Sample Questions for **B.Com (Hons)** 6th Semester students.

SUBJECT- INTERNATIONAL BUSINESS

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1. Is it possible to integrate national economies? If yes, then what are the ways of doing it and how many stages of development will it undergo?

2. The promising consumer ecosystem in India has encouraged many global brands to invest in our country. Last year a Japanese brand Uniqlo made its debut in India by opening a shop in New Delhi.
What are the other ways of investment into Indian Market?

3. Aggregate of customs, beliefs, values, habits that bind people together as a social entity plays a major role in International business. Comment.

4. If a firm prefers hiring people of their home country as they believe that workforce in their home country is superior then which approach is it? Also, explain different kinds of approaches in International business.

5. Is it true that “All countries can gain from International trade”? If yes then explain the theory in support of your answer.

6. What comes in the market has to go one day. Everything has a life. Does International business believes in this theory? Comment.

7. What measures does a country take in order to safeguard its domestic firm from outside competition?

8. Every country makes a statement of its economic transaction with other countries of the world during a specified time period. Name the different accounts maintained under that and also mention the factors that helps to keep debit and credit side balanced.

9. This body was formed as a permanent organ of United Nations general assembly and played a key role in emergence of generalized system of preference. Which body is it and what are its objectives, principles and functions.

10. When 44 countries met in USA in 1944, these two institutions were established. You are required to tell in details about these two institutions, their objectives, principles, structure and functions.

11. Common market is one of the levels under economic co-operation. Mention all other levels and its significance in International business.

12. You are into business and your business is of exporting spices to rest of the world. How likely is it that you are going to deal with the concepts like Arbitrage, Hedging,

options and Futures. You are also required to explain as to why or why not you have to come across a particular concept.

13. Tamil Nadu has maximum number of operational SEZs in india. What are the reasons behind that?

14. When factors like pooling of resources, risk sharing and foreign support are your concern then which type of arrangement in International business you will chose and why?

15. Being an exporter, do you need finance? If yes then what can be its source?

16. There is news rounding that several companies want to leave China. Is there an opportunity for India? If yes, then how India can ensure that companies invest in India?

17. Does Common law, civil law and theocratic law really play a role in International business? Comment.

18. In a recent news, Indian government has extended validity of various import linked export schemes like DFIA and EPCG by one year. You are required to explain these schemes.

19. Developing countries rely on buffer stock agreements along with other agreements to safeguard the businesses. What are those agreements? Explain in detail.

20. You are the CFO of an Indian firm whose wholly owned subsidiary in Mexico manufactures component parts for your Indian assembly operations. The subsidiary has been financed by bank borrowings in India. One of your analysts told you that the Mexican peso is expected to depreciate by 30 percent against the Indian rupee on the foreign exchange markets over the next year. What actions, if any, should you take?

21. Amidst Covid-19, the economy of India has suffered severely. To cope up with this the Indian government has emphasized on “Made in India but made for the world” concept. Mention various ways that can be used to promote this idea?

CASE STUDIES

1. Mahindra & Mahindra

Mahindra & Mahindra (M & M) is a major player in the tractor and certain segments of the automobile market in India. After an impressive growth for a few years, the tractor market in India has been stagnating during 1998-1999 to 2000-2001. M & M has been selling its tractors and utility vehicles in foreign markets including USA.

Some of the components for its products have been sourced from abroad. M & M has a 100 per cent subsidiary in USA, Mahindra USA, with a strong network of 100 dealers.

Mahindra has a five per cent market share in the US market in the 20-30 horse power (HP) range. As a part of the strategy aimed at building a global supply chain, Mahindra USA has signed a memorandum of understanding (MoU) with the Korean tractor major Tong Yang, a part of the $ 2 billion Tong Yang Moolsam group, according to which Mahindra will source high horse power (mostly 25-40 hp range) and sell them around the world under the M & M brand name. To start with, the premium range of tractors will be sold in the US. M & M’s current tractor range is more utility-oriented and lacks the aesthetic appeal that Tong Yang’s tractors have, a must for a strong presence in the US market.

Questions

1) What are the advantages and disadvantages of global sourcing ?

(2) How will the foreign market expansion help M & M ?

(3) How does the strategic alliance with Tong Yang benefit M & M ?

(4) What are the possible risks of the alliance ? How can they be overcome/ minimised ?

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2. The Globalization of Health Care

It has long been thought that health care is one of the industries least vulnerable to dislocation from globalization. After all, like many service businesses, health care is normally delivered where it is purchased. However, for some activities and procedures, this is now fast changing. The trend began with certain diagnostic procedures, such as MRI scans. The United States has a shortage of radiologists, the doctors who specialize in reading and interpreting diagnostic medical images, including X-rays, CT scans, MRI scans, and ultrasounds. Demand for radiologists has been growing twice as fast as the rate at which medical schools are graduating radiologists with the skills and qualifications required to read medical images. This imbalance between supply and demand means that radiologists are expensive; an American radiologist can earn as much as $400,000 a year. In the early 2000s, an Indian radiologist working at the Massachusetts General Hospital, Dr. Sanjay Saini, found a way to deal with the shortage and expense-send images over the Internet to India, where they could be interpreted by radiologists. This would reduce the workload on America's radiologists and also cut costs. A radiologist in India might earn one-tenth of his or her U.S. counterpart. Plus, because India is on the opposite side of the globe, the images could be interpreted while it was nighttime in the United States and be ready for the attending physician when he or she arrived for work the following morning. The globalization trend has now spilled over into surgery. In the fall of 2008, for example, Adrienne de Forrest of Colorado had hip surgery in Chennai, India, while Texan David Jones had triple bypass surgery in New Delhi. Both patients were uninsured. De Forrest's surgery cost $8,000, and Jones's cost $16,000 including travel expenses. Had those operations been done in the United States, they would have cost $45,000 and $250,000, respectively. Forrest and Jones are not alone; in 2007 some 750,000 Americans traveled abroad for medical treatment. The consulting company Deloitte is forecasting the numbers to reach 10 million by 2012, which would be worth about $21 billion to those nations where the procedures are performed.Some might be worried about the quality of medical care in other countries, but medical tourists typically go to new hospitals, most of which are private, where highly skilled physicians treat them, many of whom trained in the United States or Britain. The three largest recipient countries of American patients are Mexico (due to its proximity), India (where 450,000 were treated in 2007), and Singapore (where more than 400,000 were treated in 2007, and where the local medical schools are considered to be among the very best in the world). Costs in these countries generally run from 20 to 35 percent of those in the United States.A number of factors are driving the globalization trend. First there is the high cost of medical care in the United States, which is the source of the largest number of patients. Then there is the fact that over 45 million Americans are uninsured and many more are "underinsured" and face high copayments for expensive procedures (although recent legislation in the United States should change this over the next five years). Many of these people find it far cheaper to fly abroad to get treatment. Third is the emergence of high-quality private hospital chains in places such as India and Singapore. Fourth, the rising costs of insuring their workforces are starting to persuade some large American companies to look abroad. And finally, some insurance companies are experimenting with payment for foreign treatment at internationally accredited hospitals. In 2008, for example, Aetna, a large insurer, launched a pilot scheme in partnership with Singaporean hospitals. Aetna started to give Americans the option to have procedures costing $20,000 or more in the United States performed in Singapore, where the company reckons that the quality of care is better than at the average American hospital.

Questions

l. What are the facilitating developments that have allowed health care to start globalizing?

2. Who benefits from the globalization of health care? Who are the losers?

3. Are there any risks associated with the globalization of health care? Can these risks be mitigated? Why?

4. On balance, do you think that the globalization of health care is a good thing, or not?

3. Indonesia-Asia's stumbling giant.

Indonesia is a vast country. Its 220 million people are spread out over some 17,000 islands that span an arc 3,200 miles long from Sumatra in the west to Irian Jaya in the east. It is the world's most populous Muslim nation-some 85 percent of the population count themselves as Muslims-but also one of the most ethnically diverse. More than 500 languages are spoken in the country, and separatists are active in a number of provinces. For 30 years the strong arm of President Suharto held this sprawling nation together. Suharto was a virtual dictator who was backed by the military establishment. Under his rule, the Indonesian economy grew steadily, but there was a cost. Suharto brutally repressed internal dissent. He was also famous for "crony capitalism," using his command of the political system to favor the business enterprises of his supporters and family. In the end, Suharto was overtaken by massive debts that Indonesia had accumulated during the 1990s. In 1997, the Indonesian economy went into a tailspin. The International Monetary Fund stepped in with a $43 billion rescue package. When it was revealed that much of this money found its way into the personal coffers of Suharto and his cronies, people took to the streets in protest and he was forced to resign. After Suharto, Indonesia moved rapidly toward a vigorous democracy, culminating in October 2004 with the inauguration of Susilo Bambang Yudhoyono, the country's directly elected president (he was elected to a second term in 2009). The economic front has also seen progress. Public debt as a percentage of GDP fell from close to 100 percent in 2000 to around 27 percent by 2010. Inflation declined from 12 percent annually in 2001 to 5 percent in 2010. The economy grew by between 4 and 6 percent per annum during 2001-10, and hit a high of 6.9 percent growth in 2010. But Indonesia lags behind its Southeast Asian neighbors. Its economic growth trails that of China, Malaysia, and Thailand. Unemployment is still high at about7 percent of the working population. Growth in labor productivity has been sluggish at best. Worse still, significant foreign capital has left the country. Sony made headlines by shutting down an audio equipment factory in 2003, and a number of apparel enterprises have left Indonesia for China and Vietnam. Between 2001 and 2004 the stock of foreign direct investment in Indonesia fell from $24.8 billion to $11.4 billion. It has since increased to more than $80 billion, largely as a result of investment in Indonesia's natural resources, including mining, oil and gas production, and forestry, but outside of extractive industries, foreign investment has remained low. Some observers feel that Indonesian is hobbled by its poor infrastructure. Public infrastructure investment has been low for years. The road system is a mess, half of the country's population has no access to electricity, the number of brownouts is on the rise as the electricity grid ages, and over 90 percent of the population lacks access to modern sewerage facilities. The tsunami that ravaged the coast of Sumatra in late 2004 only made matters worse. Mirroring the decline in public investment has been a slump in private investment. Investment in the country's all-important oil industry fell from $3.8 billion in 1996 to just $187 million in 2002, although it has picked up since.Oil production, which peaked at l. 7 million barrels a day in the mid-1990s, declined to less than 1 million barrels a day by 2010, even though oil prices were close.

Although as we shall see, there is not a strict one-to-one correspondence between political systems and economic systems. A. 0. Hirschman, "The On-and-Off to record highs. Once a net exporter of oil, Indonesia is now an importer.According to a World

Bank study, business activity in Indonesia is hurt by excessive red tape. It takes 151 days on average to complete the paperwork necessary to start a business, compared to 30 days in Malaysia and just 8 days in Singapore. Another problem is the endemically high level of corruption. Transparency International, which studies corruption around the world, ranks Indonesia among the most corrupt, listing it 110 out of the 178 countries it tracked in 2010. Government bureaucrats, whose salaries are very low, inevitably demand bribes from any company that crosses their path-and Indonesia's penchant for bureaucratic red tape means a long line of officials might require bribes. Abdul Rahman Saleh, the former attorney general in Indonesia, has stated that the entire legal system, including the police and the prosecutors, is mired in corruption. The police have been known to throw the executives of foreign enterprises into jail on the flimsiest of pretexts, although some well-placed bribes can secure their release. Even though Indonesia has launched an anti-corruption drive, critics claim it lacks teeth. The political elite are reportedly so corrupt that it is not in their interests to do anything meaningful to fix the system.

Questions

1. What political factors explain Indonesia's poor economic performance? What economic factors? Are these two related?

2. Why do you think foreign firms exited Indonesia in the early 2000s? What are the implications for the country? What is required to reverse this trend?

3. What are the risks facing foreign firms that do business in Indonesia? What is required to reduce these risks?

4. Japan’s Economic Malaise

In 1989 Japan was widely viewed as an economic superpower. After three decades of robust economic growth it had risen to become the world's second-largest economy. Japanese companies seemed to be obliterating entire American industries, from automobiles and semiconductors to earthmoving equipment and consumer electronics. Japanese companies were buying assets in the United States, including movie studios (Universal Studios and Columbia Pictures), golf courses (Pebble Beach), andreal estate (the Rockefeller Center in New York). The stock market was booming, the Nikkei index hitting an all-time high of 38,957 in December 1989, an increase of more than 600 percent since 1980. Property prices had risen so much that one square mile of Tokyo was said to be worth more than the entire United States. Books were written about the Japanese threat to American dominance. Management theorists praised Japanese companies for their strategic savvy and management excellence. Economists were predicting that Japan would overtake America to become the world's largest economy by 2010. It didn't happen. In quick succession the stock market collapsed and property prices rapidly followed it down. Japanese banks, which had financed much of the boom in asset prices with easy money, now found their balance sheets loaded with bad debt, and they sharply contracted lending. As the stock market plunged and property prices imploded, individuals saw their net worth shrink. Japanese consumers responded by sharply reducing spending, depressing domestic demand and sending the economy into a recession. And there it stayed-for most of the next two decades. Today the Japanese economy is barely larger in real terms than it was in 1989. In 2010, China passed Japan to become the world's second-largest economy. The average price of a home in Japan is the same as it was in 1983, way below the 1989 peak. The Nikkei stock market index stood at 9,600 in early 2011, 75 percent below its 1989 high. And worst of all, Japan has been gripped by deflation for the best part of two decades. Deflation is a situation where prices are falling. When consumers and businesses expect prices to be lower tomorrow than they are today, they react by putting off spending, by hoarding cash, since that cash will buy more tomorrow than it will today. Such behavior can result in a negative cycle. Expectations that prices will fall can lead to reduced demand. Businesses respond by cutting prices further to try to get consumers to spend.Seeing this, consumers react by waiting to buy in expectation that prices will again fall in the future, and so demand continues to decline, which results in additional price cuts to try to stimulate demand, and so on. As businesses see their revenues and margins fall, they reduce employment and cut wages and salaries. This further reduces spending power and adds to the deflationary cycle. To make matters worse, in a deflationary environment the real cost of debt goes up over time. While prices and wages fall, people still have to make fixed payments on their mortgages and car loans. Over time, this takes up an ever-greater proportion of their income,further limiting their ability to spend more on other goods and services. All of this has happened in Japan over the past 20 years. For its part, after initially being slow to respond to falling asset prices, during the past 15 years the Japanese government has repeatedly tried to stimulate the economy and reignite consumer spending. Interest rates have been cut to zero and major investments have been made in public infrastructure. Not only has this not worked, but it has also left Japan with the highest level of government debt as a percentage of GDP in the world, amounting to some 200 percent of GDP (in contrast, the figure for the United States in 2011 was about 97 percent of GDP).

The high debt load is now a limit on the ability of the Japanese government to adopt additional expansionary policies.In seeking to explain Japan's prolonged malaise, many economists also point to demographic factors. In the 1970s and 1980s birthrates in Japan fell below replacement levels, leaving it with one of the oldest populations in the world. The working age population peaked at 87 million in 1995 and has been falling since.

On current trends, by 2030 it will be 67 million. Every year there are fewer and fewer working age people to support ever more retired people-and Japan's retired people are notorious for not spending. Japan could reverse this trend by increasing immigration or boosting the birthrate, but neither of these seems likely at the moment. Increasingly, young people are pessimistic about the future. All they have known is a world where prices for everything, including the price of labor, have fallen.They have diminished expectations.

Questions

1. In the 1980s Japan was viewed as one of the world's most dynamic economies. Today it is viewed as one of its most stagnant. Why has the Japanese economy stagnated?

2. What do you think would be required to get the Japanese economy moving again?

3. What are the implications of Japan's economic stagnation for the benefits, costs, and risks of doing business in this nation?

4. As an international business, which economy would you rather invest in, that of Japan or that of India? Explain your answer.

5. Matsushita (Panasonic) and Japan’s changing culture

Established in 1920, the consumer electronics giant Matsushita was at the forefront of the rise of Japan to the status of major economic power during the 1970s and 1980s. Like many other long-standing Japanese businesses, Matsushita was regarded as a bastion of traditional Japanese values based on strong group identification, reciprocal obligations, and loyalty to the company. Several commentators attributed Matsushita's success, and that of the Japanese economy, to the existence of Confucian values in the workplace. At Matsushita, employees were taken care of by the company from "cradle to the grave." Matsushita provided them with a wide range of benefits including cheap housing, guaranteed lifetime employment, seniority-based pay systems, and generous retirement bonuses. In return, Matsushita expected, and got, loyalty and hard work from its employees. To Japan's postwar generation, struggling to recover from the humiliation of defeat, it seemed like a fair bargain. The employees worked hard for the greater good of Matsushita, and Matsushita reciprocated by bestowing "blessings " on employees. However, culture does not stay constant. According to some observers, the generation born after 1964 lacked the same commitment to traditional Japanese values as their parents. They grew up in a world that was richer, where Western ideas were beginning to make themselves felt, and where the possibilities seemed greater. They did not want to be tied to a company for life, to be a "salary man." These trends came to the fore in the 1990s, when the Japanese economy entered a prolonged economic slump. As the decade progressed, one Japanese firm after another was forced to change its traditional ways of doing business. Slowly at first, troubled companies started to lay off older workers, effectively abandoning lifetime employment guarantees. As younger people saw this happening, they concluded that loyalty to a company might not be reciprocated, effectively undermining one of the central bargains made in postwar Japan.

Matsushita was one of the last companies to tum its back on Japanese traditions, but in 1998, after years of poor performance, it began to modify traditional practices. The principal agents of change were a group of managers who had extensive experience in Matsushita's overseas operations, and included Kunio Nakamura, who became the chief executive of Matsushita in 2000. Nakamura has said the time he spent as a manager of Matsushita subsidiaries in the United States had a strong impact on him, particularly observing how American managers such as Lou Gestner (who turned around IBM) moved quickly to restructure troubled companies. Under Nakamura, Matsushita changed the pay scheme for its 11,000 managers. In the past, the traditional twice-a-year bonuses had been based almost entirely on seniority, but now Matsushita said they would be based on performance. Matsushita announced this process would be made transparent; managers would be shown what their performance rankings were and how these fed into pay bonuses. As elementary as this might sound in the West, for Matsushita it represented the beginning of a revolution in human resource practices. Nakamura took aim at the lifetime employment system and the associated perks. Under the new system, recruits were given the choice of three employment options. First, they could sign on to the traditional option. Under this, they were eligible to live in subsidized company housing, go free to company-organized social events, and buy subsidized services such as banking from group companies. They also still would receive a retirement bonus equal to two years' salary.

Under a second scheme, employees could forgo the guaranteed retirement bonus in exchange for higher starting salaries and keep perks such as cheap company housing. Under a third scheme, they would lose both the retirement bonus and the subsidized services, but they would start at a still higher salary. In its first two years of operation, only 3 percent of recruits chose the third option- suggesting there is still a hankering for the traditional paternalistic relationship-but 41 percent took the second option.

In other ways Matsushita's designs are grander still. As the company has moved into new industries such as software engineering and network communications technology, it has begun to sing the praises of democratization of employees, and it has sought to encourage individuality, initiative taking, and risk seeking among its younger employees. Nakamura stated he wanted younger managers to become "rational and logical in their thinking ... to be aggressive and ambitious, and at the same time to create an organization that can carry out their ambitious plans. "But while such changes may be easy to articulate, they are hard to implement. For all of its talk, Matsushita was slow to dismantle its lifetime employment commitment to those hired under the traditional system. This was underlined early in Nakamura's tenure when in response to continued poor performance, Matsushita announced it would close 30 factories in Japan, cut 13,000 jobs including 1,000 management jobs, and sell a "huge amount of assets" over the next three years. While this seemed to indicate a final break with the lifetime employment system-it represented the first layoffs in the company's history-the company also said unneeded management staff would not be fired but instead transferred to higher growth areas such as health care. With so many of its managers a product of the old way of doing things, a skeptic might question the ability of the company to tum its intentions into a reality. As growth slowed, Matsushita has had to cut back on its hiring, but its continued commitment to longstanding employees means that the average age of its workforce is rising. In the 1960s it was around 25; by the early 2000s it was 35, a trend that might counteract Matsushita's attempts to revolutionize the workplace, for surely those who benefited from the old system will not give way easily to the new. Still, by the mid-2000s it was clear that Matsushita was making progress. After significant losses in 2002, the company broke even in 2003 and started to make profits again in 2004. New growth drivers, such as sales of DVD equipment and flat screen TVs, certainly helped, but so did the cultural and organizational changes that enabled the company to better exploit these new growth opportunities.

Questions

1. What were the triggers of cultural change in Japan during the 1990s? How is cultural change starting to affect traditional values in Japan?

2. How might Japan's changing culture influence the way Japanese businesses operate in the future? What are the potential implications of such changes for the Japanese economy?

3. How did traditional Japanese culture benefit Matsushita during the 1950s-1980s? Did traditional values become more of a liability during the 1990s and early 2000s? How so?

4. What does the Matsushita case teach you about the relationship between societal culture and business success?

6. Walmart's Foreign Expansion

Walmart, the world's largest retailer, has built its success on a strategy of everyday low prices and highly efficient operations, logistics, and information systems that keep inventory to a minimum and ensure against both overstocking and under stocking. The company employs some 2.1 million people, operates 4,200 stores in the United States and 3,600 in the rest of the world, and generated sales of almost $400 billion in fiscal 2008. Some $91 billion of these sales were generated in 15 nations outside of the United States. Facing a slowdown in growth in the United States, Walmart began its international expansion in the early 1990s when it entered Mexico, teaming up in a joint venture with Cifra, Mexico's largest retailer, to open a series of supercenters that sell both groceries and general merchandise. Initially the retailer hit some headwinds in Mexico. It quickly discovered that shopping habits were different. Most people preferred to buy fresh produce at local stores, particularly items such as meat, tortillas, and pan duke, which didn't keep well overnight (many Mexicans lacked large refrigerators). Many consumers also lacked cars and did not buy in large volumes as in the United States. Walmart adjusted its strategy to meet the local conditions, hiring local managers who understood Mexican culture, letting those managers control merchandising strategy, building smaller stores that people could walk to, and offering more fresh produce. At the same time, the company believed it could gradually change the shopping culture in Mexico, educating consumers by showing them the benefits of its American merchandising culture. After all, Walmart's managers reasoned, people once shopped at small stores in the United States, but starting in the 1950s they increasingly gravitated toward large stores such as Walmart. As it built up its distribution systems in Mexico, Walmart was able to lower its costs, and it passed these savings on to Mexican consumers in the form of lower prices. The customization, persistence, and low prices paid off. Mexicans started to change their shopping habits. Today Walmart is Mexico's largest retailer and the country is widely considered to be the company's most successful foreign venture.

Next Walmart expanded into a number of developed nations, including Britain, Germany, and South Korea. There its experiences have been less successful. In all three countries it found itself going head to head against well-established local rivals that had nicely matched their offerings to local shopping habits and consumer preferences. Moreover, consumers in all three countries seemed to have a preference for higher-quality merchandise and were not as attracted to Walmart's discount strategy as consumers were in the United States and Mexico. After years of losses, Walmart pulled out of Germany and South Korea in 2006. At the same time, it continued to look for retailing opportunities elsewhere, particularly in developed nations where it lacked strong local competitors, where it could gradually alter the shopping culture to its advantage, and where its low-price strategy was appealing.Recently, the centerpiece of its international expansion efforts has been China Walmart opened its first store in China in 1996, but initially expanded very slowly, and by 2006 had only 66 stores. Walmart discovered the Chinese were bargain hunters and open to the low-price strategy and wide selection offered at Walmart stores. In terms of their shopping habits, the emerging Chinese middle class seemed more like Americans than Europeans. But to succeed in China, Walmart also found it had to adapt its merchandising and operations strategy so that it meshes with Chinese culture. For example, Walmart has learned Chinese consumers insist that food must be freshly harvested or even killed in front of them. Walmart initially offended Chinese consumers by tryingto sell them dead fish, as well as meat packed in Styrofoam and cellophane. Shoppers turned their noses up at what they saw as old merchandise. So Walmart began to display the meat uncovered, installed fish tanks into which shoppers could plunge fishing nets to pull out their evening meal, and began selling live turtles for turtle soup. Sales soared. Walmart has also learned that in China, success requires it to embrace unions. In the United States Walmart has vigorously resisted unionization, but it realized that in China unions don't bargain for labor contracts. Instead, they are an arm of the state, providing funding for the Communist Party and (in the government's view) securing social order. In mid-2006 Walmart broke with its long-standing antagonism to unions and agreed to allow unions in its Chinese stores. Many believe this set the stage for Walmart's December 2006 purchase of a 35 percent stake in the Trust-Mart chain, which has 101 hyper-markets in 34 cities across China. Now Walmart has proclaimed that China lies at the center of its growth strategy. By early 2009 Walmart had some 243 stores in the country, and despite the global economic slowdown, the company insists that it will continue to open new stores in China at a "double-digit rate."1

Questions

1. Do you think Walmart could translate its merchandising strategy wholesale to another country and succeed? If not, why not?

2. Why do you think Walmart was successful in Mexico?

3. Why do you think Walmart failed in South Korea and Germany? What are the differences between these countries and Mexico?

4. What must Walmart do to succeed in China? Is it on track?

5. To what extent can a company such as Walmart change the culture of the nation where it is doing business?

7. The rise of Bangladesh textile trade

Bangladesh, one of the world's poorest countries, has long depended heavily upon exports of textile products to generate income, employment, and economic growth. Most of these exports are low-cost finished garments sold to mass-market retailers in the West, such as Walmart. For decades, Bangladesh was able to take advantage of a quota system for textile exports that gave it, and other poor countries, preferential access to rich markets such as the United States and the European Union. On January 1, 2005, however, that system was scrapped in favor of one that was based on free trade principles. From then on, exporters in Bangladesh would have to compete for business against producers from other nations such as China and Indonesia. Many analysts predicted the quick collapse of Bangladesh's textile industry. They predicted a sharp jump in unemployment, a decline in the country's balance of payments accounts, and a negative impact on economic growth. The collapse didn't happen. Bangladesh's exports of textiles continued to grow, even as the rest of the world plunged into an economic crisis in 2008. Bangladesh's exports of garments rose to $10.7 billion in 2008, up from $9.3 billion in 2007 and $8.9 billion in 2006. Apparently, Bangladesh has an advantage in the production of textiles-it is one of the world's low-cost producers-and this is allowing the country to grow its share of world markets. As a deep economic recession took hold in developed nations during 2008-09, big importers such as Walmart increased their purchases of low-cost garments from Bangladesh to better serve their customers, who were looking for low prices.

Li & Fung, a Hong Kong company that handles sourcing and apparel manufacturing, stated its production in Bangladesh jumped percent in 2009, while production in China, its biggest supplier, slid 5 percent. Bangladesh's advantage is based on a number of factors. First, labor costs are low, in part due to low hourly wage rates and in part due to investments by textile manufacturers in productivity-boosting technology during the past decade. Today, wage rates in the textile industry in Bangladesh are about $50 to $60 a month, less than half the minimum wage in China. While this pay rate seems dismally low by Western standards, in a country where the gross national income per capita is only $470 a year, it is a living wage and a source of employment for some 3 million people, 85 percent of whom are women with few alternative employment opportunities. Another source of advantage for Bangladesh is that it has a vibrant network of supporting industries that supply inputs to its garment manufacturers. Some three-quarters of all inputs are made locally. This saves garment manufacturers transport and storage costs, import duties, and the long lead times that come with the imported woven fabrics used to make shirts and trousers. In other words, the local supporting industries help to boost the productivity of Bangladesh's garment manufacturers, giving them a cost advantage that goes beyond low wage rates. Bangladesh also has the advantage of not beingChina! Many importers in the West have grown cautious about becoming too dependent upon China for imports of specific goods for fear that if there was disruption, economic or other, their supply chains would be decimated unless they had an alternative source of supply. Thus, Bangladesh has benefited from the trend by Western importers to diversify their supply sources. Although China remains the world's largest exporter of garments, with exports of $120 billion in 2008, wage rates are rising quite fast, suggesting the trend to shift textile production away from China may continue.

Bangladesh, however, does have some negatives; most notable are the constant disruptions in electricity because the government has underinvested in power generation and distribution infrastructure. Roads and ports are also inferior to those found in China.

Questions

1. Why was the shift to a free trade regime in the textile industry good for Bangladesh?

2. Who benefits when retailers in the United States source textiles from low-wage countries such as Bangladesh? Who might lose? Do the gains out-weigh the losses?

3. What international trade theory, or theories, best explain the rise of Bangladesh as a textile exporting powerhouse?

4. How secure is Bangladesh's textile industry from foreign competition? What factors could ultimately lead to a decline?

8. Spain's Telefonica

Established in the 1920s, Spain's Telefonica was a typical state-owned national telecommunications monopoly until the 1990s. Then the Spanish government privatized the company and deregulated the Spanish telecommunications market. What followed was a sharp reduction in the workforce, rapid adoption of new technology, and focus on driving up profits and shareholder value.In this new era, Telefonica was looking for growth. Its search first took it to Latin America. There, too, a wave of deregulation and privatization was sweeping across the region. For Telefonica, Latin America seemed to be the perfect fit. Much of the region shared a common language and had deep cultural and historical ties to Spain. Also, after decades of slow growth, Latin American markets were growing rapidly, increasing the adoption rate and usage not just of traditional fixed line telecommunications services, but also of mobile phones and Internet connections.

Having already learned to transform itself from a state-owned enterprise into an efficient and effective competitor, Telefonica believed it could do the same for companies it acquired in Latin America, many of which were once part of state-owned telecommunications monopolies. In the late 1990s, Telefonica invested some $11 billion in Latin America, acquiring companies throughout the region. Its largest investments were reserved for Brazil, the biggest market in the region, where it spent some $6 billion to purchase several companies, including the largest fixed line operator in Sao Paulo, the leading mobile phone operator in Rio de Janeiro, and the principal carrier in the state of Rio Grande do Sul. In Argentina, it acquired 51 percent of the southern region's monopoly provider, a franchise that included the lucrative financial district of Buenos Aires. In Chile, it became the leading share holder in the former state-owned monopoly, and so on. Indeed, by the early 2000s Telefonica was the No. 1 or 2 player in almost every Latin American country, had a continent-wide market share of about 40 percent, and was generating 18 percent of its revenues from the region. Still, for all of its investment, Telefonica has not had it all its own way in Latin America. Other companies could also see the growth opportunities, and several foreign telecommunications enterprises entered Latin America's newly opened markets. In the fast-growing mobile segment, America Movil, controlled by the Mexican billionaire Carlos Slim, emerged as a strong challenger. By 2008, the Mexican company had 182 million wireless subscribers across Latin America, compared to Telefonica's 123 million, and intense price competition between the two companies was emerging. With the die already cast in Latin America by the mid-2000s, Telefonica turned its attention to neighboring countries in Europe. For years, there had been a tacit agreement between national telecommunications companies that they would not invade each other's markets.In 2005 this started to break down when France Telecom entered Spain, purchasing Amena, the country's second-largest mobile carrier behind Telefonica. Telefonica moved quickly to make its own European acquisition, acquiring Britain's major mobile phone operator, 02, for $31.4 billion. 02 already had significant operations in Germany as well as the United Kingdom. The acquisition transformed Telefonica into the second-largest mobile phone operator in the world, measured by customers, behind China Mobile.

Case Discussion Questions

1. What changes in the political and economic environment allowed Telefonica to start expanding globally?

2. Why did Telefonica initially focus on Latin America? Why was it slower to expand in Europe, even though Spain is a member of the European Union?

3. Telefonica has used acquisitions, rather than greenfield ventures, as its entry strategy. Why do you think this has been the case? What are the potential risks associated with this entry strategy?

4. What is the value that Telefonica brings to the companies it acquires?

5. In your judgment, does inward investment by Telefonica benefit a host nation? Explain your reasoning?

9. Logitech

Best known as one of the world's largest producers of computer mice, Logitech is in many ways the epitome of the modem global corporation. Founded in 1981 in Apples, Switzerland, by two Italians and a Swiss, the company now generates annual sales of over $2.2 billion, mostly from products such as mice, keyboards, and low-cost video cameras that cost less than $100.

Logitech made its name as a technological innovator in the highly competitive business of personal computer peripherals. It was the first company to introduce a mouse that used infrared tracking, rather than a tracking ball, and the first to introduce wireless mice and keyboards. Logitech is differentiated from competitors by its continuing innovation, high brand recognition, and strong retail presence. Less obvious to consumers, but equally important, has been the way the company has configured its global value chain to lower production costs while maintaining the value of those assets that lead to differentiation. Logitech still undertakes basic R&D work (primarily software programming) in Switzerland, where it has several hundred employees. The company is still legally Swiss, but most of the corporate functions are run out of offices in Fremont, California, close to many of America's high-technology enterprises, where it has more than 500 employees. Some R&D work (again, primarily software programming) is also carried out in Fremont.

Most significantly, though, Fremont is the headquarters for the company's global marketing, finance, and logistics operations. The ergonomic design of Logitech's products-their look and feel-is done in Ireland by an outside design firm. Most of Logitech's products are manufactured in Asia. Logitech's expansion into Asian manufacturing began in the late 1980s when it opened a factory in Taiwan. At the time, most of its mice were produced in the United States. Logitech was trying to win two of the most prestigious OEM customers-Apple Computer and IBM. Both bought their mice from Alps, a large Japanese firm that supplied Microsoft. To attract discerning customers such as Apple, Logitech not only needed the capacity to produce at high volume and low cost, but it also had to offer a better designed product. The solution: Manufacture in Taiwan. Cost was a factor in the decision, but it was not as significant as might be expected because direct labor accounted for only 7 percent of the cost of Logitech's mouse. Taiwan offered a well-developed supply base for parts, qualified people, and a rapidly expanding local computer industry. As an inducement to fledgling innovators, Taiwan provided space in its science-based industrial park in Hsinchu for the modest fee of $200,000. Sizing this up as a deal that was too good to pass up, Logitech signed the lease. Shortly afterward, Logitech won the OEM contract with Apple. The Taiwanese factory was soon out producing Logitech's U.S. facility. After the Apple contract, Logitech's other OEM business started being served from Taiwan; the plant's total capacity increased to 10 million mice per year. By the late 1990s, Logitech needed more production capacity. This time it turned to China. A wide variety of the company's retail products are now made there.

A wireless infrared mouse called Wanda, one of Logitech's biggest sellers, is assembled in Suzhou, China, in a Logitech owned factory. The factory employs 4,000 people, mostly young women such as Wang Yan, an 18-year-old employee from the impoverished rural province of Anhui. She is paid $75 a month to sit all day at a conveyer belt plugging three tiny bits of metal into circuit boards. She does this about 2,000 times each day. The mouse Wang Yan helps assemble sells to American consumers for about $40. Of this, Logitech takes about $8, which is used to fund R&D, marketing, and corporate overhead. What remains after that is the profit attributable to Logitech's shareholders. Distributors and retailers around the world take a further $15. Another $14 goes to the suppliers that make Wanda's parts. For example, a Motorola plant in Malaysia makes the mouse's chips and another American company, Agilent Technologies, supplies the optical sensors from a plant in the Philippines. That leaves just $3 for the Chinese factory, which is used to cover wages, power, transport, and other overhead costs. Logitech is not alone in exploiting China to manufacture products. According to China's Ministry of Commerce, foreign companies account for three-quarters of China's high-tech exports. China's top 10 exporters include American companies with Chinese operations, such as Motorola and Seagate Technologies, a maker of disk drives for computers. Intel now produces some 50 million chips a year in China, the majority of which end up in computers and other goods that are exported to other parts of Asia, or back to the United States. Yet Intel's plant in Shanghai doesn't really make chips; it tests and assembles chips from silicon wafers made in Intel plants abroad, mostly in the United States. China adds less than 5 percent of the value. The U.S. operations of Intel generate the bulk of the value and profits.

Questions

1. In a world without trade, what would happen to the costs that American consumers would have to pay for Logitech's products?

2. Explain how trade lowers the costs of making computer peripherals such as mice and keyboards.

3. Use the theory of comparative advantage to explain the way in which Logitech has configured its global operations. Why does the company manufacture in China and Taiwan, undertake basic R&D in California and Switzerland, design products in Ireland, and coordinate marketing and operations from California?

4. To what extent can Porter's diamond help explain the choice of Taiwan as a major manufacturing site for Logitech?

10. General Electric's Joint Ventures

Historically at General Electric, if you wanted to enter a foreign market, you either acquired an established firm in that market or you went alone, establishing a greenfield subsidiary. Joint ventures with a local company were almost never considered. The prevailing philosophy was that if GE didn't have full control, you didn't do the deal. However, times have changed. Since the early 2000s joint ventures have become one of the most powerful strategic tools in GE's arsenal. To enter the South Korean market, for example, GE Money, the retail lending arm of GE's financial services business, formed joint ventures with Hyundai to offer auto loans, mortgages, and credit cards. GE has a 43 percent stake in these ventures. Similarly, in Spain it has formed several joint ventures with local banks to provide consumer loans and credit cards to Spanish residents, and in Central America it has a joint venture with BAC-Credomatic, the largest bank in the region.

There are several reasons for the switch in strategy. For one thing, GE used to be able to buy its way into majority ownership in almost any business, but prices for acquisitions have been bid so high that GE is reluctant to acquire for fear of overpaying. Better to form a joint venture, so the thinking goes, than risk paying too much for a company that turns out to have problems that are discovered only after the acquisition. Just as importantly, GE now sees joint ventures as a great way to dip its toe into foreign markets where it lacks local knowledge.

Also, in certain nations, China being an example, economic, political, legal, and cultural considerations make joint ventures an easier option than either acquisitions or greenfield ventures. GE believes it can often benefit from the political contacts, local expertise, and business relationships that the local partner brings to the table, to say nothing of the fact that in certain sectors of the Chinese economy and some others, local laws prohibit other entry modes. GE also sees joint ventures as a good way to share the risk of building a business in a nation where it lacks local knowledge. Finally, under the leadership of CEO Jeffrey lmmelt, GE has adopted aggressive growth goals, and it feels that entering via joint ventures into nations where it lacks a presence is the only way of attaining these goals. Fueled by its large number of joint ventures, GE has rapidly expanded its international presence over the past decade. For the first time, in 2007 the company derived the majority of its revenue from foreign operations.

Of course, General Electric has done joint ventures in the past. For example, it has a long-standing 50-50 joint venture with the French company Snecma to make engines for commercial jet aircraft, another with Fanuc of Japan to make controls for electrical equipment, and a third with Sea Containers of the United Kingdom, which has become one of the world's largest companies leasing shipping containers. But all of these ventures came about only after GE had explored other ways to gain access to particular markets or technology. While GE formerly used joint ventures as the last option, they are now often the preferred entry strategy.

GE managers also note that there is no shortage of partners willing to enter into a joint venture with the company. The company has a well-earned reputation for being a good partner to work with. GE is well known for its innovative management techniques and excellent management development programs. Many partners are only too happy to team up with GE to get access to this know-how. The knowledge flow, therefore, goes both ways, with GE acquiring access to knowledge about local markets, and partners learning cutting-edge management techniques from GE that can be used to boost their own productivity. Nevertheless, joint ventures are no panacea. GE's agreements normally give even the minority partner in a joint venture veto power over major strategic decisions, and control issues can scuttle some ventures.

In January 2007, for example, GE announced it would enter into a venture with Britain's Smiths Group to make aerospace equipment. However, nine months later, GE ended talks aimed at establishing the venture, stating they could not reach an agreement over the vision for the joint venture. GE has also found that as much as it would like majority ownership, or even a 50/50 split, sometimes it has to settle for a minority stake to gain access to a foreign market. In 2003, when GE entered into a joint venture with Hyundai to offer auto loans, it did so as a minority partner even though it would have preferred a majority position. Hyundai had refused to cede control over to GE.

Questions

l. GE used to prefer acquisitions or greenfield ventures as an entry mode rather than joint ventures. Why do you think this was the case?

2. Why do you think that GE has come to prefer joint ventures in recent years? Do you think that the global economic crisis of 2008-2009 might have affected this preference in any way? If so, how?

3. What are the risks that GE must assume when it enters into a joint venture? Is there any way for GE to reduce these risks?

4. The case mentions that GE has a well-earned reputation for being a good partner. What are the likely benefits of this reputation to GE? If GE were to tarnish its reputation by, for example, opportunistically taking advantage of a partner, how might this impact the company going forward?

5. In addition to its reputation for being a good partner, what other assets do you think GE brings to the table that make it an attractive joint-venture partner?

11. JCB in India

In 1979, JCB, the large British manufacturer of construction equipment, entered into a joint venture with Escorts, an Indian engineering conglomerate, to manufacture backhoe loaders for sale in India. Escorts held a majority 60 percent stake in the venture, and JCB 40 percent. The joint venture was a first for JCB, which historically had exported as much as two-thirds of its production from Britain to a wide range of nations. However, high tariff barriers made direct exports to India difficult. JCB would probably have preferred to go it alone in India, but government regulations at the time required foreign investors to create joint ventures with local companies. JCB believed the Indian construction market was ripe for growth and could become very large.

The company's managers believed that it was better to get a foothold in the nation, thereby gaining an advantage over global competitors, rather than wait until the growth potential was realized. Twenty years later, the joint venture was selling some 2,000 backhoes in India, and had an 80 percent share of the Indian market. After years of deregulation, the Indian economy was booming. However, JCB felt that the joint venture limited its ability to expand. For one thing, much of JCB's global success was based upon the utilization of leading-edge manufacturing technologies and relentless product innovation, but the company was very hesitant about transferring this know-how to a venture where it did not have a majority stake and therefore lacked control. The last thing JCB wanted was for these valuable technologies to leak out of the joint venture into Escorts,which was one of the largest manufacturers of tractors in India and might conceivably become a direct competitor in the future. Moreover, JCB was unwilling to make the investment in India required to take the joint venture to the next level unless it could capture more of the long-run returns. Accordingly, in 1999 JCB took advantages of changes in government regulations to renegotiate the terms of the venture with Escorts, purchasing 20 percent of its partner's equity to give JCB majority control. In 2002,]CB took this to its logical end when it responded to further relaxation of government regulations on foreign investment to purchase all of Escorts' remaining equity, transforming the joint venture into a wholly owned subsidiary. Around the same time,]CB also invested in wholly owned factories in the United States and Brazil. Having gained full control, in early 2005 JCB increased its investment in India, announcing it would build a second factory that it would use to serve the fast-growing Indian market. At the same time, JCB also announced it would set up another wholly owned factory in China to serve that market.

India and China, the two most populous nations in the world, were growing rapidly, construction was booming, and JCB, then the world's fifth-Largest manufacturer of construction equipment, was eager to expand its presence to match its global rivals, particularly Caterpillar, Komatsu, and Volvo, which were also expanding aggressively in these markets. By 2008 there were signs that JCB's foreign investment was bearing fruit. The product line had been expanded from 120 machines in 2001 to over 250. JCB had 47 dealers and some 275 outlets around India, and it claimed a market share in India of 53 percent. JCB's sales approached £1.8 billion, earnings were a record £187 million, and the company had moved up to No. 4 in the industry with almost 10 percent of global market share.

Questions

1. What was the strategic rational underlying JCB's entry into India in 1979 and China in 2005? Given that capital to fund expansion is limited, does it make more sense for JCB to expand its presence in these markets, as opposed to more developed markets, such as those of Western Europe?

2. Why do you think JCB chose to enter India via a joint venture, as opposed to some other entry mode?

3. Why did JCB not simply license its technology to Escorts?

4. What were the potential disadvantages of JCB's joint venture with Escorts?

5. What were the benefits of gaining full control of the Indian joint venture in 2002? Can you think of any drawbacks?

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