Andrew Delios • Paul W. Beamish • Jane W. Lu

Economics
Subsidiary management
Human Resource Management
Internationalization
Business groups
Strategic alliances
Entry modes
Entry timing
Politics
International acquisitions
Culture
Multinational firms

International Business
An Asia Pacific Perspective

Second Edition

INTERNATIONAL BUSINESS

AN ASIA PACIFIC PERSPECTIVE

Second Edition

Andrew Delios
Paul W. Beamish
Jane W. Lu

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PREFACE

Conversations about international business and globalization tend to be peppered with phrases like ‘ongoing growth’, ‘continued rapid advance’, ‘spectacular increases’ and ‘worldwide integration’, to identify a few. These phrases reflect the reality of the business environment in the Asia Pacific in the first decade of the 21st century.

These trends in the international business environment are unmistakably clear. Even in the post-financial crisis world in Asia, where many economies have strongly emerged from the chaos in the financial system wrought by US and European banks, international business remains an indelible part of the economic landscape.

International business is a reality in two parts of the business world in the Asia Pacific. First, the pursuit of international business opportunities by companies in the region has never been so vibrant and important as when domestic economies have been in its cycles of growth, slowdown and then continued expansion. Second, trading and foreign direct investment from countries inside and outside the region continues to sculpt domestic business landscapes, creating new competitive contours for firms indigenous to the host economies of the Asia Pacific, particularly for those firms competing in, or competing from, large emerging markets such as China and India.

We wrote the second edition of International Business: An Asia Pacific Perspective with these trends in mind. The text and cases in this book apply the most recent thinking about international business and international management to help understand the competitive environment that underlies international strategy issues relevant to a firm competing in the Asia Pacific region. To develop this understanding, we have organized the materials in the text portion of this book into three sections: (1) the international business environment, (2) managing international growth, and (3) multinational management.

In the first section, we present ideas and concepts about approaches to analyzing and understanding the international business environment. We focus on issues of measurement of various dimensions in national institutional environments. These dimensions include the cultural environment, the economic environment and the political environment. Beyond the measurement issue, we are also concerned with the management of these dimensions for a newly-internationalizing firm and for a well-established multinational firm.

There are several strategic decisions that are critical to the success of international growth initiatives. These decisions form the backdrop for the second section, in which we identify the options available to a manager of an internationalizing firm, when considering expansion into a new country. In addition to the need to be cognizant of the various strategic options available for international expansion, a manager must contend with several unique management issues, such as entry mode choices, strategic alliances, international acquisitions, geographic market choices and timing of entry, that arise in an internationalizing firm. We have put forward several viewpoints on how one can manage these issues. Along with this, we also discuss two important forms of business organization – multinational firms and business groups – that need to be considered when making international expansion decisions in the Asia Pacific region.

In the third section, we move to the case of the on-going management of a multinational firm. We look at four major issues that arise in multinational management: strategy and structure of a multinational firm, subsidiary-level strategy issues, human resource management practices, and the management of ethical and social responsibilities. This section develops the theme that a multinational manager must contend with on-going globalization pressures, but a manager does so in the context of trying to maximize gains from integrating activities across countries, while not losing sight of the unique competitive demands of each host country market.

In developing the materials for this text, we highlight conceptual and strategic issues that underlie international business, but are particularly prominent in the Asia Pacific region. In doing so, we discuss ideas, concepts and the application of international business theories in a general way, but we make specific reference to the Asia Pacific using a plethora of examples. We have integrated some of these examples into the main text, while others we have highlighted by placing them in figures, tables and textboxes.

When developing these examples, we worked with a wide definition of the Asia Pacific. We defined the Asia Pacific as the countries that range from the Indian subcontinent in the west to Japan in the east, and from Mongolia in the north to the southern tip of Stewart Island in New Zealand. Our wide perspective on the geography of the Asia Pacific matches the text's wide perspective on the topics that are most relevant to individuals contemplating, or engaging in, a career in international management.

The overarching perspective taken in our writing of this book is unmistakably managerial. We see international business as an applied business topic. We hope that our book can help prepare an individual for the kinds of situations and decisions that will be encountered when operating in international markets and when formulating and implementing international strategy. To help meet that objective, we included

fifteen business cases, which illustrate genuine decisions and situations faced by a variety of firms operating in numerous Asia Pacific contexts. These decisions and situations mirror many of the issues covered in the 14 chapters that form the core textual material of this book.

With its managerial focus, this book is intended for use undergraduate, graduate, executive level international business and international management courses. It is particularly relevant to courses that focus on international business and international management issues in the Asia Pacific region. We provide references to readings that can be used to supplement any of the topics covered in the text. The fifteen cases in this book can also be supplemented by accessing any of hundreds of cases Ivey Publishing has on international business and other management issues for companies operating in the Asia Pacific.

ACKNOWLEDGMENTS

Many people have helped make this book possible. Our thanks go to Daniel Lim, Acquisitions Editor at Pearson Education Asia, who encouraged us to write the first edition of this book, and its predecessor, International Business in the Asia Pacific. Monica Gupta encouraged us to develop the second edition, which was ably edited and produced by Rachel Lee and her production team at Pearson. We would like to thank the numerous research associates and assistants involved in the development of the text. Ajai Singh Gaur, Le Thi Thu Huong, Nguyen Hoang Phi, Qian Lihong, Billy Pang and Wu Zhijian each worked exceptionally hard and well to help to develop various parts of the text. Jennifer Ilkiw was responsible for combing through hundreds of media reports in writing many of the examples we hope provide a unique Asia Pacific flavor to this book. For the second edition, Kim McKinney rewrote much of the material, including the cases and examples, while providing valuable research that allowed us to update and improve our coverage of international business issues in the Asia Pacific.

Numerous colleagues provided support and valuable feedback on this text. We received a great deal of intellectual and collegial support from our colleagues at the NUS Business School, the University of Auckland Business School and the Richard Ivey School of Business, as we developed the text and cases for this book. We would like to thank Julian Birkinshaw, Witold J. Henisz, Ishtiaq P. Mahmood and Andre Perketi for previewing various chapters, and offering insightful comments.

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1

INTERNATIONAL BUSINESS

Most companies will eventually become international in the scope of their operations. In the 2000s, large and small companies from developed and emerging markets have internationalized their activities in an attempt to improve competitiveness and capture greater market share in more geographic markets worldwide. This internationalization trend started in the 1950s for companies from North America and Western Europe. But since the onset of the 1980s, companies from the Asia-Pacific region have become progressively more active as participants in the global economy.

Up until the 1980s, the involvement of many countries in the Asia-Pacific region in the global economy had been as recipients of foreign direct investment (FDI). Firms from North America and Europe perceived advantages to moving productive activities to countries in the Asia-Pacific region. Consequently, these companies undertook a substantial amount of FDI in countries in the Asia-Pacific region.

This pattern of FDI in the Asia-Pacific region has continued up until the 2000s. But in the 2000s, it has been accompanied by an increasing number of firms based in the developed and emerging economies of the Asia-Pacific region that have been moving into foreign markets by exporting, by licensing and by foreign direct investment.

The international business environment for a company operating in the Asia-Pacific region encompasses both of these trends. An Asian-Pacific company faces a substantial amount of competition in its home markets from foreign firms, but it also finds substantial opportunities for growth in foreign markets. A good understanding of both of these features of the international business environment is necessary for a company to compete successfully in its domestic and foreign markets, just like Tata Consulting Services (see Box 1-1).

To help develop an understanding of the international business environment, this book introduces the topic of international business from several vantage points. One perspective concern is becoming an international company. Another involves

consideration of the management complexities of operating a multinational company. A third deals with the difficulties and challenges of managing and working as an expatriate manager. Finally, we also consider the competitive implications of facing strong foreign competitors in a home market.

Box 1-1 Tata Consultancy Services

Companies in the Asia-Pacific region have long faced the daunting specter of competition in their home market from multinational firms. Declining barriers to international business does not only mean new competition, it can also mean new opportunities. Mumbai-based Tata Consultancy Services (TCS) has taken such a perspective to seize opportunities in international markets to support its product and geographic expansion strategies.

TCS (www.tcs.com) is a member firm in the Tata Group (www.tata.com), which is India's largest industrial business group based on market capitalization and revenues. TCS was established in 1968, with the idea that a thorough understanding of management problems in India's industries could be resolved through the effective use of information technology. By 2003, TCS was India's largest software developer, yet, by 2009 it had fallen to second place behind Indian rival Infosys Technologies Limited (www.infosys.com). In 2009, TCS had clients in close to 50 countries around the world, with 142 branches globally and over 143,000 IT consultants (employees) on its payroll.

To achieve this impressive growth and size, TCS focused part of its geographic expansion efforts in Asia. It built up its presence in the Asia-Pacific region by being the first Indian IT consulting company to set up a wholly-owned subsidiary for software development in China. China is an important strategic region for TCS as it is often seen as one of the largest untapped markets in the world, with an installed base of approximately 17 million computers in 2001. By the late 2000s, TCS continued to increase its presence in China and ASEAN countries. In commenting on TCS' focus, Subramaniam Ramadorai, CEO, stated that "With significant recurring revenues and investments in new growth markets of Asia and Latin America yielding results, we continue to invest in the future by building people competencies and new technologies…."

To achieve growth and heighten competitiveness, TCS has undertaken product expansion along with its geographic expansion. In 2004, TCS completed an IPO. It followed this through continued strategic acquisitions, including one of the Australian software products companies, FNS, and a BPO company in Chile, Comicrom, in 2005 and 2006 respectively. At the same time, TCS continued to grow internally in such markets as Brazil, Mexico, China, and Hungary. In 2008 TCS acquired Citigroup's captive BPO business in India. It renamed this business as TCS e-Serve Ltd., which served to broaden its banking and financial services business. TCS is looking at future growth areas in healthcare, energy, utilities, and telecommunications. New business models, Green IT and Cloud Computing, are being trialled in India, and this can be replicated in the global IT industry markets.

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This book provides these perspectives from the standpoint of a firm that has its primary source of business activities in the Asia-Pacific region. Although many international business concepts and ideas are the same across the world, certain features of the Asia-Pacific region, such as the spectacular growth and decline of many Asia-Pacific economies in the 1980s, 1990s and 2000s and the staging ground Asia-Pacific countries have been for competition between multinational firms mean that international business does have unique aspects in the Asia-Pacific.

Aside from these contextual features, it is important to remember that international business is about the management of a firm as it becomes international and the management of a firm as it operates as a multinational context. As a management topic, international business is necessarily an applied topic. This book stresses the application of ideas, concepts, and theories in international business to the practice of managing a multinational company that operates in the Asia-Pacific region and elsewhere in the world.

THE MULTINATIONAL FIRM

What is a multinational firm? Is it the same as a transnational corporation? Is it the same as a multinational corporation (MNC)? Is it the same as an international firm? Is it the same as a multinational enterprise (MNE)? The answer to all of these questions is "Yes."

A multinational firm can be identified by any of the above names. Differences can exist among types of multinational firms, and these differences can be reflected in these various names. Ultimately, all multinational firms share the same common characteristic. A multinational firm is one that has productive operations in more than one country. It engages in business activities in its domestic market, sometimes called

its “home country.” It also engages in business activities in foreign markets, which are sometimes called “host countries.”

A multinational firm becomes multinational by undertaking a foreign direct investment. A foreign direct investment occurs when a firm purchases assets in a foreign country and that purchase provides the firm with control over the use of those assets. The assets can be another company, which in this case would be an FDI by acquisition. The assets can also be other tangible items such as land, equipment, or buildings, which are then used to construct and operate a foreign subsidiary.

A foreign subsidiary is an organization in the host country that is an extension of a firm’s operations into a host country for the purpose of conducting its business activities. A foreign subsidiary is the consequence of a foreign direct investment. A foreign subsidiary can be owned in whole or in part by a foreign firm.

If a foreign company has partial ownership of a foreign subsidiary, the portion of its ownership must be large enough to confer some control over the operations of the foreign subsidiary. Typically, a 10 to 20% ownership is the minimum amount of ownership necessary to confer some control. If a firm’s ownership is less than 10%, its investment can be considered to be a foreign portfolio investment. A foreign portfolio investment is the purchase of partial ownership of assets in a host country that confers rights to the returns from the use of those assets but provides no effective control over the use of those assets. The assets can include intangible items such as stocks, bonds, or T-bills, which are often referred to as “paper securities.”

The definitions and descriptions of a multinational firm, foreign direct investment, and foreign subsidiary are a key to understanding the material in this book. International business centers around multinational firms. A firm becomes a multinational firm by undertaking foreign direct investment. When it undertakes a foreign direct investment, it has a foreign subsidiary operation.

Equity and Non-Equity Modes of International Participation

Foreign direct investment is typically called an “equity mode of investment.” Within the equity mode of investment, there are several types. One of these is the previously mentioned entry by acquisition. Another equity mode is a wholly-owned greenfield (newly built) subsidiary. Yet another is a joint venture operation. Joint ventures, and their non-equity counterparts in strategic alliances, exploded in popularity in the 1990s. Aside from foreign direct investment, a firm can participate in international markets through several non-equity modes. A firm’s managers can export its products to foreign markets, its products can be licensed for use by firms in its international markets, or a

firm can engage in franchising, it can negotiate turn-key contract operations, or it can negotiate international subcontracting agreements. These are just a few of the many types of non-equity modes of international participation.

Equity modes and non-equity modes of international participation are differentiated from one another by identifying whether a firm has ownership of the assets in its foreign markets. If there is ownership, as in a foreign direct investment, then that mode of international participation is called an "equity mode." If there is no ownership, then that mode is called a "non-equity mode."

Equity and non-equity modes have this difference in definition, but both are means by which a firm can compete in international markets. These methods of foreign market entry involve extending a firm's sales and production into international markets through a variety of arrangements. Although there are a multitude of foreign market entry modes, the most commonly used are a wholly-owned greenfield subsidiary, an acquisition, a joint venture, exporting, licensing, technology transfer, and strategic alliances.

These modes are commonly referred to as "entry modes." Entry means that a firm is moving into an international market. A firm's movement into international markets concerns several choices. It involves choices about the timing of entry, including when to go international and when to move into a particular market. It involves choices about which mode to use when entering a foreign market. It also involves choices about which foreign markets to enter. These choices are among important decisions in a firm's internationalization process.

One of the consequences of large numbers of internationalizing firms is that the world's economy becomes more globalized. Without the international activities of firms and without multinational firms, there would not be a globalizing economy. Environmental factors are part of the reason why firms are becoming more internationalized and economies more globalized. We consider these forces for internationalization and globalization next.

THE GLOBALIZING ECONOMY

Although there are debates about the extent and pace of globalization, a number of trends have been pushing economies to become more integrated and globalized. As economies become more integrated internationally, the barriers to international participation by firms become lower. Consequently, a firm can move into foreign

markets with greater ease, lower costs, and with better prospects for doing so profitably.

Trends that are driving globalization and economic integration include reductions in the importance of national borders, increases in similarities in consumer tastes across world regions, changes in technology and communication that make distances seem less, the transition of command economies to market economies, the rise of global standards for product production and product quality, and a general reduction in governmental policies that regulate the flows of people, products, and capital across national borders.

One standard that drives the globalization and harmonization of product markets is one we see every day. It is the successful and well-known global standard known as the Universal Product Code (UPC). First scanned on April 3, 1974, by the mid-2000s, the UPC was used by more than one million companies doing business in more than 140 countries across 23 industries.[1] By 2009, several such systems were in place to satisfy both the volume of products as well the shape and size of products, including the European Article Number (EAN) and the GS1 DataBar systems, which are used worldwide.

Standards can also emerge at the business-to-business side of a company's operations. For example, supply chain management is an area in which a number of organizations are collaborating to achieve global standards.[2] The United States-based GS1 (http://www.gs1us.org), formerly the Uniform Code Council, is a member of the GS1 that represents 150 countries worldwide. The GS1 US has a mission to enhance supply chain management and establish globally related standards. To meet this mission, the GS1 has placed subsidiaries across the global marketplace. The GS1 develops, promotes, maintains, and expands global supply chain standards. One such initiative is the Global Commerce Initiative (www.globalcommerceinitiative.org). Global retailers and manufacturers are undertaking GCI to develop and promote the use of global standards, particularly in the area of data synchronization and supply chain technologies. GCI represents efforts by over one million companies of various sizes around the world whose product offerings span the entire supply chain for consumer goods.[3]

Globalization trends, reinforced by the emergence of global standards such as the UPC and initiatives such as the GCI, operate together to shorten physical and perceptual differences to, and to reduce the costs of, a firm's activities that cross borders. These reductions facilitate the conduct of international business, and hence its growth.

Although the consequence of these trends is generally referred to as "globalization," it might be more correctly thought of as the internationalization of a firm's business strategies. A firm's internationalization proceeds first through a regionalization, in which it builds up a concentrated set of overseas activities in countries within the same region – Asia, North America, South America, Europe, for example – of the world. It becomes a truly global firm only when several regions of the world eventually become the staging points for a firm's international activities. Few firms are yet beyond the regional expansion point in their international activities,[4] but others such as Haier are moving aggressively into many world regions (see Box 1-2).

For most firms, the majority of their international activities are concentrated in one of the three Triad regions of the world: Western Europe, Japan, and North America. A firm based in the United Kingdom, France, or the Netherlands generally has most of its international activities in Europe. A representative firm based in Thailand, Japan, or Singapore would tend to have the majority of its international activities concentrated in Asia. Similarly, a firm based in the United States would have much of its operations based in North and Central America.

The concentration of a firm's international activities in one of the three Triad regions is the most pervasive pattern in the internationalization of firms in the 2000s. It does not mean that some firms do not have an even spread of operations around the world, but it does mean that for most firms the reality of being a multinational firm is one in which sales and production tend to be centered in one of the three Triad regions.

Box 1-2 Haier's International Expansion

China's Haier Group made a small refrigerator manufacturer into a multinational company by leveraging the trends driving the globalizing economy. Haier, founded in 1984, was one of China's top electronic and information appliance makers, and the number one refrigerator manufacturer in the world in 2008, above US competitor Whirlpool.

For the Haier Group (www.haier.com), a successful globalization strategy included developing and establishing a brand name. Believing that its products would attract consumers at home and abroad, Haier developed its brand by focusing on improving quality, meeting customers' needs, and diversifying into other appliances such as electronics, wine-chillers, and air conditioners. The branding initiative was successful, making Haier an international brand name and a well-established company in the United States and Germany. By 2009, Haier had 15,100 products in 96 product lines in over 100 countries, and it continues to hold a significant market share in China of 21% for overall appliances.

In implementing its globalization strategy, Haier found it necessary to localize its networks for design, production, distribution, and after-sales services as well as its sales centers. To accomplish this, the company established eight design institutes, 15 industrial complexes, and

30 overseas production factories. Haier employed local workforces for design and production and opened regional head offices in New York, USA, Varese, Italy, and Qingdao, China. To reach its consumers, Haier had 58,000 sales agents in its localized sales offices.

Haier's global development strategy included entries by joint ventures, acquisitions, and direct establishments of its presence in new markets. In 1999, Haier entered the US market by establishing a regional sales and marketing division (www.haieramerica.com). By 2001, Haier had established manufacturing facilities in the Haier American Industrial Park in South Carolina, while placing its head office, the Haier Building, in New York City. In 2009, Haier America was an Official Marketing Partner and the Official High Definition Television of the NBA.

Meanwhile, Haier entered Pakistan in February 2001 by jointly establishing a facility with Pakistan-based Panapak Electronic Company to produce Haier air conditioners. Next, the Group opened the Haier (Pakistan) Industrial Park in Lahore in April 2001. In 2004, Haier was the first foreign brand home appliance manufacturer in Pakistan to obtain the ISO9001:2000 Certification which confirms that the company meets requirements for quality management systems and enhanced customer service. Haier continues to help develop the Pakistan home appliance industry.

Haier entered the European market (www.haiereupore.com) by acquiring 100% of an Italian refrigerator plant belonging to Meneghetti Equipment in 2001. As a result of that transaction, Italy came to house the head office and production facilities for Haier Europe. Haier Europe manages Haier appliances in 17 European countries, holding branch offices in Germany, France, Spain, and Italy and distribution centers in Spain, the UK, Holland, and Italy.

In early 2002, Haier entered the Middle-East in a joint venture with South Electronics Company and Syrian and Lebanese partners to establish the Haier Middle East Trading Co. (www.haiermideast.com). This division worked to expand Haier's market share and raise the brand's reputability in Jordan, Lebanon, Syria, Palestine, Iraq, Egypt, and Kuwait.

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Not surprisingly, in this globalizing world, the most relevant realm for a company operating in the AsiaPacific region is other countries in the Asia-Pacific region. A typical multinational firm in the Asia-Pacific region might have operations in all Triad regions, but it is likely to have the majority of its activities concentrated in other countries in the Asia-Pacific region. Likewise, its competitors, suppliers, and buyers will each have a

strong focus on the Asia-Pacific region. This creates a regionalization to international competition that reinforces the importance of understanding how international business unfolds in the Asia-Pacific region.

Trade Agreements and Disappearing Borders

In the mid-1940s, the world was one in which tariffs averaged 45%. This level of tariffs, which are taxes on imported goods and services, acted as a significant barrier to trade. Although tariffs can raise money for a government, they come at the expense of raising the cost of imported goods to a nation's consumers.

In the second half of the twentieth century, policy makers responded to high levels of tariffs and their trade distorting implications by instituting rounds of negotiations aimed at reducing worldwide levels of tariffs. These negotiations first took place in 1947 and became known as the GATT, or the General Agreement on Tariffs and Trade, once completed.

The result of the GATT was a substantial reduction on tariffs among several important trading nations in the world. The tariff reductions were prominent across a wide range of manufactured products such as wood, pulp and paper, furniture, metals, and non-electric machinery. But other areas such as agriculture, textiles, and telecommunications, which are three of the most heavily subsidized sectors, were still protected by tariff barriers.[5]

Subsequent rounds of talks, including those in Uruguay and Doha, continued to work to reduce tariff barriers and liberalize trade in other important areas of the economy such as agriculture and services, including banking. Trade agreements for services eventually were extended to provide enhanced protection for intellectual property (patents, copyrights, and trademarks), which has been a long-standing source of trade friction among nations. Issues concerning non-tariff measures, trade remedies (anti-dumping, countervailing measures and safeguards), and dispute settlements were also brought into international trade rules through these most recent rounds of trade talks.

In January 1995, the GATT gave way to the WTO, or World Trade Organization (www.wto.org). The WTO is a permanent multilateral trading system overseeing trade development issues. The WTO deals with the rules of trade between nations. The trade deals from the WTO represent the most comprehensive and complex package of trade liberalization to date. Unlike previous agreements, in which trade clauses applied provisionally to a participating nation's favor, membership in the WTO means that a nation is party to all its multilateral agreements. In addition, the scope for discriminatory, unilateral policy actions becomes much more limited under the WTO as

each member is committed to imposing tariffs on a Normal-Trading-Relations (NTR) basis.

The coverage of the WTO is impressive. In 2008, 153 nations were in the WTO. The most recent high profile admissions include the People's Republic of China (China) in 2003 and Vietnam in 2007.

Despite accelerated development in the liberalization of world trade through the GATT and the WTO, many issues remain unresolved on the international trade front. One of these issues concerns the ongoing negotiation among nations on agriculture, which brought the Doha round to the brink of collapse on many occasions. Substantial trade barriers also continue to remain in other areas such as textiles, which has been the focal point of dispute between developed and developing nations. Another issue ranking high on the WTO's agenda is investment liberalization, which was not on its development agenda until recent years, when investment flows began to surge following the globalization of production. Other issues of increasing concern include the emergence of electronic commerce; the resurgence of non-tariff barriers; the economic and financial crisis of 2008 and 2009; awareness of regional trade agreements; taxation; environmentalism; technology transfer; trade policy harmonization, and national development policy.

In essence, these rounds of talks have laid the building blocks for a freer, more transparent and more predictable international trading system. Clearly, work remains to be done to further the liberalization of trade, but one result is quite clear. Since the onset of the GATT and the WTO, tariffs on manufactured products have continued to fall to the point where they reached an average of 9% in 2007 amongst WTO members.

A related consequence of these talks is that nations that are participants and parties to the resulting agreements lose some degree of independence in policy setting. If a nation adheres to a trade agreement, it loses the autonomy to set tariff and non-tariff barriers as a means to control trade and influence the development of domestic industries. This loss of independence and autonomy can be particularly profound when nations begin to form tighter forms of union in regional trading blocs or in economic unions.

Forms of Economic Integration

Economic integration can take various forms that vary from weak to strong levels of economic union. A weak form is one in which a nation holds substantial autonomy and discretion in setting the terms of trade and investment with other nations. The tools a nation has at its disposal for doing this include tariffs, restrictions on the flows of

capital and people, and non-tariff barriers such as product standards and certifications required for the sale of a product in a nation. A strong form of integration is one in which this autonomy and discretion is removed in favor of a free flow of products, capital, and labor across borders.

The trend in the 2000s has been toward the latter. Economies have become increasingly integrated through a variety of trading and regional agreements (see Table 1-1). These agreements have encompassed most nations in the world such that there are few nations that do not participate in any agreement. The transition of the former command economies of China, Vietnam, and Central and Eastern Europe to market economies has led to a widening of the scope of nations included in such agreements.

Table 1-1 illustrates how these types of economic integration vary by four features of the economy. The four types of economic integration range from the least integrated, a free trade area, to the most integrated, an economic union. A fifth form of integration extends economic union to political union.

Type	Removal of tariffs and quotas among members	Common tariff and quota system	Removal of restrictions on factor movements	Unification of economic policies and institutions
Free trade area	Yes	No	No	No
Customs union	Yes	Yes	No	No
Common market	Yes	Yes	Yes	No
Economic union	Yes	Yes	Yes	Yes
Political union	Yes	Yes	Yes	Yes

Table 1-1 Types of Economic Integration

Source: Adapted from Franklin R. Root, International Trade and Investment (Cincinnati, Ohio: South-Western Publishing Company, 1992), p. 254; Sourced from Michael R. Czinkota, Ilkka A. Ronkainen, and Michael H. Moffet, International Business (South-Western: Australia, 2002), p. 196.

In all types of economic integration, nations agree to remove tariffs and quotas. This removal effectively permits goods and services to flow freely among member nations just as goods and services flow freely within a nation, although governments might yet subsidize products, such as agricultural goods. The scope of the free trade can be limited to certain sectors of the economy, but as nations increase the level of economic integration, more and more sectors become tariff- and quota-free. Importantly, in a free trade area, a nation still retains autonomy to set tariffs and quotas for trade with nations outside the free trade area.

After forming a free trade area, the next step is to form a customs union. In a customs union, members establish a common trade policy, that is, a common set of tariffs and quotas with nonmembers.

The next step is to form a common market. Unlike a free trade area and a customs union, member states in a common market permit factors of production such as capital and labor to move freely within the states that comprise the common market. This freedom means that capital can flow to the regions and industries where there might be the highest return, while people can move across nations within the common market to find the best employment and living opportunities. This freedom of movement should promote economic growth through a productive use of factors of production.

The final step is to form an economic union. Members of an economic union yield autonomy and independence to set national level monetary and fiscal policies to a union-wide policy making body. An economic union may involve the institution of a common currency, such as the establishment of the Euro (€) in the European Union.

Examples of Economic Integration

With the growth in initiatives in economic integration since the 1980s, the number of free trade agreements and other types of economic union has grown correspondingly. The imperatives to form such unions have been strong enough that it is difficult to identify a country that is not at least a party to one bilateral or multilateral trading agreement.

One common characteristic of major trading agreements is that they tend to be geographically focused. A nation is much more likely to be in a trading agreement with a nation that is geographically proximate to it than with one that is geographically distant. As a result, we tend to think of trade agreements on a region-by-region basis, such as the European Union (see Table 1-2).

As can be seen in Table 1-2, 27 European countries were members of the union in 2009, with another three countries either engaged in negotiations to join the European Union or interested in joining the union.

EU Member States	Year of Entry
Belgium	1950
Denmark	1973
Germany	1950
Greece	1981
Spain	1986
France	1950
Ireland	1973
Italy	1950
Luxembourg	1950
Netherlands	1950
Austria	1995
Portugal	1986
Finland	1995
Sweden	1995
Slovenia	2004
Poland	2004
Bulgaria	2007
Estonia	2004
Cyprus	2004
Lithuania	2004
Hungary	2004
Czech Republic	2004
Latvia	2004
Romania	2007
Slovakia	2004
Malta	2004
United Kingdom	1973
Turkey	Candidate state
Croatia	Candidate state
Republic of Macedonia (Former Yugoslav)	Candidate state

Table 1-2 Members of the European Union (2009)

Source: http://www.delidn.ec.europa.eu/en/eu_guide/eu_guide_2.htm, June 3, 2009.
Note: 1950 refers to the date at which the nations subscribed to the Schuman declaration. The Treaties of Rome, which established the European Economic Community, were signed in 1957.

Numerous free trade agreements exist in Africa (see Table 1-3). These include the Southern African Development Community (SADC), the Common Market for East and South Africa (COMESA), and the Economic Community of West African States (ECOWAS). As noted in the names of these examples, the agreements tend to involve

states that are located in similar locations in the African continent, such as the southern, eastern, or western portions of the continent.

Name	Acronym	Members	Website
Association of Southeast Asian Nations	ASEAN	Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	www.aseansec.org
Andean Common Market	ANCOM	Bolivia, Colombia, Ecuador, Peru, Venezuela	www.comunidadandina.org
Arab League	-	Jordan, United Arab Emirates, Bahrain, Tunisia, Algeria, Djibouti, Saudi Arabia, Sudan, Syria, Somalia, Comoros, Kuwait, Libya, Mauritania, Morocco, Oman, Qatar, Southern Yemen, Egypt, Iraq, Lebanon, Palestine	www.arableagueonline.org
Central American Common Market	CACM	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	www.sieca.org.gt
Caribbean Community and Common Market	CARICOM	Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, Suriname, St. Vincent & the Grenadines, Trinidad and Tobago	www.caricom.org
Common Market for East and South Africa	COMESA	Angola, Burundi, Comoros, Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe	www.comesa.int
Economic Community of West African States	ECOWAS	Benin, Burkina Faso, Cape Verde, Côte D’Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo	www.ecowas.int

Name	Acronym	Members	Website
European Union	EU	Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, France, Finland, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Romania, Slovakia, Slovenia, Spain, Sweden, The Netherlands, Portugal, United Kingdom	europa.eu.int
Gulf Cooperation Council	GCC	Kuwait, Qatar, Oman, Saudi Arabia, Bahrain, United Arab Emirates	www.gcc-sg.org
North America Free Trade Agreement	NAFTA	Canada, United States, Mexico	www.nafta-sec-alena.org
Organization of Arab Petroleum Exporting Countries	OAPEC	Algeria, Bahrain, Egypt, Iraq, Kuwait, Libya, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates	www.oapecorg.org
Southern African Development Community	SADC	Angola, Botswana, Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe	www.sadc.int
Southern Common Market	MERCOSUR	Argentina, Brazil, Paraguay, Uruguay	www.mercosur.org.uy

Table 1-3 Areas of Economic Integration (2009)

Sources: www.aseansec.org; www.comunidadandina.org; www.arableagueonline.org; www.sieca.org.gt; www.caricom.org; www.comesa.int; www.ecowas.int; www.europa.eu.int; www.gcc-sg.org; www.nafta-sec-alena.org; www.oapec.org; www.sadc.int; www.mercosur.org.uy, August 19, 2009

Moving to the northern part of Africa and including the Arab nations to the east of Africa brings us to several other areas of economic integration. There is the Gulf Cooperation Council and the Arab League, which include both Northern African and Middle Eastern countries. We also have the Organization of Arab Petroleum Exporting Countries (OAPEC). OAPEC, which was established in 1968, is an inter-governmental organization that fosters cooperation among its members to help develop the petroleum industry. OAPEC is not to be confused with OPEC (www.opec.org, founded in 1960), which is an organization involving member countries from Africa, Asia, the

Middle East, and Latin America, which has the dual purpose of supporting market stability for oil and ensuring a fair price for oil.

Moving across the Atlantic Ocean to North and South America brings us to several other free trading areas. The North America Free Trade Agreement (NAFTA) includes just three countries – Canada, the United States and Mexico – but it has the largest GNP, greater than USD 15 trillion, among all trading areas. Other trading areas include the Southern Common Market (MERCOSUR), the Caribbean Community and Common Market (CARICOM), the Andean Common Market (ANCOM), and the Central American Common Market (CACM). As indicated in the names for the trading areas in Central and South America, the degree of economic integration is quite tight compared to the NAFTA agreement.

Moving west again, but this time across the Pacific Ocean, we encounter one other trading area. This is the Association of South East Asian Nations (AFTA, ASEAN). The AFTA, ASEAN free trade area includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.

SIZE AND PREVALENCE OF MULTINATIONAL COMPANIES

Firms have responded to the liberalization of trade and investment regimes by locating increasing portions of productive activities in overseas markets. This response has not only increased the number of multinational firms, but it has also increased the degree of multinationality of many of these firms. Finally, it has led to a large number of firms pursuing a strategy of growth in international markets.

Number of Multinational Companies

There is no precise way to count the number of multinational companies. Estimates of the number of multinational companies in the world must be taken as exactly that, an estimate. One agency that produces annual, rigorously compiled numbers on multinational companies is the United Nations Conference on Trade and Development (UNCTAD, www.unctad.org).

Each year UNCTAD produces a World Investment Report (http://r0.unctad.org/wir) that has the general goal of outlining the current state of international trade and investment. The 2008 World Investment Report identified that there were more than 790,000 multinational companies operating worldwide. The nation with the most multinational companies is the United States. Other leading nations in terms of the number of multinational companies included France, Germany, the United Kingdom,

and Japan. These same countries housed the largest percentage of the world's largest multinational firms (see Table 1-4). The United States alone was the home country to 22 of the top 100, slightly down from 23 in the early 2000s.

Country	Number of Multinational Companies	Country	Number of Multinational Companies
United States	22	South Korea	2
France	15	Australia	1
Germany	14	China	1
United Kingdom	13	Finland	1
Japan	9	Hong Kong	1
The Netherlands	6	Ireland	1
Switzerland	4	Malaysia	1
Canada	3	Mexico	1
Spain	3	Norway	1
Italy	2	Singapore	1
Sweden	2		

Table 1-4 Top 100 Multinational Companies by Home Country (2008)

Source: UNCTAD, World Investment Report 2008. http://www.unctad.org/en/docs/wir2008_en.pdf, Annex Table A.I.15., pp. 220-222.

Although the United States had the most companies among the top 100, its dominance as the home to the world's largest multinational firms has declined over time. In 1976, it was home to almost 50% of the world's largest multinational firms. By 1997, it had just over 30% of the world's 500 largest multinational firms. The United Kingdom has experienced a similar decline from 19% to 12% while Japan's share rose from four percent to 25%. Germany and France each have consistently been the home for about 8% of the world's 500 largest multinational firms. Meanwhile, firms from emerging markets such as China and India have began to climb up in the ranks of the world's largest multinational firms.

The industrial distribution of the world's largest multinational firms has shown some change over the past decade. The world's 100 largest multinational firms could be found in the electronics, motor vehicles, petroleum, foods, and chemicals industries at the start of the 1990s. By the end of the 1990s, firms in the pharmaceuticals industry among the top 100 had quadrupled from two to eight. This multinational growth within the pharmaceutical sector was part of a trend toward the globalization of research and development and the distribution of ethical pharmaceutical products. Several companies engaged in trading and retailing also cracked the top 100. In the retail

industry, emerging giants such as Wal-Mart, Carrefour, and Metro AG began to internationalize their operations on a wide scale.

Table 1-5 provides more insights into these trends by listing the total assets, foreign assets, total sales, foreign sales, and TNI (Transnationality Index) for large multinational firms. It identifies the 50 largest multinational companies in the late 2000s, where the largest multinational company is considered to be the one with the largest figure for foreign assets. This criterion distinctly places General Electric at the top of the chart even if we look at total assets instead of foreign assets.

Rank	Name	Home Country	Foreign Assets	Total Assets	Foreign Sales	Total Sales	TNI (%)
1	General Electric	US	442,278	697,239	74,285	163,391	53
2	British Petroleum Company Plc	UK	170,326	217,601	215,879	270,602	80
3	Toyota Motor Corporation	Japan	164,627	273,853	78,529	205,918	45
4	Royal Dutch/Shell Group	UK, Netherlands	161,122	23,5276	182,538	318,845	70
5	ExxonMobil Corporation	US	154,993	219,015	252,680	365,467	68
6	Ford Motor Company	US	131,062	278,554	78,968	160,123	50
7	Vodafone Group Place	UK	126,190	144,366	32,641	39,021	85
8	Total	France	120,645	138,579	146,672	192,952	74
9	Electricite De France	France	111,916	235,857	33,879	73,933	35
10	Wal-Mart Stores	US	110,199	151,193	77,116	344,992	41
11	Telefonica SA	Spain	101,891	143,530	41,093	66,367	69
12	E.On	Germany	94,304	167,565	32,154	85,007	51
13	Deutsche Telekom AG	Germany	93,488	171,421	36,240	76,963	46
14	Volkswagen Group	Germany	91,823	179,906	95,761	131,571	57
15	France Telecom	France	90,871	135,876	30,448	64,863	52
16	ConocoPhillips	US	89,528	164,781	55,781	183,650	43
17	Chevron Corporation	US	85,735	132,628	111,608	204,892	58
18	Honda Motor Co Ltd	Japan	76,264	101,190	77,605	95,333	82
19	Suez	France	75,151	96,714	42,002	55,563	69
20	Siemens AG	Germany	74,585	119,812	74,858	109,553	66
21	Hutchison Whampoa	HK, China	70,679	87,146	28,619	34,428	82
22	RWE Group	Germany	68,202	123,080	22,142	55,521	47
23	Nestle SA	Switzerland	66,677	83,426	57,234	78,528	83
24	BMW AG	Germany	66,053	104,118	48,172	61,472	56
25	Procter & Gamble	US	64,487	138,014	44,530	76,476	59
26	General Motors	US	63,538	186,192	76,308	207,349	44
27	Nissan Motor Co Ltd	Japan	61,398	104,264	68,703	90,014	62
28	Deutsche Post AG	Germany	60,938	286,709	44,807	75,957	37
29	Enl Group	Italy	58,113	116,307	62,429	108,023	53
30	Sanofi-aventis	France	55,342	102,414	20,266	35,595	61
31	DaimlerChrysler AG	Germany, US	55,214	250,259	82,130	190,176	31
32	Pfizer Inc	US	53,765	114,837	22,549	48,371	51
33	Roche Group	Switzerland	52,178	60,980	33,155	33,531	80
34	Mitsui & Co Ltd.	Japan	50,678	82,499	17,557	41,967	66
35	Mitsubishi Motors Corporation	Japan	48,328	96,559	37,270	176,410	35
36	IBM	US	47,392	103,234	55,507	91,424	57
37	Xstrata PLC	UK	45,284	47,216	15,038	17,632	92
38	Fiat Spa	Italy	44,715	76,785	46,394	65,026	62
39	Novartis	Switzerland	42,922	68,008	35,630	36,031	71
40	Sony Corporation	Japan	40,925	98,498	52,045	71,331	59

Rank	Name	Home Country	Foreign Assets	Total Assets	Foreign Sales	Total Sales	TNI (%)
41	Compagnie De Saint-Gobain	France	39,729	54,887	37,224	52,184	72
42	BASF AG	Germany	38,705	59,648	37,194	66,002	57
43	Repsol YPF SA	Spain	38,281	59,530	32,651	64,427	55
44	Hewlett-Packard	US	37,664	81,981	59,414	91,658	59
45	Eads	Netherlands	36,868	95,005	38,937	49,472	48
46	Philips Electronics	Netherlands	36,680	50,701	32,478	33,843	85
47	Renault SA	France	35,935	90,565	34,268	52,099	51
48	Linde AG	Germany	35,125	36,871	13,322	15,605	89
49	Lafarge SA	France	34,793	39,265	18,047	21,213	81
50	Unilever	UK, Netherlands	34,433	48,824	45,078	49,733	79

Table 1-5 The World's 50 Largest Multinational Companies

Source: UNCTAD, World Investment Report 2008. http://www.unctad.org/en/docs/wir2008_en.pdf, Annex Table A.I.15., pp. 220-221.
Note: All figures are in USD millions.

Among the 20 largest multinational companies, we can find seven different countries represented. This distribution reflects the 1980s to 2000s trend discussed earlier toward a more widespread distribution of multinational firms across countries of the world. Even with this trend, few firms from Asia yet top this list. Toyota Motors and Honda Motors from Japan can be found on this list. Just a few years ago, this same list of the largest multinational companies included many other Japanese General Trading companies (sometimes referred to as "sogo shosha"), such as Marubeni, Sumitomo, and Mitsubishi. These companies have faced quite severe pressure on their operations since the close of the 1980s, resulting in a substantial reduction in their domestic and foreign assets and revenues.

Hutchison Whampoa at number 21 is the largest Asian-based company to be found on the list of the world's top 50 multinational companies. Once we exclude Japan, we can see in Table 1-6 that other large companies in Asia will require substantial growth in their foreign assets before moving up the ranks of the world's top 50 list. Unilever, at number 50, had USD 34.4 billion in foreign assets. The number five company in the top 25 multinational companies in Asia list, SingTel Ltd., had about 54% of that at USD 18.7 billion. SingTel Ltd. had foreign assets that were twice as large as Malaysia's Petronas, the number four company in the Asia list.

Several companies from South Korea were part of the list of Asia's largest multinational companies including Samsung Electronics, Hyundai Motors, LG, and Kia Motors. These companies were largely affiliated with a business group structure called chaebol, referring to a South Korean form of business group.

Rank	Name	Home Country	Foreign Assets	Total Assets	Foreign Sales	Total Sales	TNI (%)
1	Hutchison Whampoa Ltd.	Hong Kong	70,679	87,146	28,619	34,428	82.3
2	Petronas – Petroliam Nasional Bhd	Malaysia	30,668	85,201	14,937	50,984	25.7
3	Samsung Electronics Co., Ltd	South Korea	27,011	87,111	71,590	91,856	47.8
4	Hyundai Motor Company	South Korea	19,581	76,064	30,596	68,468	26.6
5	SingTel Ltd.	Singapore	18,678	21,288	5,977	8,575	67.6
6	CITIC Group	China	17,623	117,355	2,482	10,113	18.9
7	Formosa Plastic Group	Taiwan	16,754	75,760	13,002	50,445	40.9
8	Jardine Matheson Holdings Ltd.	Hong Kong	16,704	20,378	12,527	16,281	70.6
9	LG Corporation	South Korea	15,016	53,915	43,902	70,613	47.2
10	China Ocean Shipping (Group) Company	China	10,397	18,711	8,777	15,737	39.2
11	CapitaLand Limited	Singapore	7,781	13,463	1,461	2,053	59.5
12	Hon Hai Precision Industries	Taiwan	7,606	19,223	16,801	40,507	55.1
13	China State Construction Engineering Corporation	China	6,998	15,986	4,483	18,544	29.7
14	Kia Motors	South Korea	6,767	18,655	11,525	21,316	40.6
15	China National Petroleum Corporation	China	6,374	178,843	3,036	114,443	2.7
16	New World Development Co., Ltd.	HK, China	6,147	18,535	1,430	2,995	37.4
17	CLP Holdings	HK, China	6,096	15,965	1,283	4,951	31.4
18	Sinochem Corporation	China	5,326	8,898	19,374	23,594	47.7
19	YTL Corporation Berhad	Malaysia	5,273	8,423	726	1,556	46.8
20	Star Cruises	HK, China	5,195	6,140	1,943	2,343	60.8
21	Taiwan Semiconductor Manufacturing Co Ltd	Taiwan	5,106	18,023	10,875	18,023	40.8
22	Quanta Computer Inc	Taiwan	4,962	6,961	2,211	16,495	39.3
23	Orient Overseas International Ltd.	HK, China	4,893	5,600	1,516	4,610	68.5
24	Oil & Natural Gas Corporation	India	4,726	33,008	2,468	18,457	13.2
25	Shangri-La Asia Ltd	HK, China	4,707	5,076	783	1,002	82.8

Table 1-6 Asia’s 25 Largest Multinational Companies (excluding Japan)

Source: UNCTAD, World Investment Report 2008. http://www.unctad.org/en/docs/wir2008_en.pdf, Annex Table A.I.16., pp. 223-225.
Note: All figures are in USD millions.

Several Hong Kong companies made the list. Some, such as First Pacific, had a very low percentage of revenues and assets attributable to operations in their Hong Kong base

but had substantial operations in other countries in Asia, such as Indonesia and the Philippines. Other large companies such as Jardine Matheson in Hong Kong had a long history and a strong connection to the British colonial heritage of Hong Kong. Companies from Taiwan, Singapore, Malaysia, China, and India completed the list of the top 25, marking a widening distribution of large multinational firms across different Asian countries.

In this context of growing multinational firms from Asia, the evolution of Taiwan-based Acer, ranked 34, is worth reviewing. Acer (www.global.acer.com) emerged in 1976 as it began to commercialize microprocessor technology. The company grew and expanded its scope over the next 25 years in an effort to become a diversified, global conglomerate and “Taiwan’s answer to Japan's Hitachi Ltd. and South Korea’s Samsung Group.”[6] In 1981, Acer opened its first manufacturing plant in HsinChu, Taiwan. Eight years later, Acer initiated its globalization strategy, forming a joint venture with Texas Instruments to enter the Japanese dominated computer chip industry. Acer then expanded its product line in the early 1990s by entering the PC market, producing, among other products, one of the first stripped-down, under-USD 1,000, user-friendly, PCs.

At the turn of the century, losses in the US market and the erratic chip-market led Acer to restructure. In 2000, Acer divested parts of several of its businesses to refocus the parent company on selling and branding its IT products and services. Three independent affiliates emerged from the restructuring: Wistron (www.wistron.com), an OEM manufacturer of computer electronics, BenQ (www.benq.com), a developer of communications and media solutions, and ALi Corp. (www.ali.com.tw), a chip manufacturer. Other divisions that were spun-off included Au Optronics, formally Acer Display, which went public in 2000 (www.auo.com) and Ambit (www.ambit.com.tw), a communications equipment designer and manufacturer. In 2003, Acer was no longer a single multinational company. Instead, it was the pan-Acer Group of companies that were separate businesses held under the pan-Acer Group umbrella. This focusing and strengthening continued throughout the 2000s. At the end of 2007, Acer acquired US-based competitor Gateway Inc. in order to strengthen Acer’s US presence. In 2008, Acer achieved the number one position in worldwide notebook sales, passing competitors HP and Dell.

How Multinational is Multinational?

Tables 1-5 and 1-6 show the readily recognizable numbers of assets and sales along with the less recognizable TNI, or Transnationality Index. The TNI is included in these tables to show just how multinational each multinational company is. The TNI is simply a measure of what proportion of a firm’s activities falls outside of its home country.

The TNI helps with our understanding about trends in multinational expansion among the world's largest firms. It provides more information than just identifying if a firm is multinational. The definition of a multinational firm is clear – it is a company that has operations in more than one country of the world. But are all multinational firms equally multinational? When scanning the TNIs in Tables 1-5 and 1-6, the answer is clearly "No."

As we just mentioned, the TNI defines multinationality by looking at what proportion of a firm's activities falls outside of its home country. One way to define a TNI is to look at how many countries in which a firm has made foreign investments, or to how many countries a firm exports. Another way is to count how many foreign subsidiaries it has. For each of these methods, the greater the count, the higher a company's index of multinationality.

A second way to define a firm's degree of multinationality is to look at the international dispersion of its employment, sales, and assets. By doing this we can construct indexes such as a firm's degree of internationalization (DOI), or its Transnationality Index (TNI). The TNI is a ratio that represents the average of the values of the percentage of a firm's sales, a firm's assets, and a firm's employment in its international markets.

$$TNI = (Si + Ei + Ai)/3$$

where:

S = total sales, Sf = foreign sales
Si = foreign sales index (Sf / S*100)

E = total employment, Ef = foreign employment
Ei = foreign employment index (Ef / E*100)

A = total assets, Af = foreign assets
Ai = foreign asset index (Af / A*100)

Whichever of these indexes is used, the same conclusion is reached. Companies are becoming increasingly international. As an example, the TNIs of the world's largest multinational companies show a general upwards progression, from 45% in 1994 to 61% by 2007. This increase in TNI is even greater for small companies that have a higher percentage growth rate than the world's largest multinationals.

For the companies listed in Tables 1-5 and 1-6, we can notice an interesting cross-national trend. The companies from large economies like Japan and the United States have, on average, lower TNIs than multinational companies from smaller economies. This discrepancy should not be that surprising. A large home economy should be home

to a larger percentage of a firm's sales than a small home economy. Eventually, multinational companies based in small economies, such as Singapore and Hong Kong, could approach the TNIs of large, well-established Swedish multinational firms such as Electrolux, Alfa Laval, and Ericsson, each of which has a TNI greater than 90%. Indeed, some large multinational companies in Asia already do. Want Want Holdings of Singapore had a TNI of 98.8%. Other companies such as Hong Kong's Hutchison Whampoa Ltd. and Shangri-La Asia Ltd. or Singapore's Asia Food & Properties and Stats Chippac Ltd. had TNIs that exceeded 75%.

TRENDS IN FOREIGN DIRECT INVESTMENT

In becoming increasingly international, firms worldwide are undertaking larger amounts of foreign direct investment. This growth in foreign investment has been very consistent over the past three decades. With only a few years as exceptions, including the years 2001 and 2002 versus the years 2000 and 2001, the volume of FDI in one year has exceeded that in the preceding year (see Figure 1-1). The result is that by the year 2000, more than USD 1.5 trillion flowed from one country to another in the form of foreign direct investment, a figure that should exceed USD two trillion in flows early in the 2010s.

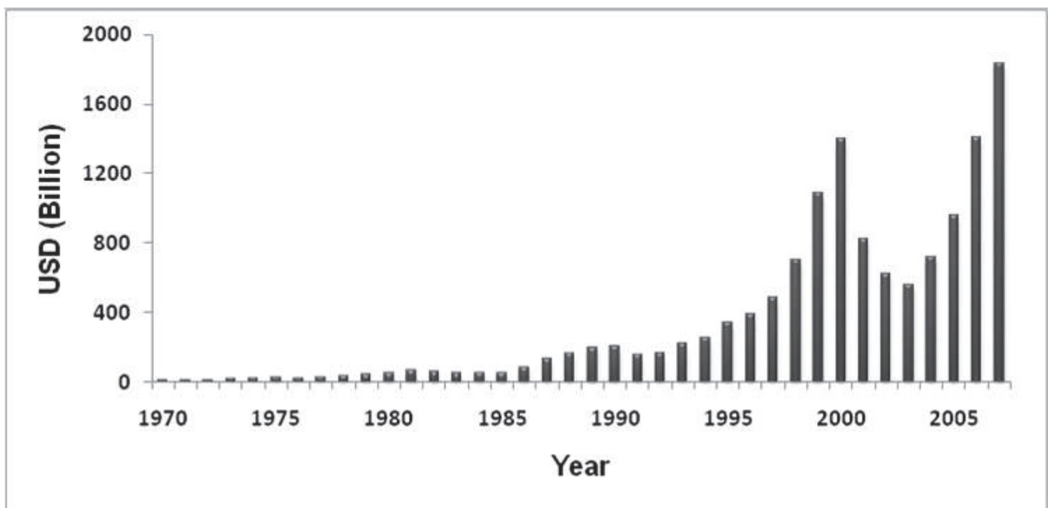

Figure 1-1 FDI Worldwide (1970-2007)

Source: http://stats.unctad.org/FDI/TableViewer/tableView.aspx?ReportId=1254, WIR 2008, June 4, 2009.

FDI growth has been consistent, but the destination and origin of FDI flows have been undergoing change, especially since the onset of the 1990s. The principal change has

been a growth in the participation of developing nations in the world as both sources and recipients of FDI flows (see Figures 1-2 and 1-3).

Although there has been this change, developing countries have had a considerable gap to overcome in being sources and recipients of FDI flows. Even with a growing volume in FDI outflows that outpaced growth from developed countries in percentage terms in the 1990s, developing countries still lagged developed countries in the 2000s in aggregate FDI outflows.

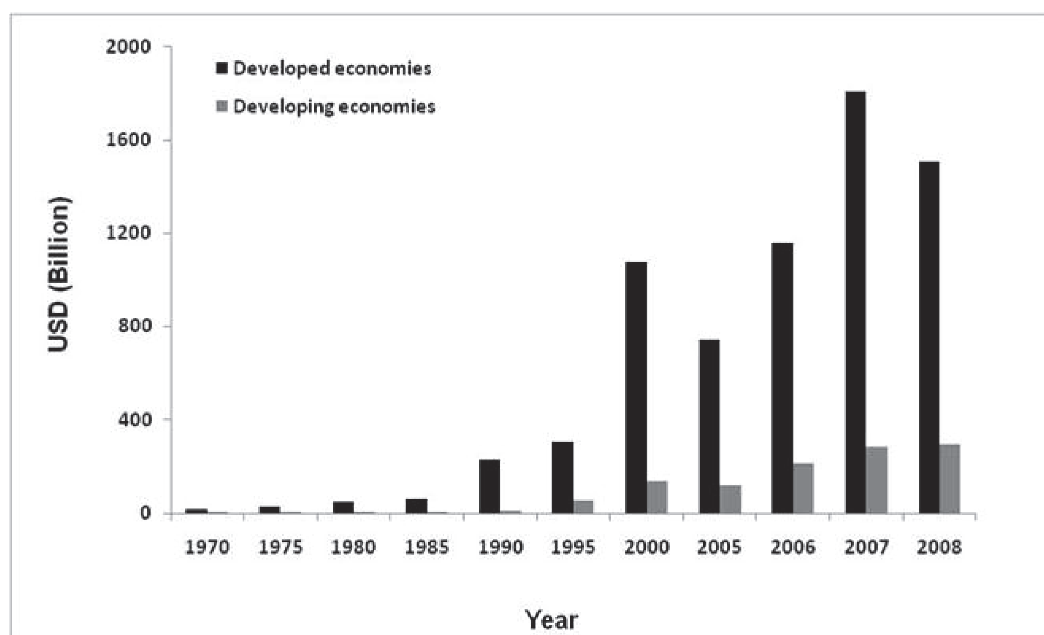

Figure 1-2 FDI Outflows (1970-2007)

Source: http://stats.unctad.org/FDI/TableViewer/tableView.aspx?ReportId=1254, WIR 2008, June 4, 2009.

The flipside to FDI outflows is FDI inflows. In this case, the gains made by developing countries have been much more rapid. The gap between inflows received by developed and developing countries has narrowed considerably from 1970 up to 2000 (Figure 1-3). Moving through the 2000s, the trend reverses, with a steady increase in the gap.

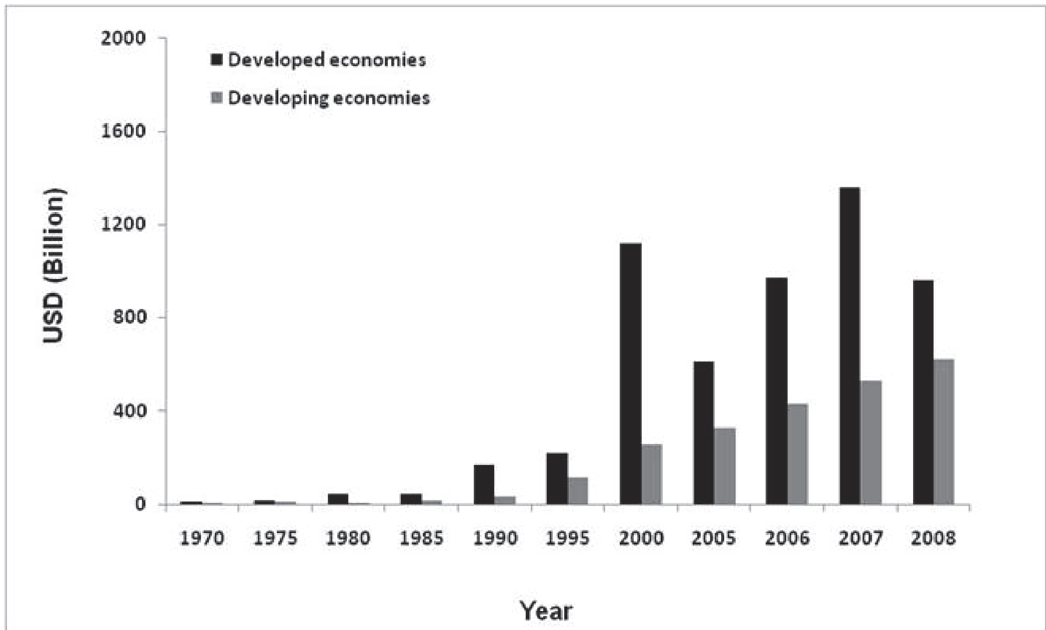

Figure 1-3 FDI Inflows (1970-2007)

Source: http://stats.unctad.org/FDI/TableViewer/tableView.aspx?ReportId=1254, WIR 2008, June 4, 2009.

As suggested within these trends, by the onset of the 2000s, we still had the same base situation as in the 1970s but with some shifts in the net positions of developed and developing countries. Developed countries were the major sources of FDI outflows and, by and large, the largest recipients of FDI inflows. A considerable portion of developed country FDI outflows went to developing countries as well. This meant that developing countries still received more inward FDI than they expended on outward FDI. In this way, developing countries were net recipients of FDI (Figure 1-4).

Interestingly, in 2006, North America was a net recipient of FDI for the sixth consecutive year. Only the countries of Europe were in a net contributor position. In much of the preceding two decades, the United States (but not Canada) produced more FDI outflows than it received FDI inflows, excluding the years 2005 and 2006. Part of the emerging popularity of the United States as a destination for FDI inflows relates to changing motives for FDI, in which a technology sourcing motive has become more prominent in recent years. For now, however, it is important to note that FDI inflows into Asia exceeded outflows, reinforcing the idea that foreign competition is a significant management challenge for managers in firms based in the Asia-Pacific region.

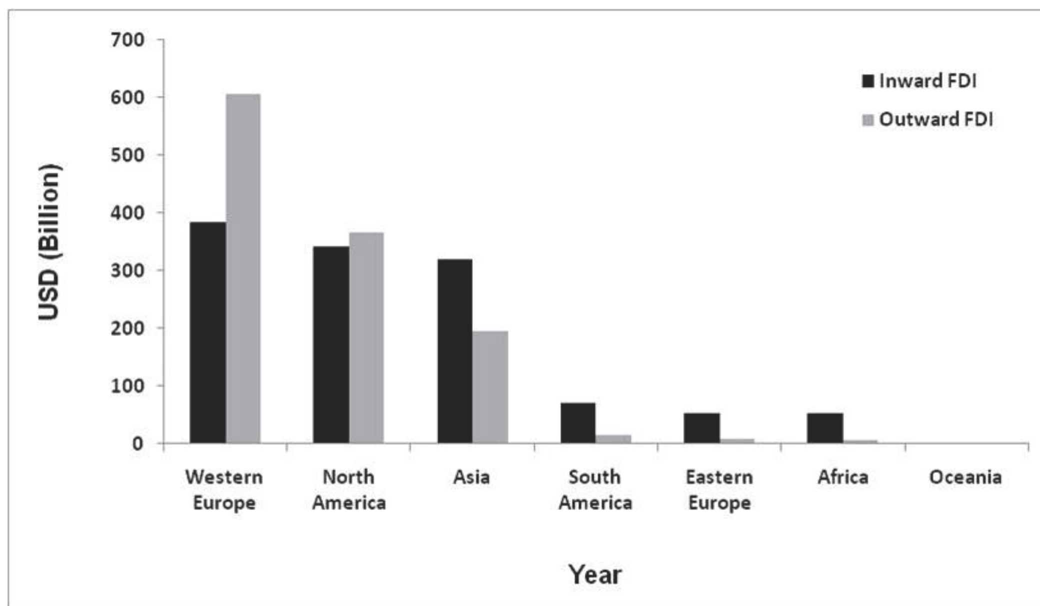

Figure 1-4 FDI Flows by Region (2007)

Source: http://stats.unctad.org/FDI/TableViewer/tableView.aspx?ReportId=1254, WIR 2008, June 4, 2009.

INTERNATIONAL MANAGEMENT ISSUES

Understanding how to compete against foreign firms is one of the major management issues faced by managers in firms based in the Asia-Pacific region. Yet, managers must also contend with a host of other issues. Some of these relate to the practice of international business in general, while others are specific to the management of firms based in the Asia-Pacific region.

A manager in a firm that is active internationally faces a much more complex external environment than does a manager in a firm that competes solely in its home market. The internal management of a multinational firm is also more complex than in the case of a primarily domestic one, as are many of the management tasks.

The complexity in the external environment comes from the variety of cultural, economic, legal, and social conditions encountered when a firm has operations in many countries. Across countries, cultures are diverse, economic and political systems vary in noticeable and important ways, and values and languages can have few similarities across nations. Each of these make typical management tasks either more complex or unique, and can raise the costs of a firm’s operations.

The complexity in the internal firm environment comes from managing globally diversified operations. Issues of organizational design and organizational structure increase in importance as a firm's internationalization process matures. As a firm internationalizes, questions can arise about how to compete against locally-based firms or against foreign competitors that have set up operations in a firm's home country. The management of subsidiary operations, along such dimensions as autonomy, control, and types of value-added activities in a subsidiary, compounds in complexity, such as Carrefour has experienced in expanding its retail operations in Asia (see Box 1-3).

Complexity in internal operations can come from a variety of other areas. A firm operating internationally is likely to have greater diversity among its employees than a domestic firm. This diversity can be reflected in native languages, tastes, background, education, and expectations about relationships with supervisors and subordinates. This diversity means that it can be more challenging and expensive to develop human resource management systems for recruitment, selection, training, promotion, and compensation of employees. Expatriate management can be a Byzantine task. Typically, expatriates struggle to cope with the singular demands of an overseas assignment in which culture, business relationships, and ethical standards can vary from the norms in the home country.

These issues can each assume a heightened prominence as a firm increasingly expands its range of international operations. Navigating successfully through this sea of challenges is not beyond the scope of an effective manager, but it can be a considerable challenge. Furthermore, the costs encountered by a firm in meeting these challenges can be more than offset by the gains from the effective and successful management of a firm's internationalization. This idea is echoed in the ongoing internationalization trend. In increasing numbers, firms from all regions of the world continue to assume the challenge of moving into international markets. This idea is also reflected in the performance of international firms.

Consistently, whether it is a large European, American, or Japanese multinational firm, the greater the degree of a firm's multinationality, the greater its performance. However, there is some limit to the performance gains from international expansion (Figure 1-5). A firm should not forgo all domestic activities to pursue 100% of its sales from foreign operations. But a substantial movement of a firm's activities into international markets can be met with a positive growth in sales and a sound financial performance.

Although there are gains attributable to the international growth of a firm, the gains will not always be immediate. When we consider the performance of small

internationalizing firms alongside that of the large multinational firms depicted in Figure 1-6, we find that small internationalizing firms must pay an initiation fee to join the ranks of well-established multinational firms. This initiation fee covers the costs of a substantial number of management challenges to be met when a firm is becoming a multinational firm.

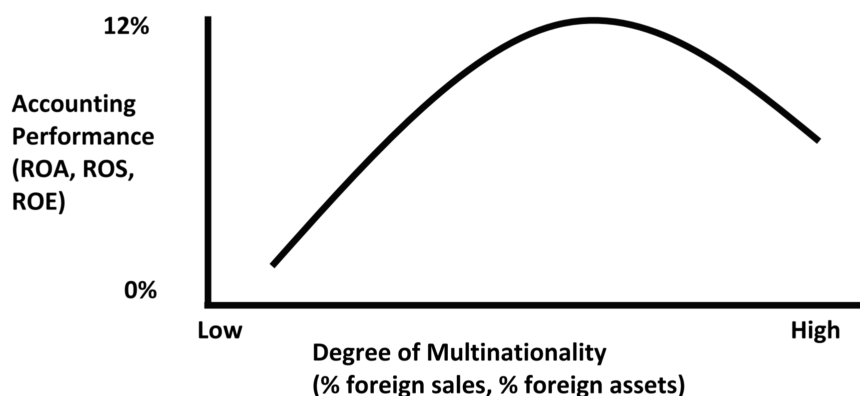

Figure 1-5 Multinationality and Performance: Large Multinational Firms [7]

We have identified some of the challenges in our earlier discussion in this chapter. Several of these challenges can be at their greatest during the early internationalization stage, during which a firm's managers must learn how to operate in international markets. Effectively managing the obstacles to early growth into international markets can shorten the time from the first performance, thereby decreasing the steps required to achieve the heightened economic performance that comes later in the internationalization process. Other challenges increase in prominence once a firm's operations have a substantial multinational content. Effective management of the barriers to continued expansion into international markets can widen the positive performance scope of a firm's geographic expansion (see Figure 1-7).

We take into account the management challenges to internationalization and those encountered in the management of a multinational firm in the subsequent chapters of the book. Managers concerned with international business must manage the internationalization process of the firm, and once internationalized, manage the operations of the multinational firm.

To manage internationalization, a manager should understand the drivers of internationalization (Chapter 2), the cultural and political sources of uncertainty and

complexity in the international environment (Chapters 3 and 4), and the major decisions encountered when expanding in international markets (Chapters 5, 6, 7, and 8). To manage a multinational, a manager should understand the essential competitive issues underlying a multinational firm's expansion (Chapter 9) and the competitive challenge posed by strong groups of domestic firms (Chapter 10). Management issues in a multinational firm also involve understanding the sources of tension, conflicting demands, and trade-offs in a multinational firm's operations (Chapter 11), the exceptional circumstances encountered when managing a subsidiary operation of a multinational corporation (Chapter 12), the dilemmas in human resource management created by international operations (Chapter 13), and the ethical responsibilities of managing a multinational firm (Chapter 14).[8]

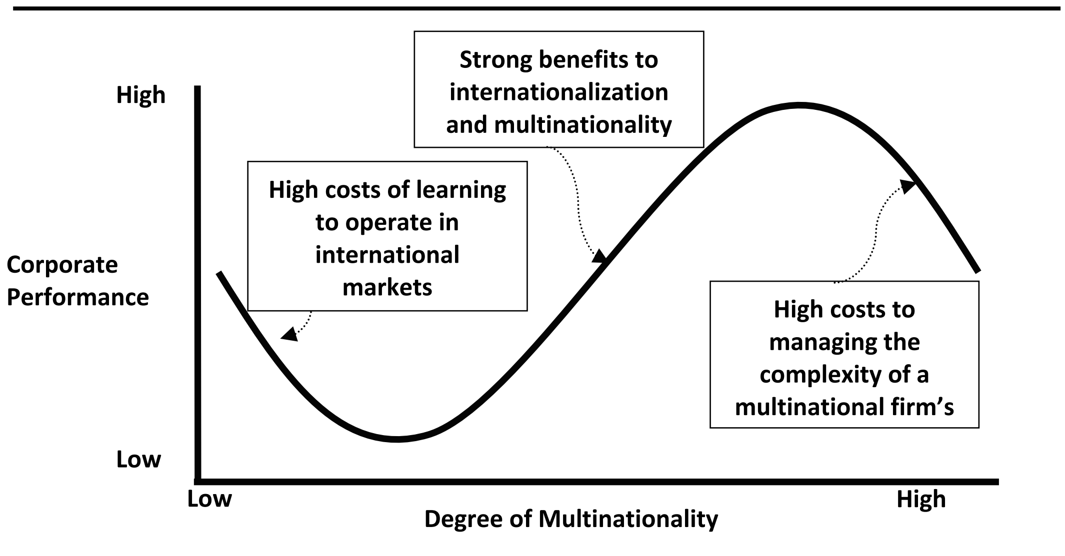

Figure 1-7 Multinationality and Performance: Large and Small Firms [9]

Source: Adapted from Jane W. Lu and Paul Beamish, "International diversification and firm performance: The S-curve hypothesis," Academy of Management Journal, vol. 47, pp. 598-609.

By any stretch of the imagination, these issues are not exhaustive of those that underlie the international business and international management fields. But in many ways, these are the ones that are truly unique to a manager in a firm competing in international markets. By mastering the issues covered in this and the next 13 chapters, a prospective international manager can acquire a thorough grounding in international business that can be used to support the development of multinational management skills and expertise in operating in a particular area of international business – be it

international marketing, international corporate finance, international accounting, or international strategy. We begin that development in Chapter 2 with an exploration into the environment of international business.

CHAPTER 1 ENDNOTES

[1] http://www.uc-council.org/ean_ucc_system, November 15, 2003.

[2] Kathleen Hickey, "Getting in Tune: Standards Organizations See Wider Embrace of Supply-chain Standards, Greater Collaboration," *Traffic World*, July 21, 2003, vol. 267, no. 29, pp. 17-18.

[3] "GCI Plans Strategy for Global Standards," *MMR*, December 17, 2001, vol. 18, no. 18, p. 48. http://www.gci-net.org/e2/e4/, June 2, 2009.

[4] Alan M. Rugman, *End of Globalization* (London: Random House, 2001).

[5] http://www.wto.org/english/docs_e/legal_e/ursum_wp.htm, November 18, 2003. http://www.wto.org/english/docs_e/legal_e/ldc2_512.htm, April 09, 2003.

[6] Bruce Einhorn, "A Proud Papa Called Acer," *BusinessWeek*, September 9, 2002, no. 3798, p. 24.

[7] Several researchers find this result including J. Michael Geringer, Paul W. Beamish, and Richard C. daCosta, "Diversification Strategy and Internationalization: Implications for MNE Performance," *Strategic Management Journal*, 1987, vol. 10, no. 2, pp. 109-119; M. A., Hitt, R. E. Hoskisson and H. Kim, "International Diversification: Effects on Innovation and Firm Performance in Product-diversified Firm," *Academy of Management Journal*, 1997, vol. 40, no. 4, pp. 767-798. Other research has found a positive relationship between a firm's degree of internationalization and performance including Andrew Delios and Paul W. Beamish, "Geographic Scope, Product Diversification, and the Corporate Performance of Japanese Firms," *Strategic Management Journal*, 1999, vol. 20, no. 8, pp. 711-727; Jiatao Li and Stephen Tallman, "Effects of International Diversity and Product Diversity on the Performance of Multinational Firms," *Academy of Management Journal,* 1996, vol. 39, no.1, pp. 179-196.

[8] In our discussion of the topics covered in this book, we make reference to numerous articles and studies in the international business and international management journals. Our referencing is not exhaustive of all possible studies in the various areas. A more complete list of studies can be found in reviews published by Steve Werner, "Recent Developments in International Management Research: A Review of 20 Top Management Journals," *Journal of Management*, 2002, vol. 28, no. 3, pp. 277-297., and Jane W. Lu, "The Evolving Contributions in International Management Research," *Journal of International Management*, 2003, vol. 9, no. 2, pp. 193-213.

[9] See Jane W. Lu and Paul Beamish, "International diversification and firm performance: The S-curve hypothesis," *Academy of Management Journal*, vol. 47, pp. 598-609.