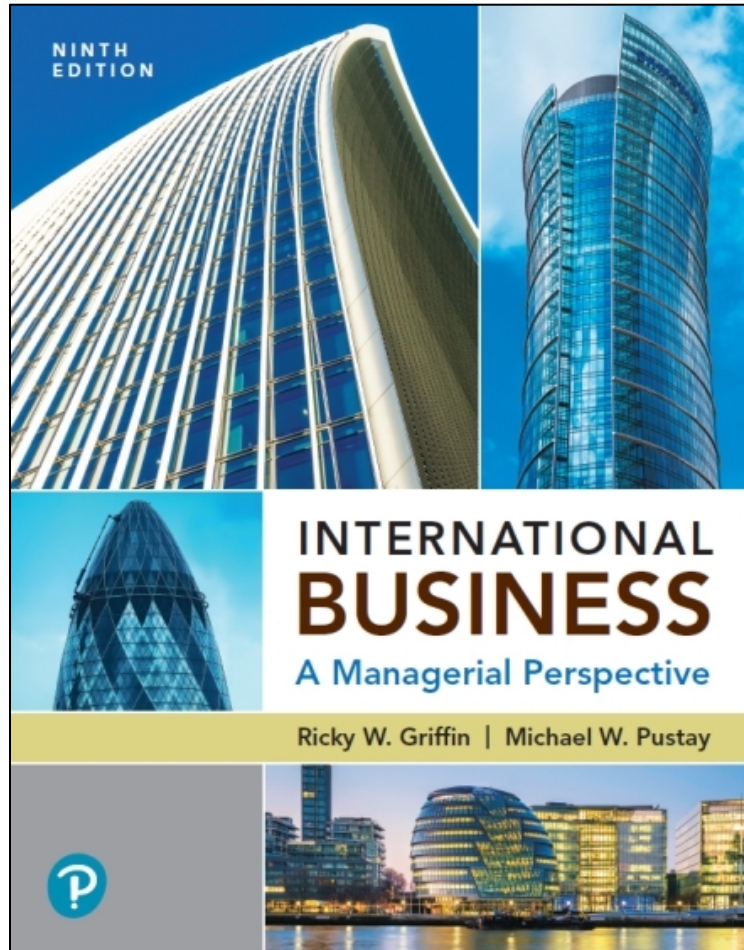


# International Business: A Managerial Perspective

Ninth Edition



## Chapter 2

### Global Marketplaces and Business Centers

# Learning Objectives

**2.1** Discuss North America as a major marketplace and business center in the world economy.

**2.2** Describe Western Europe as a major marketplace and business center in the world economy.

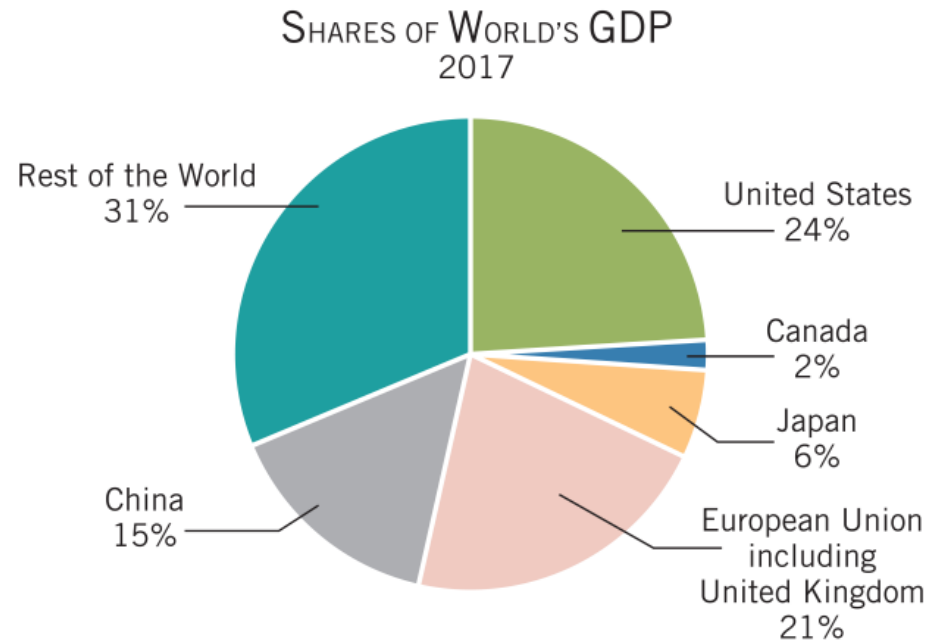
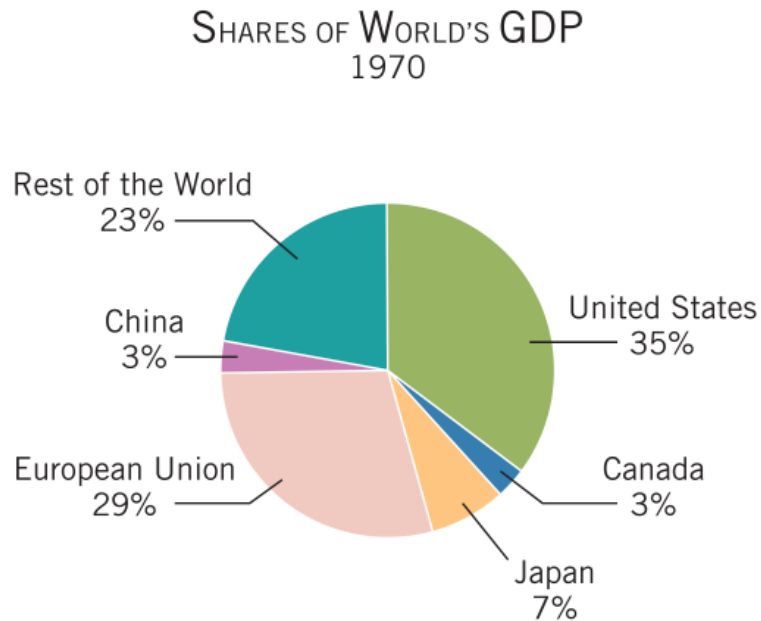
**2.3** Analyze the role of Eastern Europe and Central Asia in the world economy.

**2.4** Discuss Asia as a major marketplace and business center in the world economy.

**2.5** Assess the development challenges facing African and Middle Eastern countries.

**2.6** Evaluate the economic prospects of the South American countries.

# Figure 2.1 The World Economy 1970 and 2017



# The Marketplaces of North America

| <b>Country</b>  | <b>Population<br/>(millions)</b> | <b>2017 GDP<br/>(billions of<br/>U.S. dollars)</b> | <b>GDP per capita<br/>(in U.S. dollars)</b> |
|-----------------|----------------------------------|--|---|
| Canada          | 37                               | \$1,653  | \$45,032                                    |
| United States   | 326                              | \$19,391   | \$59,532                                    |
| Mexico          | 129                              | \$1,150  | \$8,903                                     |
| Central America | 48                               | \$258  | \$5,357                                     |
| Caribbean       | 45                               | \$466  | \$10,325                                    |

- Home to 585 million people, these countries produce approximately 28 percent of the world's output.

# The Marketplaces of North America: The United States (1 of 2)

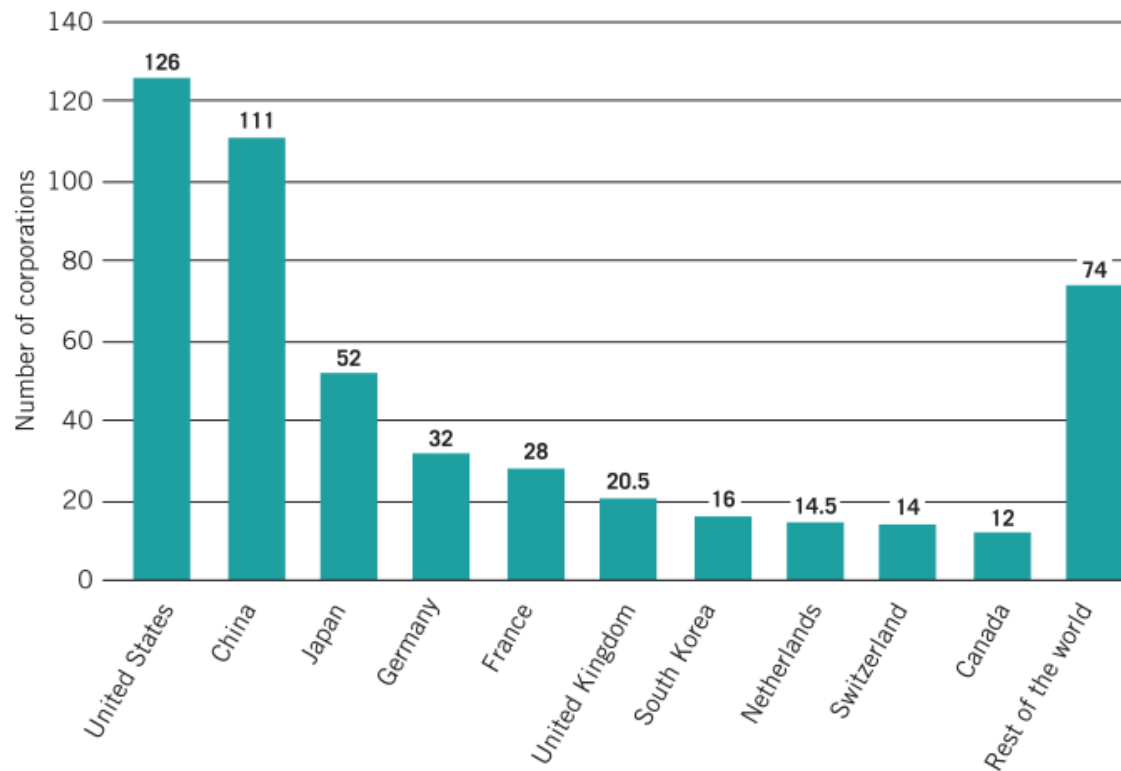
- World's largest economy
  - 24% of the world's GDP in 2017
  - One-tenth of world exports of goods and services
  - About one-eighth of world imports of goods and services
- Prime market for high-income countries
- U.S. Dollar is used as
  - Invoicing currency and
  - Foreign-currency reserve

# The Marketplaces of North America:

## The United States (2 of 2)

- Political stability and military strength
  - Flight Capital
- Foreign Investments
  - Important recipient of long-term foreign investment
  - \$4 trillion foreign investment in US businesses
- International Trade
  - Increasingly more important
  - Relatively small component of the U.S. economy
- MNCs
  - 27% of the world's 500 largest corporations are headquartered in the United States

## Figure 2.2 Headquarters of the World's 500 Largest Corporations in 2017 by Country



Source: Based on data from [www.fortune.com](http://www.fortune.com), accessed July 30, 2018.

# The Marketplaces of North America:

## Canada (1 of 2)

- Second largest land, 37 million population.
- Exports
  - Vital to the Canadian economy: 31% of its 2017 GDP of \$1.7 trillion
  - Rich natural resources: Canada's most important exports (forest products, petroleum, minerals, grains)
  - The United States: The dominant market for Canadian goods
  - US-Canada two-way trade of \$680 billion is one of the largest bilateral trading relationships in the world



# The Marketplaces of North America:

## Canada (2 of 2)

- Foreign Investments
  - Proximity to the huge U.S. market
  - Stable political and legal systems
  - Excellent infrastructure and educational systems
  - Lingering Risk: long-standing conflict between French-speaking Canadians and English-speaking Canadians – separatist movement since 1960
  - Bilingual labeling laws.

# The Marketplaces of North America: Mexico

- The world's most populous Spanish-speaking nation
- Beginning in the mid – 1980s, Mexico
  - Reversed economic nationalism policies
  - Opened its markets to foreign goods and investors
  - Reduced government's role in its economy
  - Signed a series of free trade agreements (NAFTA - Mexico, Canada, and the US) (1999 - EU, 2000 - El Salvador, Guatemala, and Honduras, 2004 - Japan and Uruguay).

# The Marketplaces of North America: Central America and the Caribbean (1 of 2)

- Divided geographically into two groups:
  - Central America
  - The Island States of the Caribbean
- Collective population of 93 million with a GDP of \$724 Billion
- Several island states have achieved high-income status (Aruba, the Bahamas, and the Cayman island).
  - Vibrant offshore financing or tourism industries
- Costa Rica and Panama are classified as an upper-middle income

# The Marketplaces of North America: Central America and the Caribbean (2 of 2)

- Political instability
- Chronic U.S. military intervention
- Inadequate educational systems
- Weak middle class
- Poverty
- Import limitations

# The Marketplaces of Western Europe

- Western Europe
  - Members of the EU
  - Other Western European Countries

# Map 2.2 Western Europe



# The Marketplaces of Western Europe: The EU

- Comprises 28 countries
  - 27 after Brexit
  - GDP \$17.3 Trillion and population of 513 million
- Seeks to promote European peace and prosperity
- One of the world's richest markets
- EU members are Free-market-oriented, parliamentary democracies
- 19 EU members adopted the euro (€)

# The Marketplaces of Western Europe: Influential Members of the EU

- Economically, Germany is the EU's most important member (GDP - \$3.7 Trillion)
  - Fourth largest economy (after US, China and Japan)
  - Germany's strict anti-inflation policies
- Politically, France exerts strong leadership within the EU
  - leading proponent of promoting common European defense and foreign policies and strengthening human rights and workers' rights in the EU.
- The United Kingdom has challenged France's positions
  - British exiting the EU (Brexit)



# The Marketplaces of Western Europe: Newest EU Members

- Were either part of the Soviet Union (Estonia, Latvia, Lithuania) or allied with the Soviet Union (Bulgaria, Czech Republic, Hungary, Poland, Slovakia and Romania)
- Restructured their economies from centrally planned communist systems to decentralized market systems
- Implemented political, legal, and institutional reforms
- Some are achieving high-income status

# The Marketplaces of Western Europe: Other Western European Countries

- **High-Income Countries:**
  - Iceland, Norway, and Switzerland
  - Several small, “postage stamps” countries such as Andorra, Monaco, and Liechtenstein
  - Free market-oriented countries account for 2 percent of the world’s GDP
- **Middle-Income Countries:**
  - The Balkan countries of Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia
  - Post–Cold War economic progress was slowed by chaos and conflicts

# The Marketplaces of Eastern Europe and Central Asia

- Soviet Union's collapse in 1991
  - Newly Independent States (NIS) (15 Soviet Republics)
    - Commonwealth of Independent States (CIS)

# The Marketplaces of Eastern Europe and Central Asia: Russia

- Largest in land mass and ninth-largest population (144 million people).
- Well endowed with natural resources, including gold, oil, natural gas, minerals, diamonds, and fertile farmland.
- Difficult transformation from communism to a free-market system
- The world's second largest oil producer and exporter
- Collapse of Oil price in the 2010s: Slow GDP growth

# The Marketplaces of Eastern Europe & Central Asia: The 5 Central Asian Republics

- Kazakhstan, Uzbekistan, Tajikistan, Turkmenistan, and Kyrgyzstan
- Common characteristics
  - Russian Influence
  - Religion: Dominantly Islam
  - Language: Turkic/Persian roots
  - Mountains and desserts dominate their landscape
  - Fossil Fuel Reserves
  - Per capita incomes among the five range from \$801 in Tajikistan to \$8,837 in oil-rich Kazakhstan.

# The Marketplaces of Asia (1 of 2)

Asia is home to more than half the world's population, yet it produces less than a third of the world's GDP

- Source of both high-quality and low-quality products
- Source of both skilled and unskilled labor
- Major destination for foreign investments by MNCs
- Major supplier of capital to non-Asian countries
- Aggressive and efficient entrepreneurs

# The Marketplaces of Asia: Japan

- One of the world's economic superpowers
- Island country, 127 million people, GDP of \$4.9 trillion (second to US until 2010)
- Japan's economic success
  - Partnership between MITI and industrial sector.
- Japan's challenges
  - Slow economic growth in the 1990s
  - Adjustments to changes in the world economy
  - Trade practices
  - Growing demographic crisis

# The Marketplaces of Asia (2 of 2)

## Australia

- Rich in natural resources
- Relatively small workforce
- Merchandise exports are 17% of its 2017 GDP
- Natural resource industries (gold, iron ore and coal).
- Land-intensive agricultural goods (wool, beef and wheat)

## New Zealand

- 4.8 million people.
- After 1980s, Greater reliance on market-based policies
- Exports are 18% of its 2017 GDP
  - Extensive pasture lands (dairy products, meat and wool).
  - Main purchase (Australia, China, Japan and USA).



# The Marketplaces of Asia: The Four Tigers

- Pacific Asia is one of the world's most rapidly industrializing regions
- South Korea, Taiwan, Singapore, and Hong Kong
  - The “Four Tigers”
  - The newly industrialized countries (NICs)
  - The newly industrialized economies (NIEs)
  - “Emerging Markets”
  - High income countries

# The Marketplaces of Asia: The Four Tigers: South Korea

- One of the world's fastest-growing economies
- Merchandise exports accounted for 37% of its 2017 GDP of \$1.5 trillion.
- Tight cooperation between the government and large conglomerates
- Samsung, Hyundai, Daewoo Group, and LG

# The Marketplaces of Asia: The Four Tigers: Taiwan

- 24 million people
- One of the world's fastest-growing economies
- Reliance on family-owned private businesses
- Reliance on export-oriented trade policies
- Exports accounted for 63% of its 2017 GDP

# The Marketplaces of Asia: The Four Tigers: Singapore

- Became Independent in 1965
- Population of 5.6 million
- Thrives on reexporting
  - Exports totaled \$537 billion in 2017 GDP
  - Per capita income \$57,714 (5.6 million population)
  - Excellent port facilities
- Initiated with textiles,
- Center for oil refining
- Sophisticated communications and financial services
- High-technology center

# The Marketplaces of Asia: The Four Tigers: Hong Kong

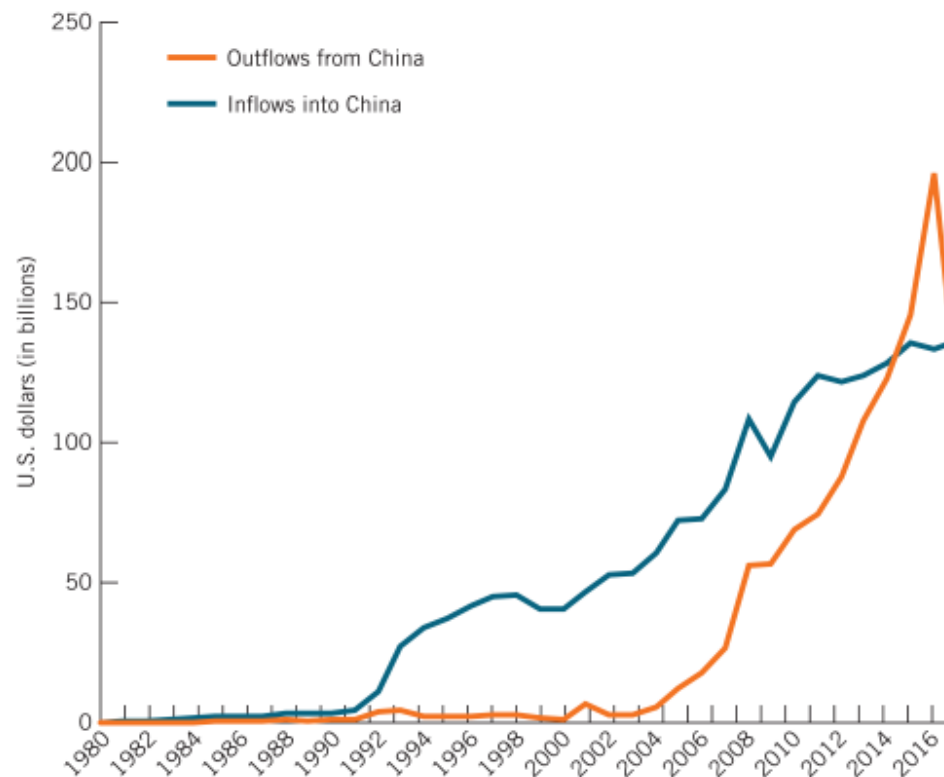
- Population 7 million
- Enjoys a fair degree of autonomy
- Attractive to international businesses
  - Deep, sheltered harbor
  - Entry point to mainland China
  - Highly educated, highly productive labor
  - Banking and financial services
- Reexporter
  - Exports totaled for \$550 billion in 2017.

# The Marketplaces of Asia: China (1 of 2)

- Population 1.4 billion
- Mixed system
  - Communist Party-led state
  - Market-oriented economic policies
- Vibrant economy
  - Grew 10.9% a year from 2000 to 2009
  - FDI in China has exploded since 1992
  - Urbanization
  - China's outbound FDI has skyrocketed since 2005

# The Marketplaces of Asia: China (2 of 2)

**Figure 2.3** China's Inward and Outward Foreign Direct Investment Flows, Annual, 1980–2017



Source: Based on United Nations Conference for Trade and Development Database.

# The Marketplaces of Asia: India

- Population 1.3 billion, and one of the poorest countries
- British Influence
- 1991 market-opening reforms
  - Reduced trade barriers
  - Opened the doors to increased FDI
  - Modernized the country's financial sector and 7% GDP growth since 2000.
- Challenges
  - Corruption is widespread
  - Infrastructure is overburdened
  - Lack of clarity in government policy is problem for foreign investors.



# The Marketplaces of Asia: Southeast Asian Countries

- Promising records of economic development
- Thailand, Malaysia, and Indonesia
  - Low labor costs
  - Recipients of significant FDI
- Vietnam
  - Becoming important to MNCs
  - Inexpensive, young, and trainable workforce
  - Intel, for instance, built a billion-dollar chip testing and assembly factory in Ho Chi Minh City, while Samsung has invested \$6.5 billion in factories producing electronic display products

# The Marketplaces of Africa & the Middle East: Africa

- Covers 22% of World land
- 54 countries with 1.3 billion population
- European Colonial influence (began to reverse in mid-1950s).
- Vestiges of colonialism remains
  - Chad, Niger and Ivory Coast tied to France
  - Kenya, Zimbabwe, Republic of South Africa modeled along British lines.
- Oil Exporters (Algeria, Angola, Gabon, Libya and Nigeria).

# The Marketplaces of Africa & the Middle East: Africa

- Zambia economy benefitted with rising demand for copper
- Botswana is famous for its diamond fields
- Agriculture accounts for more than 40% of GDP of Burundi, Chad, Mali, Niger and Sudan.
- South Africa: The continent's growth engine (fertile farmland, gold, diamond, chromium and platinum).
- Exports, primarily minerals and agricultural goods accounted for 30 percent of its \$349 billion GDP.

# The Marketplaces of Africa & the Middle East: Middle East (1 of 2)

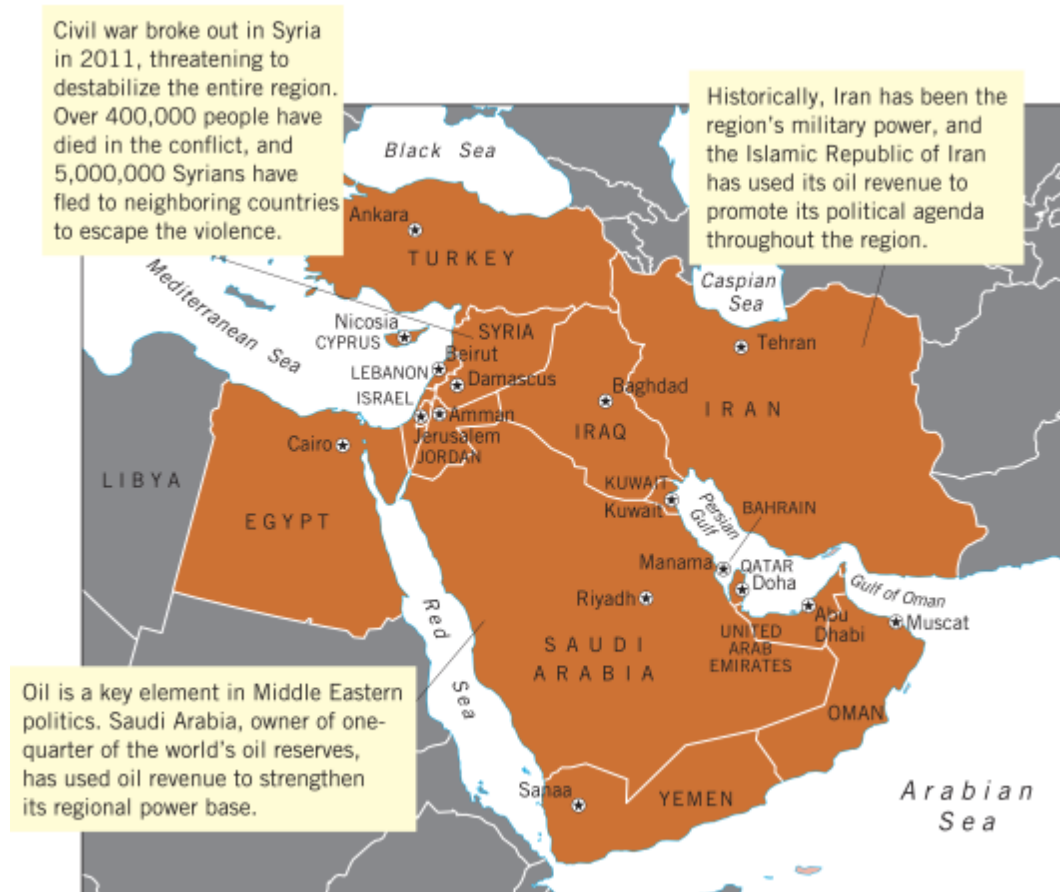
- “Cradle of Civilization” – world’s earliest farms, cities, governments, legal codes and alphabets originated).
- Birthplace of world’s major religion
- History of conflict and political unrest (Arab-Israel wars, Iran-Iraq war, two Persian Gulf wars, civil war in Libya, Syria and Yemen)
- Home to many oil-rich countries
- Saudi Arabia – largest economy in middle east with a GDP of \$684 billion.

# The Marketplaces of Africa & the Middle East: Middle East (1 of 2)

- Oil accounts for 42 percent of GDP and 90% of total exports.
- Qatar - the highest per capita income at \$63,506 per annum
- Dubai - Diversification: “Life After Oil”, foreign trade zones
- Dubai – Emirates Airline                      Qatar – Qatar Airways
- Abu Dhabi – Etihad Airways

# The Marketplaces of Africa & the Middle East: Middle East (2 of 2)

**Map 2.7** The Middle East



# The Marketplaces of South America (1 of 2)

- Common political, social, and economic history
- Huge income disparities, Widespread poverty and Political instability
- Destructive **import substitution policies** – Argentina, Brazil and Chile.
- Reversed import substitution policies in the late 1980s
- Economic boom during the 1990s
- Argentina (Wheat), Bolivia (Tin), Chile (copper)
- Brazil (Iron ore, Soybeans, petroleum products), GDP \$2.1 trillion, export \$251 billion

# The Marketplaces of South America (2 of 2)

Map 2.8 South America





# Review Questions

- Describe the U.S. role in the world economy.
- How do differences in income levels and income distribution among countries affect international businesses?
- What role did MITI serve in the Japanese economy?
- What is a keiretsu?
- Who are the Four Tigers? Why are they important to international businesses?
- What is a chaebol?
- Discuss the role of natural resources and agriculture in Africa's economy.
- How did import substitution policies affect the economies of Brazil and Argentina?

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