences in skills that may exist between managers in a domestic firm and those in an international firm?
6. Would you want to work for a foreign-owned firm? Why or why not?
Building Global Skills

List different products you use on a regular basis, such as your alarm clock, camera, car, coffeemaker, computer, telephone, television, DVD player—perhaps even your favorite CD, shirt, fruit juice, or footwear. Determine which firms made these items. After you have developed your list, go to the library and research the following for each item:

1. In which country is the firm headquartered?
2. What percentage of the firm’s annual sales comes from its home market? What percentage comes from other countries?
3. Where was the item most likely manufactured?
4. Why do you think it was manufactured there?

Follow up by meeting with a small group of your classmates and completing these activities:

1. Discuss the relative impact of international business on your daily lives.
2. Compile a combined list of the 10 most common products the average college student might use.
3. Try to identify the brands of each product that are made by domestic firms.
4. Try to identify the brands of each product that are made by foreign firms.
5. Does your list of 10 products include items that have components that are both domestic made and foreign made?

Closing Case

A Boom in Bangalore

What is the fastest growing industry in India? Software, by far. The industry serves as a poster child for the success of India’s economic reforms and the benefits of opening up its economy. For decades India’s universities annually graduated tens of thousands of well-trained engineers, but its inward-looking economic policies often failed to utilize the engineers’ talents. In 1991, however, the Indian government relaxed its control over the economy. It reduced trade barriers, opened the door to new foreign direct investments, and modernized the country’s financial sector. The government’s economic reforms, coupled with the blossoming of the Internet, have made the industry a powerful force for modernizing India’s economy. Software is rapidly becoming India’s primary export, accounting for over $17 billion in exports in 2004. India’s success in software development has triggered growth in an allied industry, business process outsourcing (BPO). BPO services provided by Indian firms range from traditional call-center activities (telemarketing, reservations, customer service, tech support, etc.) to higher-valued-added activities like engineering development and R&D. One study suggested that by 2008 India’s information technology and BPO industries will employ 4 million people, generate $57–$65 billion in exports, and account for 7 percent of India’s GDP.

Bangalore is the epicenter of India’s software and BPO industries, which employ an estimated 265,000 workers there; Bombay, New Delhi, and Hyderabad also house many software and information technology firms (see Map 1.2). Bangalore is home to Wipro Ltd. and Infosys Technologies Ltd., two of the three largest Indian software firms. The third, Tata Consultancy Services, has major operations in the city as well. The companies have tapped into India’s large pool of highly trained English-speaking workers. Although occupying different market niches, the companies have stressed quality and the need for a global approach. For example, each qualifies for a high-quality rating from the Software Engineering Institute, a certification program sponsored by the U.S. Department of Defense. Infosys pioneered the use of stock options in India to win the loyalty and commitment of its professional staff. It was also the first Indian company to list its shares on a U.S. stock exchange, instantly making over 1,000 of its employees rupee millionaires and over 100 dollar millionaires, an unheard-of level of wealth creation in a less-developed country. Observing its rival’s success, Wipro has introduced a stock option program of its own. Bangalore is also a magnet for FDI; over 450 multinational corporations have established operations in the sprawling business parks that circle the city, including such high-tech leaders as Intel, SAP, Dell, General Electric, Texas Instruments, IBM, Ernst & Young, and Hewlett-Packard.

There are some dark clouds, however. In many areas of the country the telecommunications infrastructure and electrical grid are overburdened. Such is the case in Bangalore. A sleepy city of 800,000 in 1951, by 2001 its population had grown to 5.6 million. An estimated 7 million people today call it home. This rapid growth has overwhelmed the city’s infrastructure, causing water shortages, disruptions in power supplies, and nightmarish commutes. Although savvy software executives invest in portable generators so work can continue should electrical brownouts occur, this is obviously a short-term solution. Indian software executives are lobbying their government to continue to deregulate, privatize, and encourage FDI in the country’s infrastructure so they can better compete against their Asian, European, and Northern American rivals.

More troublesome are looming shortages of qualified workers. The Indian software industry has thrived because of its labor cost advantage: U.S. programmers are paid about three
times as much as those in India. However, salaries of Indian programmers are rising as much as 15 percent a year because of heightened demand for their talents, so India’s labor cost advantage has been eroding. A recent McKinsey & Company study suggests that the software and BPO industries could suffer labor shortages of as much as 500,000 workers as soon as 2010, if current growth rates continue. If so, the boom may end in Bangalore, and firms may shift their software development and BPO activities to other countries. Indeed, Infosys, Wipro, and Tata Consultancy Services have begun to outsource low-level software maintenance and development work to China, where programmers are cheaper. And other countries where English is widely spoken, such as the Philippines, may soon be underbidding India for new call-center business.

**Case Questions**

1. Why has India been able to build a thriving software industry? What are the country’s advantages in this market? What are the country’s disadvantages?
2. What is the likely impact on the Indian economy if its software industry continues to grow?
3. Given the predicted shortage of qualified workers, what can India do to ensure that its software and BPO industries remain competitive?