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2

A Geocentric Perspective

One of the greatest competitive advantages for global managers is knowledge. As managers gain experience in foreign business activities, the knowledge they gain increases at a faster rate due to synergy. The more a manager learns about various countries, the better he or she will be able to understand and interpret their systems for operating. The aggregate knowledge and information begins to create a manager with a worldview, or global perspective. In one of his well-known works, *The Competitive Advantage of Nations*, Michael Porter (1990) identifies human capital as the most important factor of production for successful nations and firms. Increasing the value of human capital through improved skill levels is a strong factor in the success of firms. For firms doing business in other countries, one of the most important skills for a manager is the ability to learn. From a competitive perspective, worldwide learning and the ability to integrate and apply that knowledge is a key capability for sustainable competitiveness in the global business environment (Bartlett, Ghoshal, & Birkinshaw, 2004).

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The difficulty remains that "despite the fact that people are innately curious and naturally motivated to learn from each other, most modern corporations are constructed in a way that constrains and sometimes kills this natural human instinct" (p. 456). Thus, a global manager must be internally motivated to learn from experiences in other countries. This chapter provides a general global overview focusing on the level of development of countries and the role of foreign direct investment in the world economy. Additionally, the role of small- and medium-size firms in the global economy is discussed. These elements contribute to the international negotiator's understanding of some of the issues he or she may face when negotiating internationally. Although the topics discussed in this chapter do not directly relate to a negotiation, they are important because they help the negotiator understand the context from which his or her counterpart operates.

A first step in global learning is to understand the general economic framework in which international business transactions take place. This is an important component in developing successful strategies for international negotiations as it helps you to begin to gain knowledge of the countries around the world in which cross-border business takes place in terms of the size and scope of the international business environment and its participants. Several of the elements discussed also impact the environment or setting in which international negotiation takes place. As you will see, the ethnocentric (my way is best) or polycentric (treat each country independently) approaches for international negotiation are no longer ideal in most cases. The interconnectedness of countries demands the more complex geocentric view of international business interactions and transactions.

In order to fully understand the need for a geocentric approach to business transactions and negotiations, it is important to understand how the world looks today. For a large part of the 20th century, the world was powered by the United States and the now former Soviet Union. Generally, countries were aligned with one of these two superpowers. With the fall of the Soviet Union in the late 1980s, the orderly framework in which countries operated began to shift. The disassembling of the Soviet Union left only one superpower, the United States. More important though, it created opportunities for countries to review past strategies and determine how best to compete in a new world market that was no longer dominated by two major economies.

At the same time the Soviet Union was being disbanded, the European Union was growing and deepening its level of integration (or cooperation) between member countries. As discussed in Chapter 7, the European Union has become a major economic power in the world today.

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A third factor has influenced the framework in which we operate in the international environment today, and that is China. The need for developed countries, such as the United States, the European Union countries, and Japan, to find good sources of low-cost labor provided great opportunities for economic growth in China and other Asian countries. Of course, for China, this opportunity was helped along by the Chinese government's decision to move toward a more market-oriented economy in order to prevent a similar situation as that experienced by the former Soviet Union. The result has been the rapid ascent of China becoming a major player in the world economy today. In terms of GDP in 2004, China was the second largest economy in the world (estimated GDP of 7.26 trillion dollars), following the United States (Central Intelligence Agency, n.d.). However, given the size of its population, it is still considered a relatively poor country. China's GDP per capita in 2004 was about $5,600 (as a comparison, the U.S. GDP per capita was about $40,000).

Other areas of the world are also important to examine. India, the second most populous country in the world, has not had the speed of growth that China has experienced, but it is undergoing economic and policy changes that will increase its potential for growth. Latin America and Central America are also in transition. They are especially important to North American countries because of their geographic proximity to the United States and Canada, as the greatest amount of trade between countries usually occurs between neighboring or geographically close countries. As the economies of Latin America grow, the United States and Canada should benefit. Likewise, Latin American countries should also benefit from their northern neighbors.

As you read through this chapter, you may question the importance of this type of information to international negotiation. It is important. The world is changing. Business dealings are not always two-directional; more than two countries may be involved. Additionally, a deal you negotiate in one country may affect a deal in another country or a deal in another division of your company. As countries change economically, their business practices evolve, many times to more Western-oriented behaviors. The presence of foreign firms in a country influences its business and economic development.

When developing negotiating strategies, a relationship or need with one country may influence a relationship with another country. This is especially true when political issues come into play. As the integration of economies increases, there is a greater degree of cross-national or multinational interaction, usually regionally delineated. Thus negotiation tends to become a little more complicated. It is important that

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the international business manager/negotiator understands the global context in which he or she operates.

To get a clear picture of the world in which we live, it is also important to look at the economic position of countries relative to their populations, as well as the amount of foreign activity in the form of foreign direct investment (from an economic position) in which the country is involved. While there are numerous other measures that could be used to help define the economic status of a country, these should sufficiently provide a view of the world today.

❖ COUNTRY CLASSIFICATION

The World Bank classifies all countries that are members of the World Bank as well as all other countries with populations greater than 30,000 (a total of 208 countries). This classification aids in policy development as well as in providing a general picture of the world's population. Detailed information regarding country classifications by the World Bank can be found at http://www.worldbank.org/data/countryclass. Here we will create a general picture.

The World Bank classifies countries into four categories based on gross national income per capita (World Bank Group, 2005): low income ($765/capita or lower), lower-middle income ($766–$3,035), upper-middle income ($3,036–$9,385), and high income ($9,386/capita or higher). There are 61 low-income economies, 56 lower-middle-income economies, 37 upper-middle-income economies, and 54 higher-income economies. These classifications are usually consolidated into two groups: developing countries, which include the low-, lower-middle-, and upper-middle-income economies; and the developed countries, which include the remaining 54 high-income economies. Already, the economic imbalance of the world should be apparent. Of the countries included in the World Bank classification, 154 are considered developing countries, whereas only 54 countries are classified as high income. Low-income countries have the fastest population growth: almost three times that of the high income, or developed economies (World Bank Group, 2005). The majority of business transactions take place in the developed economies. However, there is an increasing level of economic activity in developing countries as their governments develop plans to attract FDI.

Table 2.1 provides the world population distribution across the classification categories. As you can see, the largest proportion of population is from the developing countries. In fact, more than 80 percent of the world's population is in developing countries.

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Table 2.1 Population Distribution by Country Classification for 1999 and 2003

	Low Income		*Middle Income* [a]		*High Income*	
	1999	*2003*	*1999*	*2003*	*1999*	*2003*
Population	2.1 B[b]	2.3 B	2.9 B	3.0 B	892.6 m[b]	913.6 m
Population Growth	2.0%	1.8%	1.1%	0.9%	0.6%	0.5%
GNI[c]/capita	$390	$450	$1,700	$1,920	$26,500	$29,310

SOURCE: World Bank Country Classifications
[a]Middle-income countries = lower-middle-income countries and upper-middle-income countries
[b]B = billion, m = million
[c]GNI = Gross National Income

The distribution of population between developed and developing countries is important for several reasons. First, one of the goals of most country governments worldwide is to improve the standard of living of its citizens. The way to do this in today's competitive environment is through economic growth. For developing countries, usually internal (within the country) wealth is concentrated in the hands of only a few and is not large enough to facilitate sufficient economic growth for an improved standard of living for a large portion of the society. The former Soviet Union is a good example of this. The former Soviet Union was a closed economy in that the majority of economic growth and development was with internal assets (little support from outside the Soviet bloc countries). While development was beneficial to many sectors and groups of people within the Soviet bloc, the standard of living for the majority of people within the bloc continually declined.[1]

As economic growth through internal mechanisms is not sufficient, developing countries have realized the need for external sources of support for economic growth. The primary mechanism for this is referred to as foreign direct investment (FDI), which will be discussed in more detail later in this chapter. Basically, FDI involves the investment of capital by firms into another country. There are several advantages of FDI to the developing country. FDI provides needed capital for economic growth, as well as more advanced technology relative to the technology existing within the developing country. Further, it provides management know-how and business systems that help improve the competitiveness of the developing economy in the international marketplace.

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A second reason for the importance of understanding the population distribution of the world is to understand and appreciate the demand for aid being placed on developed countries. Developed countries hold the responsibility to financially support developing countries for humanitarian and security purposes. The dilemma then becomes how to balance the needs of other countries with the needs of one's own country. One way to reduce the support needs of developing countries is to help them grow economically so they can become more self-sufficient.

Finally, a third reason to understand the structure of the world's population is to understand the direct impact on the developed countries through immigration. As the population in developing countries increases, more and more people migrate to the urban areas of those countries in order to find more economic opportunities to support their families. Unfortunately, in many cases, the urban population grows faster than the support services of the city, thus putting severe pressure on the infrastructure in areas such as safety, sanitation, and education. The standard of living decreases.

Because of these difficult conditions and lack of opportunities (especially with little FDI), people begin to migrate to the developed countries in search of better economic (and sometimes political or social) conditions. Large migration flows occur from Latin America and Asia to North America and from Eastern Europe, the former Soviet bloc, and North Africa to Northern and Western Europe (Population Reference Bureau, 2004). Although watched closely and managed through immigration policies, immigration has become a major issue in many developed economies today. Developed countries must address not only what levels of immigration to allow, but also the issue of illegal immigration.

❖ IMPACT ON INTERNATIONAL NEGOTIATION

The growth of the role of developing economies in the international business environment adds to the complexity of international negotiation strategy. On one hand, as developing countries do not have the same level of international interaction as countries long involved in international business, cultural norms and values may be more stable, thus easier to learn about. On the other hand, since the level of interaction is relatively low for the country, it may be more difficult to attain information regarding the culture from secondary sources, making it a "learn as you go" process. For most countries, basic cultural information is available, but it is the application of this information over time

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that provides the insightful experiential knowledge that is useful in negotiating situations.

Keep in mind that the number of developing countries far outweighs the number of developed countries. Thus the cultural and business practices knowledge that needs to be understood could be quite challenging. In addition to cultural behaviors and business processes, each country differs in terms of its legal and political structures. These areas are particularly important to the negotiation in terms of contract and ownership issues. In many developing countries, the government maintains strong controls over commercial activities through regulation as well as ownership. Further, the policies and regulations for foreign firms may differ from the same policies for domestic firms, often putting the foreign firm at a disadvantage.

When we think of international negotiation, we typically refer to negotiations with a party from another country. This is a valid perspective. However, a secondary application of some of the strategies and tactics used in international negotiation could be applied to domestic situations. With the increasing level of immigration of people from developing countries to developed countries, the face of negotiation within one's own country may change. As a large number of legal immigrants into developed countries are highly educated and highly skilled, it is likely that the number of foreign-born negotiators on domestic negotiating teams will increase. Even with acculturation of the organizational culture, individuals maintain many of their home-country cultural characteristics. Thus domestically focused negotiation strategies and tactics may require modification.

Finally, a third area of impact of negotiation involving developing countries is that of balance. The goal of most firms is to maximize profit and advantage in all transactions; we want to get the most out of a negotiation. As discussed earlier, however, a responsibility of developed countries to developing countries is to aid in the development efforts of the country (typically referred to as social responsibility). This applies to economic growth and carries over into the activities of firms. For developed-country firms negotiating with firms or organizations from developing countries, the challenge becomes determining the appropriate balance between maximizing company goals and contributing to the economic well-being and growth of the developing country. This is important not only from a humanitarian perspective, but also from a stockholder perspective. More and more stockholders in companies, as well as potential stock investors, are expecting companies to be more socially responsible in their business activities, especially when developing countries are involved.

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❖ FOREIGN DIRECT INVESTMENT

As mentioned in the "Country Classification" section of this chapter, FDI is critical to the economic development of developing countries as well as developed countries. By definition, FDI is "an investment made to acquire lasting interest in enterprises operating outside of the economy [country] of the investor. Further, in cases of FDI, the investor's purpose is to gain an effective voice in the management of the enterprise" (UNCTAD, 2004). Typically, an investor would have ownership of 10 percent or more of the entity in order to have an effective voice in management (OECD, 2005). In most instances of FDI, the "investor" is a firm (ownership of that firm varies by country and can be privately held, publicly held, nationally held, or a combination).

FDI is typically viewed from two positions: the *inward* flow of FDI and the *outward* flow of FDI. FDI is measured on a country, regional, and worldwide basis. Inward FDI refers to the value of FDI capital (money) that flows into a country from all other countries. Outward FDI refers to the value of the FDI capital that flows out of a country to all other countries. Understanding the magnitude of FDI (both directions) is important in understanding the "playing field" of the international environment as well as helping to determine the direction of future international business activity. FDI is important to the international negotiator because it requires the interaction of people and firms from different countries and cultures in order to plan and implement the FDI activity. A basic understanding of FDI activity is needed to understand a very important component of negotiation in the context of international business. This section will present a brief overview of FDI activity worldwide and in specific regions and countries. Chapter 7, "The International Business Context," will discuss some of the types of business activities that require FDI.

Foreign Direct Investment Trends

Historically, the majority of FDI has taken place between developed countries, with the United States being the largest receiver of FDI (FDI inflow) as well as the largest investor in other countries (FDI outflow) cumulatively. Developed countries also make substantial investments in developing countries; in 2002, China was the second largest recipient of FDI (UNCTAD, 2004). Although a large majority of FDI activity remains within developed countries, the amount of FDI activity involving developing countries is increasing. Initially, FDI involving

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developing countries consisted of developed countries investing in the developing countries, such as the United States investing in China to set up manufacturing plants in order to benefit from the lower labor costs available in China. In 2003, developing countries accounted for 31 percent of FDI inflow, with ten countries accounting for almost 75 percent of total investment (UNCTAD, 2004). While FDI inflows to developing countries continues, there has been an increase in FDI coming out of (FDI outflows) developing countries as well, reaching 6 percent of total flows in 2003 (UNCTAD, 2004), with the fastest growing activity being between developing countries. Asia and Latin America were the two largest outward investors in the developing countries (developing-country-to-developing-country FDI).

Another trend in FDI activity is the move from FDI in manufacturing to FDI in services. Table 2.2 summarizes the proportion of FDI in services for developed and developing countries. As can be seen, services now (2001–2002) comprise a much larger proportion of FDI than those of about a decade earlier (1989–1991). Outward flows of FDI in services had a larger proportional change over the time period reported. In the time period 1989 to 1991, 55 percent of FDI outflows were related to service activities (e.g., banking, insurance, etc.). By 2001 to 2002, 77 percent of FDI in the world was service related. It is the nature of service businesses that makes this change noteworthy.

As we know, there are substantial differences between the operations of firms that manufacture products and those that offer services. Whereas human interaction is required in both cases, the level and frequency of human interaction in service firms tends to be more involved. The manufacture of products offers tangible results that can easily be assessed prior to the purchase of the product. Services, on the other hand, are intangible and typically not received until after the purchase agreement has been made. Thus, other factors such as the relationship between the parties involved in the transaction(s) become more important.

FDI drives much of the global economy. Developing countries depend on it for development opportunities. Not only do they need the capital investment associated with FDI, but they also need the technology advancements and the managerial know-how that accompanies the capital investments into the country. FDI in turn improves the economic landscape of the country and increases employment. This in turn increases the economic strength of the people of the country, which results in an increase in demand for goods and services. The increase in economic strength increases investment, and the cycle continues. At some point, firms from FDI-receiving countries become

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Table 2.2 Proportion of FDI in Services Coming From Developed and Developing Countries

	FDI in Services			
	Inward Flows of FDI in Services		*Outward Flows of FDI in Services*	
	1989–1991	*2001–2002*	*1989–1991*	*2001–2002*
World	54%	67%	55%	71%
Developed Countries	58	73	55	71
Developing Countries	35	50	39	77

SOURCE: UNCTAD, 2004.

strong enough (economically) that they begin to look at investment opportunities in other countries. If we look at China, we can see this cycle. Throughout the 1980s and 1990s, China was a net receiver of FDI. Billions of dollars were invested in China by foreign companies. While China is still a major receiver of FDI, they are also beginning to look at investment opportunities in other countries. In 2004, FDI by Chinese companies increased by 27 percent ("Spending Spree," 2005).

Developed-country firms use FDI as a major vehicle for international expansion. It provides access to other developed markets and it allows firms to enter developing countries that have market potential for future economic growth. At the same time, it helps the developing countries to strengthen their competitiveness in the international environment.

❖ GROWTH OF DEVELOPING ECONOMIES

The growth of developing economies presents real competition to firms in developed countries. This is illustrated by the country of origin of firms that make the *Financial Times* Global 500. The *Financial Times* Global 500 lists the 500 largest firms in the world as measured by a number of economic factors ("Global 500," 2005). Table 2.3 shows the number of firms from each country between the years of 2002 and 2005. Of particular note is the decrease in the number of firms from the leading world economies. Between 2002 and 2005, the largest decrease in the number of firms (35.7 percent) was in the Netherlands, followed by the United Kingdom (19.5 percent) and Japan (14 percent). While these

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Table 2.3 *Financial Times* Global 500, 2002–2005

	2002	*2003*	*2004*	*2005*
Australia	9	7	7[a]	8
Austria	0	0	1	1
Belgium	5	5	7	6
Brazil	2	2	4	5
Canada	18	22	22	22
Denmark	2	4	3	3
Finland	2	2	3	2
France	9	25	26	28
Germany	21	21	18	19
Hong King	8	9	8	8
India	1	2	5	5
Ireland	2	3	3	3
Israel	0	0	1	1
Italy	11	12	11	12
Japan	50	47	50	43
Malaysia	0	1	0	0
Mexico	6	3	4	4
Netherlands	14	8	10[b]	9
Norway	2	2	4	4
Portugal	1	1	1	1
Russia	4	5	4	4
Saudi Arabia	2	5	6	8
Singapore	5	3	3	3
South Africa	0	0	0	2
South Korea	6	5	5	6
Spain	7	8	10	9
Sweden	5	7	8	7
Switzerland	12	9	11	12
Taiwan	2	3	5	5
Thailand	0	0	0	1
UAE	1	1	1	1
UK	41	34	33	33
US	238	241	225[c]	219

SOURCE: "Global 500," 2005.
[a]Two companies are Australia/UK owned.
[b]Three companies are Netherlands/UK owned.
[c]One company is US/UK owned.

decreases may appear substantial, it should not be interpreted that the leading world economies are losing leadership positions; they still hold a large majority of the largest global firms and are the world leaders in international business. To illustrate, Table 2.4 shows the G8 countries and the number of Global 500 firms from these countries for 2005.

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As you can see, 76 percent of the largest firms globally in 2005 still come from the world economic leaders. If the other developed countries are included (Australia, Sweden, the Netherlands, etc.) this percentage becomes even greater.

Table 2.4 Number of 2005 Global 500 Firms From G8 Countries

Country	*# of Global 500 Firms*
Canada	22
France	28
Germany	19
Italy	12
Japan	43
Russia	4
United Kingdom	33
United States	219
Total	380

SOURCE: "Global 500," 2005.

If the developed economies have such a stronghold on the global economy, it may seem unimportant to discuss the presence of developing economies in the global environment. However, the incremental growth of large firms from developing countries is noteworthy. The growth of these firms demonstrates the economic evolution of these countries. In the discussion of FDI, you should recall the importance of FDI into developing countries for economic development. Eventually, these countries develop to a point where they have the economic strength to build global firms, usually through acquisition. The result is globally competitive firms. Looking again at changes in the Global 500 between 2002 and 2005, we can see that the developing countries with the largest increases in the number of Global 500 firms were Taiwan and Brazil (150 percent increase for each), India (700 percent increase), South Africa (200 percent increase), and Saudi Arabia (300 percent increase). Although the actual number of Global 500 firms from each of these countries is small, the trend is very clear. More and more large, globally competitive firms will be from developing countries, all of which have very different cultures, political and legal environments, and business practices. For the international negotiator, the complexity of the international business environment increases with each country that enters the picture. The growth of large firms from developing regions has become such an important factor in the global economy that along with the Global 500, the *Financial Times* compiles the Eastern

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Europe 100, the Latin America 100, and the Asia 100. Each of these lists indicates the largest firms in the respective region. Thus, the international business manager can follow the economic trends and changes within the growing regions of the developing regions of the world.

Regionalization

Historically, the natural flow of trade would begin with neighboring countries and expand to other countries usually within relatively close proximity. The main impetus for this trade path was logistics; distance was a limiting factor in the export of products. Transportation was not as advanced as it is today and, therefore, limited the distance over which products could be transported. With each technological advancement in transportation and communication, trade with distant countries has become more physically and economically feasible.

Also looking from a historical perspective, governments traditionally protected their enterprises from foreign competition through the creation of laws that were detrimental to foreign companies. However, over the last 60 years, the trend has been to strengthen cooperation between countries by reducing or eliminating barriers to cross-border trade. Beginning with the General Agreement on Tariffs and Trade in 1947 (now the World Trade Organization), trade between countries has been substantially liberalized. Regionalization has been a logical outcome of trade liberalization. Many firms look to expand internationally within their own geographic region before moving to other regions of the world. There are several factors influencing this type of strategy. First, country cultures are generally more similar within a region than with countries from other regions of the world. The movement of people from one country to another is more likely to happen when countries are in closer proximity. When people move, cultures move. Since cultures are more similar in neighboring countries (within a region), doing business in those countries is easier. It is easier to understand the laws, the business practices, and so forth. In many regions, such as Latin America, many countries speak the same language.

A second factor for regionalization is economics. Transporting goods to closer countries is cheaper than transporting goods to countries farther away. Plus, as there are some similarities in culture, demand for similar products is more likely. Finally, it is easier for companies to manage business when it is closer to headquarters than when it is farther away. Although communication and transportation technologies today make it much easier to manage foreign operations anywhere in the world, the perceived difficulty of managing at a distance is still great.

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Understanding how the world looks region by region provides a starting point for understanding differences in cultures, business practices, and negotiating strategies. The United Nations Conference on Trade and Development divides the world into several regions for monitoring and reporting economic activity. The tables included in this section provide a general overview of the population and gross domestic product (GDP) of each country within a region. Also included is the GDP per capita, which illustrates the purchasing power of the people of that country. GDP and GDP per capita are in U.S. dollars. From viewing these tables, you can see the size and economic strength of each country within the region.

Table 2.5 Population and Economies of Non–European Union Developed Countries

	Population	*GDP*	*GDP/Capita (USD)*
Western Europe			
Gibraltar	0.028 m[a]	0.8 B[a]	27,900
Iceland	0.3 m	9.4 B	31,900
Malta	0.4 m	7.2 B	18,200
Norway	4.6 m	183.0 B	40,000
Switzerland	7.5 m	251.9 B	33,800
North America			
Canada	32.8 m	1,023.0 B	31,500
United States	295.7 m	11,750.0 B	40,100
Other			
Australia	20.1 m	611.7 B	30,700
Israel	6.3 m	129.0 B	20,800
Japan	127.4 m	3,745.0 B	29,400
New Zealand	4.0 m	92.5 B	23,200

SOURCE: Central Intelligence Agency, n.d.
[a]m = million, B = billion $

Table 2.6 Population and Economies of South, East, and Southeast Asia

	Population	*GDP*	*GDP/capita (ppp)* (USD)*
Afghanistan	29.9 m[a]	21.5 B[a]	800
Bangladesh	144.3 m	275.7 B	2,000
Bhutan	2.2 m	2.9 B	1,400
Brunei Darussalam	0.37 m	6.8 B	23,600
Cambodia	13.6 m	26.99 B	2,000
China	1306.3 m	7.3 B	5,600

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Hong King, China	6.9 m	234.5 B	34,200
India	1,080.3 m	3,319.0 B	3,100
Indonesia	241.97 m	827.4 B	3,500
Laos	6.2m	11.3 B	1,900
Macao, China	0.45 m	9.1 B	19,400
Malaysia	23.95 m	229.3 B	9,700
Maldives	0.35 m	1.3 B	3,900
Mongolia	2.8 m	5.3 B	1,900
Myanmar	42.9 m	74.3 B	1,700
Nepal	27.7 m	39.5 B	1,500
Pakistan	162.4 m	347.3 B	2,200
Philippines	87.9 m	430.6 B	5,000
Republic of Korea	48.4 m	925.1 B	19,200
Singapore	4.4 m	120.9 B	27,800
Sri Lanka	20.1 m	80.6 B	4,000
Taiwan Province of China	22.9 m	576.2 B	25,300
Thailand	65.4 m	524.8 B	8,100
Vietnam	83.5 m	227.2 B	2,700

SOURCE: Central Intelligence Agency, n.d.
[a]m = million, B = billion $
*ppp = purchasing power parity

Table 2.7 Population and Economies of West Asia

	Population	*GDP*	*GDP/capita (USD)*
Bahrain	688.3 t[a]	13.0 B[a]	19,200
Republic of Cypress	780.1 t	15.7 B	20,300
North Cypress		4.54 B	7,135
Iran	68.0 m[a]	516.7 B	7,700
Jordan	5.6 m	25.5 B	4,500
Kuwait	2.3 m	48.0 B	21,300
Lebanon	3.8 m	18.8 B	5,000
Oman	3.0 m	38.1 B	13,100
Qatar	863.0 t	19.5 B	23,200
Saudi Arabia	26.4 m	310.2 B	12,000
Syria	18.4 m	60.4 B	3,400
Turkey	69.7 m	508.7 B	7,400
United Arab Emirates	2.6 m	63.7 B	25,200
Yemen	20.7 m	16.3 B	800

SOURCE: Central Intelligence Agency, n.d.
[a]t = thousand, m = million, B = billion $

Table 2.8 Population and Economies of the Pacific

	Population	*GDP*	*GDP/capita (ppp)** *(USD)*
Fiji	893.4 t[a]	5,173.0 M[a]	5,900
Kiribati	103.1 t	79.0 M	800
New Caledonia	216.5 t	3,158.0 M	15,000
Papua New Guinea	5,545.3 t	11,990.0 M	2,200
Samoa	117.3 t	1,000.0 M	5,600
Solomon Islands	538.0 t	800.0 M	1,700
Tonga	112.4 t	244.0 M	2,300
Vanuatu	205.8 t	580.0 M	2,900

SOURCE: Central Intelligence Agency, n.d.
[a]t = thousand, M = million $
*ppp = purchasing power parity

Table 2.9 Population and Economies of Central Asia

	Population	*GDP*	*GDP/capita (USD)*
Armenia	2.98 m[a]	13.7 B[a]	4,600
Azerbaijan	7.9 m	30.0 B	3,800
Georgia	4.7 m	14.5 B	3,100
Kazakhstan	15.2 m	118.4 B	7,800
Kyrgyzstan	5.1 m	8.5 B	1,700
Uzbekistan	26.9 m	47.6 B	1,800

SOURCE: Central Intelligence Agency, n.d.
[a]m = million, B = billion $

Table 2.10 Population and Economies of Central and Eastern Europe

	Population	*GDP*	*GDP/capita (ppp)** *(USD)*
Albania	3.6 m[b]	17.5 B[b]	4,900
Belarus	10.3 m	70.5 B	6,800
Bosnia and Herzegovina	4.0 m	26.2 B	6,500
Bulgaria	7.5 m	61.6 B	8,200
Croatia	4.5 m	50.3 B	11,200
Czech Republic[a]	10.2 m	172.2 B	16,800
Estonia	1.3 m	19.2 B	14,300
Hungary	10.0 m	149.3 B	14,900
Latvia	2.3 m	26.5 B	11,500
Lithuania	3.6 m	45.2 B	12,500
Poland	38.6 m	463.0 B	12,000
Republic of Moldova	4.5 m	8.6 B	1,900
Romania	22.3 m	171.5 B	7,700
Russian Federation	143.4 m	1,408.0 B	9,800

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Serbia and Montenegro	10.8 m	26.3 B	2,400
Slovakia	5.4 m	78.9 B	14,500
Slovenia	2.0 m	39.4 B	19,600
TFYR Macedonia	2.0 m	14.4 B	7,100
Ukraine	47.4 m	299.1 B	6,300

SOURCE: Central Intelligence Agency, n.d.
[a]Countries in italics are members of the European Union.
[b]m = million, B = billion $
*ppp = purchasing power parity

Table 2.11 Population and Economies of Latin America

	Population (2005 est.)	*GDP (2004 est.)*	*GDP/capita (ppp)* (USD)*
Argentina	95.5 m[a]	483.5 B[a]	12,400
Belize	0.3 m	1.8 B	6,500
Bolivia	8.6 m	22.3 B	2,600
Brazil	186.1 m	1,492.0 B	8,100
Chile	16.0 m	169.1 B	10,700
Colombia	43.0 m	281.1 B	6,600
Costa Rica	4.0 m	38.0 B	9,600
Dominican Republic	9.0 m	55.7 B	6,300
Ecuador	13.4 m	49.5 B	3,700
El Salvador	6.7 m	32.4 B	4,900
Guatemala	14.7 m	59.5 B	4,200
Haiti	8.1 m	12.1 B	1,500
Honduras	7.0 m	18.8 B	2,800
Jamaica	2.7 m	11.1 B	4,100
Mexico	106.2 m	1,006.0 B	9,600
Nicaragua	5.5 m	12.3 B	2,300
Panama	3.0 m	20.6 B	6,900
Paraguay	6.3 m	29.9 B	4,800
Peru	27.9 m	155.3 B	5,600
Uruguay	3.4 m	49.3 B	14,500
Venezuela	25.4 m	145.2 B	5,800

SOURCE: Central Intelligence Agency, n.d.
[a]m = million, B = billion $

Table 2.12 Population and Economies of Caribbean Basin

	Population	*GDP*	*GDP/capita (ppp)* (USD)*
Antigua and Barbuda	68,722	750.0 M[a]	11,000
Aruba	71,566	1,940.0 M	28,000
Bahamas	301,790	5,295.0 M	17,700

(Continued)

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Table 2.12 (Continued)

Barbados	279,254	4,569.0 M	16,400
Bermuda	65,365	2,330.0 M	36,000
British Virgin Islands	22,643	2,498.0 M	38,500
Cayman Islands	44,270	1,391.0 M	32,300
Dominica	69,029	384.0 M	5,500
Grenada	89,502	440.0 M	5,000
Guyana	765,283	2899.0 M	3,800
Haiti	8,121,622	12,050.0 M	1,500
Jamaica	2,731,832	11,130.0 M	4,100
Netherlands Antilles	219,958	2,450.0 M	11,400
St. Kitts and Nevis	38,958	339.0 M	8,800
Saint Lucia	166,312	866.0 M	5,400
Saint Vincent and The Grenadines	117,534	342.0 M	2,900
Suriname	438,144	1,885.0 M	4,300
Trinidad and Tobago	1,088,644	11,480.0 M	10,500

SOURCE: Central Intelligence Agency, n.d.
[a]M = million $
*ppp = purchasing power parity

Table 2.13 African Countries

Algeria	Gambia	Senegal
Angola	Ghana	Seychelles
Benin	Guinea	Sierra Leone
Botswana	Guinea-Bissau	Somalia
Burkin Faso	Kenya	South Africa
Burundi	Lesotho	Sudan
Cameroon	Liberia	Swaziland
Central African Republic	Madagascar	Togo
Chad	Malawi	Tunisia
Comoros	Mali	United Republic of Tanzania
Congo	Mauritania	Uganda
Côte d'Ivoire	Mauritius	Zambia
Dem. Rep. of Congo	Morocco	Zimbabwe
Djibouti	Mozambique	
Egypt	Namibia	
Equatorial Guinea	Niger	
Ethiopia	Nigeria	
Gabon	Rwanda	

SOURCE: Central Intelligence Agency, n.d.

❖ SMALL- AND MEDIUM-SIZE FIRMS

Much discussion of the global business environment typically focuses on the large multinational corporation. When we look at FDI, the

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majority of activity involves large corporations, and the majority of revenues derived from foreign activities come from these multinational corporations, as can be seen from the Global 500 rankings. While this category of companies deserves the attention it attracts, there is another category of firms critical to a full understanding of the global environment: small- and medium-size firms (SMEs).

SMEs vary in size and definition from country to country. Because many of these firms are not publicly traded firms, there is less consistency in measures across countries. The Organization for Economic Cooperation and Development (OECD, 2005)[2] provides a useful definition for understanding an SME: "SMEs are generally considered to be non-subsidiary, independent firms which employ fewer than a given number of employees" (OECD, 2005, p. 18). The upper limit in terms of number of employees used to designate an SME for most countries is 250 employees. European Union countries use this limit. Some countries set an employee limit of 200 to designate an SME. At the upper level, the United States defines an SME as a firm with fewer than 500 employees.

Within the general category of SMEs, firms are further segmented into three groups based on the number of employees and the financial assets of the firm. Again, while the specific limits setting each group vary, there are three general categories of SMEs: medium-size firms, small firms, and microfirms. Using the parameters set by the European Union, we can see how SMEs are segmented. Medium firms employ between 50 to 250 people and should have a turnover of no more than 50 million euros. Small firms employ 10 to 49 people with a turnover limit of 10 million euros. The third category, microfirms, employs fewer than 10 people and reach annual turnover rates of no more than 2 million euro (OECD, 2005).

For SMEs from most countries, firm size is important. Governments set policies that can be more beneficial to firms of specific sizes. For example, in the United States, small businesses receive some preferences in attaining government contracts. The definition of a small business in these cases varies by the industry in which the firm operates. For the European Union, the definition given previously is used for funding and business aid programs.

SMEs play a particularly important role in most countries in terms of employment. In OECD countries (Table 2.14 lists OECD member countries), SMEs and entrepreneurial activity "account for over 95 percent of enterprises, generate two-thirds of employment and are the main source of new jobs" (OECD, 2005, p. 15). Firms of these sizes are responsible for most net job creation in member countries. Discussion of SMEs and their roles in the global environment is not complete without some mention of entrepreneurship. Entrepreneurship is the catalyst behind

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SMEs. Entrepreneurship, as defined by the European Commission, is "the mindset and process to create and develop economic activity by building risk-taking, creativity and/or innovation with sound management" (OECD, 2005, p. 22). In the United States, entrepreneurship is defined as "the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence" (Hirsch, Peters, & Shepherd, 2005, p. 8). While these definitions differ, a common thread exists. Creating new activities that add value to the individual and the system within which it operates underlies both definitions.

Table 2.14 OECD Member Countries

Country (year joined)	*Country (year joined)*
Australia (1971)	Korea (1996)
Austria (1961)	Luxembourg (1961)
Belgium (1961)	Mexico (1994)
Canada (1961)	Netherlands (1961)
Czech Republic (1995)	New Zealand (1973)
Denmark (1961)	Norway (1961)
Finland (1969)	Poland (1996)
France (1961)	Portugal (1961)
Germany (1961)	Slovak Republic (2000)
Greece (1961)	Spain (1961)
Hungary (1996)	Sweden (1961)
Iceland (1961)	Switzerland (1961)
Ireland (1961)	Turkey (1961)
Italy (1962)	United Kingdom (1961)
Japan (1964)	United States (1961)

SOURCE: http://www.oecd.org/

For many developing countries, entrepreneurship and SMEs are critical to economic development. The needed economic and legal policy changes to move these countries forward occur slowly, and it is difficult for state-run or larger firms to adapt their mindset to market-oriented economic development and entrepreneurial activity.

Internationalization of SMEs can present many challenges. According to the OECD, SMEs are underrepresented in the international environment. All the factors that add to the challenge of internationalization—political and legal environment, culture, and so

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forth—are difficult for SMEs to overcome. SMEs are limited in their human and capital resources due to their size, especially when compared to multinational corporations. As a result, building a knowledge and experience base in foreign markets may be slow.

However, SMEs are realizing the need for global expansion in order to maintain competitive position and to grow. Several factors have influenced the growth of SMEs in the international environment, including worldwide consumer demand for more specialized and sophisticated products, the advancement of manufacturing that allows more flexible manufacturing, shortened product life cycles, and the convergence of consumer tastes and preferences (Knight & Cavusgil, 1996; Rennie, 1993). Additionally, advances in technology have made it easier to access information about business practices in other countries, gain knowledge about other countries, transport products, and manage from a distance. Small firms that internationalize have a growth advantage over their domestic-only competitors in that they tend to grow faster (Andersson, Gabrielsson, & Wictor, 2004; Rennie, 1993). As a result of the factors mentioned previously, a growing number of SMEs are internationalizing their activities early in the firm's existence. These firms are frequently called *born global* firms.

A born global firm is defined as "a company which from or near its founding, seeks to derive a substantial portion of its revenue from the sale of its products in international markets" (Knight, 1997, p. 1, as cited in Moen, 2002). Traditionally, firms have followed a more gradual approach to internationalizing, typically by building a solid domestic base before venturing into foreign markets. Born globals typically have regarded foreign markets to be as or more attractive than the domestic market and tend to follow a niche strategy (Knight & Cavusgil, 1996; Moen, 2002) that they use in multiple countries. They tend to have a stronger global orientation also. Specifically, leaders of these firms have a strong international vision (they perceive foreign markets to have a high potential for exports), are proactive in seeking international markets, and have a customer orientation in how they respond to market forces (Lloyd-Reason, Damyanoc, Nicolescu, & Wall, 2005; Moen, 2002; Moen & Servais, 2002). CEOs and other firm leaders also tend to be younger (Andersson, Gabrielsson, & Wictor, 2004) and have more international experiences (Reuber & Fischer, 1997).

SMEs from developing countries face a variety of motivations for internationalizing early. Some of these motivations include the need to accumulate hard currencies, geographic proximity of foreign markets, approach from foreign partners, and a falling domestic market (Lloyd-Reason et al., 2005). Because developing countries typically do not

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have a high number of large firms, the majority of firms in these countries face these issues. Especially important for developing-country SMEs is the accumulation of hard currencies. Currencies of developing countries are typically not easily exchanged for other, especially hard, currencies. Therefore, their own currencies are good only in their respective countries. Exporting products to other countries allows an SME to collect hard currency for payment, which can then be used to buy other foreign products or services to be used in their activities and operations. In a study looking at SMEs from some of the Eastern European countries, Lloyd-Reason et al. (2005) found that the CEO's international orientation influenced the propensity for internationalization of the firm. Internationally oriented CEOs not only had a greater degree of international experience, but they also encouraged their key employees to gain international knowledge (languages) and experience (travel to other countries). Through international experiences, the CEO and his or her firm develop an international network, which facilitates international growth.

Because of the size of SMEs, especially small and microfirms, the CEO is many times the person leading the negotiation in the foreign market. A CEO of a small- or medium-size firm may or may not be trained in business. Therefore, it would follow that training in business negotiation may be even less likely. Although the research cited in this section indicates that internationalized SMEs tend to have leaders with more international experience and interest in the international environment, the breadth and depth of knowledge needed to function effectively in the international environment, and particularly in an international negotiation, can be vast. Nevertheless, in most countries, SMEs are the hope for the future.

❖ TECHNOLOGY

A final consideration for gaining a worldview perspective is the role technology plays in the international business environment. When we think of technology, the first thing most people think of is the Internet. Although the Internet has been very valuable in improving access to people, information, and markets, it is only one piece of the technology contribution to globalization. If we go back a few decades, we can see how, even before the Internet, technology influenced the rapid pace of globalization. One of the most important technological advances to the global environment has been the development of satellite communication.

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Prior to the ability to send and receive data via satellite, countries were able to control information in and out of their borders. With satellite communication, however, that control was lost. As a result, country governments that had strictly controlled information could no longer do it. Satellite allowed real-time transfer of information virtually around the world. No longer could one country prevent its citizens from learning about how people in other countries lived, leading to an increase in cross-cultural influences.

The Internet has provided an organized and focused channel to access information and communicate with others potentially anywhere in the world. Once a relationship has been developed, interaction via the Internet helps maintain the connection between the parties involved. The Internet helps us gather information about other countries, cultures, products, markets, and so forth. However, it is extremely important to remember that the Internet can never substitute for the personal relationship developed between the people involved in international business transactions. The United States is one of the most individualistic cultures in the world. However, the United States and the other individualist countries remain a minority of the world's population. Relationships still count. They are so important, especially in the global environment where there are so many variables that affect a business decision, that the personal relationship between the parties involved in a transaction can become the anchoring link. For most SMEs, relationship development is crucial to international success.

❖ THE BIG PICTURE

The elements of the global environment discussed in this chapter provide a big-picture view of the world in which international business transactions take place. The most important thing to remember is that you now have a snapshot of the global environment, but that the world is dynamic and continually changes. Thus, it is important for managers working in the global environment to continually learn and update their knowledge base from which decisions are made. For negotiators, once a strategy is determined for a specific country or region, it may be necessary to modify that strategy as the country grows politically, legally, and economically. The ability to readily adapt to the changing environment will be essential for long-term success as a global manager and negotiator.

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Guidelines for Understanding the Global Environment

When entering into a negotiation with a firm from a foreign country, it is important to understand the environment of that country, and, in many cases, the region of the world in which that country is located. The following guidelines help accomplish this. Just as it is important to understand the company and the offerings of the party with which you are negotiating, it is also important to understand the global context of the firm's location.

1. Learn about the economic, political, and legal history and policies of the country.
2. Understand the current economic, political, and legal condition of the country (and region).
3. Identify the largest trading partners of the country.
4. How involved is government with business?
5. Understand the role of FDI in the economic development of the country and the industry in which you operate. In other words, is the country dependent on FDI for economic growth? If so, what industries are given preferential treatment by the government (governments tend to favor business activities in targeted growth areas).
6. Know the country's relationship with economically integrated areas. The country could be a member of an economically integrated area or it may be part of other types of trade agreements.
7. If you are doing business with an SME, know what incentives might be available to that company through its government.

❖ DISCUSSION QUESTIONS

1. As an international business negotiator, why is it important for you to have a strong understanding of the global environment?
2. FDI drives economic growth in many countries. What is FDI and why is it important in the global economy?
3. As an international business negotiator, how would you balance the goals of your company and the goals or needs of a developing country when negotiating with a firm in that country? Is it

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your responsibility as a business to balance these goals? Why or why not?

4. Why are SMEs important in the international business environment? How might negotiating with an SME be different from negotiating with a large firm?

5. Looking at the tables that provide population and economic data for regions of the world, how would you assess the "state" of the global environment today?

❖ NOTES

1. Although the internal focus for economic development did not help advance the economic growth of the Soviet Union, it should be noted that the way its political policies and ideologies were carried out compounded the economic difficulties.

2. The Organization for Economic Cooperation and Development is a multilateral organization where the governments of member countries cooperatively address economic, social, and governance challenges of today's global environment. The OECD is well known for its publications and statistical compilations and analyses.

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