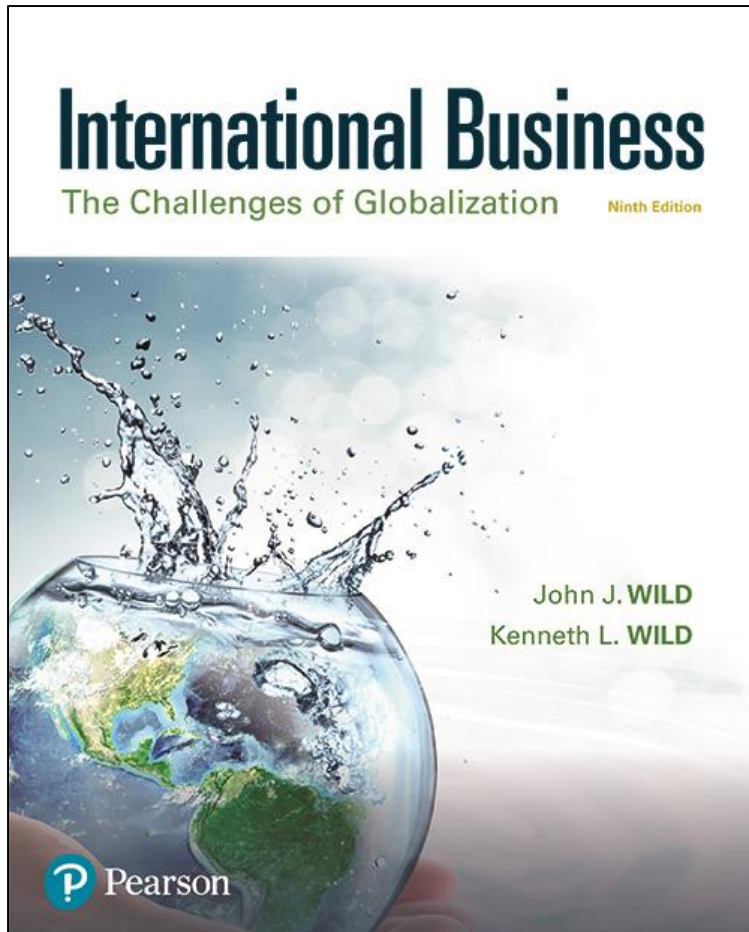


International Business: The Challenges of Globalization

Ninth Edition



Chapter 4

Economic Development of Nations

Learning Objectives

- 4.1 Explain economic development and how it is measured.
- 4.2 Describe economic transition and its main obstacles.
- 4.3 Outline the various sources of political risk.
- 4.4 Explain how companies can manage political risk.
- 4.5 Describe China's and Russia's experiences with economic transition.

India's Tech King

- Infosys is a global provider of IT services.
- India spawned home-grown firms in knowledge-based industries.
- Brainpower is driving development.



Economic Development (1 of 3)

Classifying Countries

- Developed Country
- Newly Industrialized Country
- Emerging Markets
- Developing Country

Economic Development (2 of 3)

National Production

Popular Indicators of Economic Development

- Gross Domestic Product (GDP)
- Gross National Product (GNP)

Economic Development (3 of 3)

GDP and GNP Drawbacks

- Uncounted Transactions
- Question of Growth
- Problem of Averages
- Pitfalls of Comparison

Purchasing Power Parity

Purchasing Power

- Value of goods and services that can be purchased with one unit of a country's currency

Purchasing Power Parity (PPP)

- Relative ability of two countries' currencies to buy the same “basket” of goods in those two countries

Economic Development

Human Development

United Nations' Human Development Index (HDI)

- Long and Healthy Life
- Education
- Decent Standard of Living

Table 4.1 Human Development Index (HDI) (1 of 2)

HDI Rank	Country	HDI Value	GNI per Capita Rank	Life Expectancy at Birth (Years)
Very High Human Development				
1	Norway	0.949	6	81.7
2	Switzerland	0.939	9	83.1
4	Germany	0.926	17	81.1
10	Canada	0.920	22	82.2
10	United States	0.920	11	79.2
16	United Kingdom	0.909	26	80.8
21	France	0.897	25	82.4
27	Spain	0.884	34	82.8
45	Argentina	0.827	57	76.5

Table 4.1 Human Development Index (HDI) (2 of 2)

HDI Rank	Country	HDI Value	GNI per Capita Rank	Life Expectancy at Birth (Years)
High Human Development				
49	Russia	0.804	50	70.3
77	Mexico	0.762	68	77.0
90	China	0.738	83	76.0
Medium Human Development				
111	Egypt	0.691	104	71.3
119	South Africa	0.666	89	57.7
139	Bangladesh	0.579	147	72.0
Low Human Development				
152	Nigeria	0.527	129	53.1
188	Central African Rep.	0.352	192	51.5

Source: Based on data obtained from Human Development Report 2016 (New York: United Nations Development Programme, 2016), Table 1, pp. 198–201, available at www.undp.org.

Quick Study 1

1. An increase in the economic well-being, quality of life, and general welfare of a nation's people is called what?
2. What are the drawbacks of using national production to measure economic development?
3. The human development index measures what aspects of a nation's development?

Economic Transition

Reforms

- Stabilizing the economy, reducing budget deficits, and expanding credit availability
- Allowing prices to reflect supply and demand
- Legalizing private business, selling state-owned companies, and supporting property rights
- Reducing barriers to trade and investment and allowing currency convertibility

Obstacles

- Managerial expertise
- Shortage of capital
- Cultural differences
- Sustainability

Quick Study 2

1. What does the economic transition process involve?
2. What are the key obstacles for countries in transition?
3. Transition replaces dependence on the government with greater emphasis on what?

Political Risk

- **Political Risk:** Likelihood that a society will undergo political change that negatively affects local business activity
- Main sources of political risk include:
 - Conflict and violence
 - Terrorism and kidnapping
 - Property seizure: confiscation, expropriation, or nationalization
 - Policy changes
 - Local content requirements

Quick Study 3

1. How does political risk abroad affect companies?
2. Companies fear open violence and conflict abroad because it can threaten the ability to do what?
3. What is the name given to the forced transfer of assets from a company to the government with compensation?

Managing Political Risk (1 of 2)

Methods

Managing Political Risk

- Adaptation
- Information Gathering
- Political Influence

Managing Political Risk (2 of 2)

Relations Between Countries

International Relations

- Favorable and strong political relationships
 - Foster stable business environments
 - Expand business opportunities
 - Lower risk
 - Promote economic development
- Multilateral agreements

The United Nations

- Six main bodies
 - The General Assembly
 - The Security Council
 - The Economic and Social Council
 - UN Conference on Trade and Development
 - The Trusteeship Council
 - The International Court of Justice
 - Secretariat

Quick Study 4

1. How can a company incorporate political risk into its business strategies?
2. What is a good source of information to help conduct accurate political risk forecasting?
3. What might result from unfavorable political relations among countries?

Emerging Markets and Economic Transition (1 of 2)

China

- **Profile**

- Communist after civil war ended in 1949
- Agricultural reforms began in 1979
- Township and Village Enterprises legal in 1984
- “Socialism with Chinese characteristics”

- **Challenges**

- Political and social problems
- Unemployment and migrant labor
- Reunification of “greater China”

Emerging Markets and Economic Transition (2 of 2)

Russia

- **Profile**

- Operated under a staunchly communist system for about 75 years
- In the 1980s, the former Soviet Union entered a new era of freedom of thought, freedom of expression, and economic restructuring
- Transition away from government ownership and central planning was challenging
- Opaque legal system, a fair amount of corruption, and shifting business laws

- **Challenges**

- Developing managerial talent
- Political instability
- Unstable investment climate

Quick Study 5

1. During what time period did China undergo its most rigorous experience with central planning?
2. What challenges might pose a threat to China's future economic performance?
3. Over what aspects of Russia's centrally planned economy did planners exercise control?
4. What might challenge Russia's future economic prospects?

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