Strategic Management

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Global/International Issues
A note from David

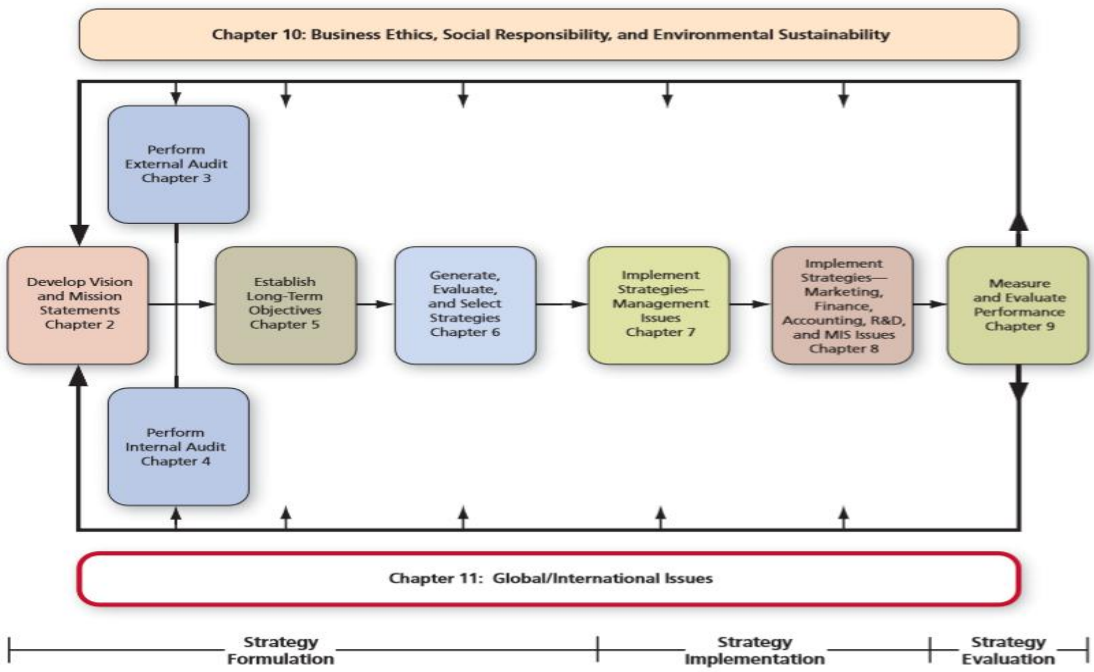
As illustrated in Figure 11-1, global considerations impact virtually all strategic decisions. The boundaries of countries no longer can define the limits of our imaginations. To see and appreciate the world from the perspective of others has become a matter of survival for businesses. The underpinnings of strategic management hinge on managers gaining an understanding of competitors, markets, prices, suppliers, distributors, governments, creditors, shareholders, and customers worldwide. The price and quality of a firm's products and services must be competitive on a worldwide basis, not just on a local basis. As indicated above, Marriott International is an example global business that performed outstandingly well during the recent global recession. The World Trade Organization (WTO) in March 2009 issued the most pessimistic report on global trade in its 62-year history: that global trade would drop by 9 percent or more in 2009.1

A world market has emerged from what previously was a multitude of distinct national markets, and the climate for international business today is more favorable than in years past. Mass communication and high technology have created similar patterns of consumption in diverse cultures worldwide. This means that many companies may find it difficult to survive by relying solely on domestic markets.

It is not exaggeration that in an industry that is, or is rapidly becoming, global, the riskiest possible posture is to remain a domestic competitor. The domestic competitor will watch as more aggressive companies use this growth to capture economies of scale and learning. The domestic competitor will then be faced with an attack on domestic markets using different (and possibly superior) technology, product design, manufacturing, marketing approaches, and economies of scale.2

FIGURE 11-1

A Comprehensive Strategic-Management Mode



Source: Fred R. David, "How Companies Define Their Mission," *Long Range Planning* 22, no. 3 (June 1988): 40.

Multinational Organizations

Organizations that conduct business operations across national borders are called international firms or multinational corporations. The strategic-management process is conceptually the same for multinational firms as for purely domestic firms; however, the process is more complex for international firms due to more variables and relationships. The social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive opportunities and threats that face a multinational corporation are almost limitless, and the number and complexity of these factors increase dramatically with the number of products produced and the number of geographic areas served.

More time and effort are required to identify and evaluate external trends and events in multinational corporations than in domestic corporations. Geographic distance, cultural and national differences, and variations in business practices often make communication between domestic headquarters and overseas operations difficult. Strategy implementation can be more difficult because different cultures have different norms, values, and work ethics. Multinational corporations (MNCs) face unique and diverse risks, such as expropriation of assets, currency losses through exchange rate fluctuations, unfavorable foreign court interpretations of contracts and agreements, social/political disturbances, import/ export restrictions, tariffs, and trade barriers. Strategists in MNCs are often confronted with the need to be globally competitive and nationally responsive at the same time. With the rise in world commerce, government and regulatory bodies are more closely monitoring foreign business practices. The U.S. Foreign Corrupt Practices Act, for example, monitors business practices in many areas.

Before entering international markets, firms should scan relevant journals and patent reports, seek the advice of academic and research organizations, participate in international trade fairs, form partnerships, and conduct extensive research to broaden their contacts and diminish the risk of doing business in new markets. Firms can also offset some risks of doing business internationally by obtaining insurance from the U.S. government's Overseas Private Investment Corporation (OPIC). Philips Electronics NV is one of many firms moving into emerging markets. A few of Philips's acquisitions in the year 2008 alone were Medel in Italy, Meditronics in India, Alpha X-Ray Technologies in India, Dixtal Biomedica & Tecnologia in Brazil, Shenzhen Goldway Industrial in China, and VMI-Sistemes Medicos in Brazil.

Advantages and Disadvantages of International Operations

Firms have numerous reasons for formulating and implementing strategies that initiate, continue, or expand involvement in business operations across national borders. Perhaps the greatest advantage is that firms can gain new customers for their products and services, thus increasing revenues. Growth in revenues and profits is a common organizational objective and often an expectation of shareholders because it is a measure of organizational success. Potential advantages to initiating, continuing, and/or expanding international operations are as follows:

1. Firms can gain new customers for their products.
2. Foreign operations can absorb excess capacity, reduce unit costs, and spread economic risks over a wider number of markets.
3. Foreign operations can allow firms to establish low-cost production facilities in locations close to raw materials and/or cheap labor.
4. Competitors in foreign markets may not exist, or competition may be less intense than in domestic markets.

5. Foreign operations may result in reduced tariffs, lower taxes, and favorable political treatment.
6. Joint ventures can enable firms to learn the technology, culture, and business practices of other people and to make contacts with potential customers, suppliers, creditors, and distributors in foreign countries.
7. Economies of scale can be achieved from operation in global rather than solely domestic markets. Larger-scale production and better efficiencies allow higher sales volumes and lower-price offerings.
8. A firm's power and prestige in domestic markets may be significantly enhanced if the firm competes globally.

Enhanced prestige can translate into improved negotiating power among creditors, suppliers, distributors, and other important groups. The availability, depth, and reliability of economic and marketing information in different countries vary extensively, as do industrial structures, business practices, and the number and nature of regional organizations. There are also numerous potential disadvantages of initiating, continuing, or expanding business across national borders, such as the following:

1. Foreign operations could be seized by nationalistic factions.
2. Firms confront different and often little-understood social, cultural, demographic, environmental, political, governmental, legal, technological, economic, and competitive forces when doing business internationally. These forces can make communication difficult in the firm.
3. Weaknesses of competitors in foreign lands are often overestimated, and strengths are often underestimated. Keeping informed about the number and nature of competitors is more difficult when doing business internationally.
4. Language, culture, and value systems differ among countries, which can create barriers to communication and problems managing people.
5. Gaining an understanding of regional organizations such as the European Economic Community, the Latin American Free Trade Area, the International Bank for Reconstruction and Development, and the International Finance Corporation is difficult but is often required in doing business internationally.
6. Dealing with two or more monetary systems can complicate international business operations.

The Global Challenge

Foreign competitors are battering U.S. firms in many industries. In its simplest sense, the global challenge faced by U.S. business is twofold: (1) how to gain and maintain exports to other nations and (2) how to defend domestic markets against imported goods. Few companies can afford to ignore the presence of international competition. Firms that seem insulated and comfortable today may be vulnerable tomorrow; for example, foreign banks do not yet compete or operate in most of the United States, but this too is changing.

America's economy is becoming much less American. A world economy and monetary system are emerging. Corporations in every corner of the globe are taking advantage of the opportunity to obtain customers globally. Markets are shifting rapidly and in many cases converging in tastes, trends, and prices. Innovative transport systems are accelerating the transfer of technology. Shifts in the nature and location of production systems, especially to China and India, are reducing the response time to changing market conditions.

More and more countries around the world are welcoming foreign investment and capital. As a result, labor markets have steadily become more international. East Asian countries are market leaders in labor-intensive industries, Brazil offers abundant natural resources and rapidly developing markets, and Germany offers skilled labor and technology. The drive to improve the efficiency of global business operations is leading to greater functional specialization. This is not limited to a search for the familiar low-cost labor in Latin America or Asia. Other considerations include the cost of energy, availability of resources, inflation rates, tax rates, and the nature of trade regulations.

Many countries became more protectionist during the recent global economic recession. Protectionism refers to countries imposing tariffs, taxes, and regulations on firms outside the country to favor their own companies and people. Most economists argue that protectionism harms the world economy because it inhibits trade among countries and invites retaliation. When China joined the World Trade Organization in 2001, that country agreed to respect copyright protections and liberalize restrictions on the import and distribution of foreign-made goods. However, Chinese counterfeiters still can be criminally prosecute for commercial piracy only when caught in possession of at least 500 counterfeit items.3 In China, pirated goods such as Nike running shoes, new Hollywood movies on DVD, and Microsoft software can be purchased for a fraction of their actual prices on many streets. China still has substantial barriers to sales of authentic U.S.-made copyrighted products. Former U.S. Trade Representative Susan Schwab says, “This is more than a handbag here or a logo item there; it is often theft on a grand scale.” China’s counterfeit trade practices contribute to an annual bilateral trade deficit of about $250 billion with the United States. Chinese pirating of products is an external threat facing many firms.

Advancements in telecommunications are drawing countries, cultures, and organizations worldwide closer together. Foreign revenue as a percentage of total company revenues already exceeds 50 percent in hundreds of U.S. firms, including Exxon/Mobil, Gillette, Dow Chemical, Citicorp, Colgate-Palmolive, and Texaco. A primary reason why most domestic firms are engaging in global operations is that growth in demand for goods and services outside the United States is considerably higher than inside. For example, the domestic food industry is growing just 3 percent per year, so Kraft Foods, the second largest food company in the world behind Nestle, is focusing on foreign acquisitions.

Shareholders and investors expect sustained growth in revenues from firms; satisfactory growth for many firms can only be achieved by capitalizing on demand outside the United States. Joint ventures and partnerships between domestic and foreign firms are becoming the rule rather than the exception!

Fully 95 percent of the world’s population lives outside the United States, and this group is growing 70 percent faster than the U.S. population. The lineup of competitors in virtually all industries is global. General Motors, Ford, and Chrysler compete with Toyota and Hyundai. General Electric and Westinghouse battle Siemens and Mitsubishi. Caterpillar and John Deere compete with Komatsu. Goodyear battles Michelin, Bridgestone/Firestone, and Pirelli. Boeing competes with Airbus. Only a few U.S. industries—such as furniture, printing, retailing, consumer packaged goods, and retail banking—are not yet greatly challenged by foreign competitors. But many products and components in these industries too are now manufactured in foreign countries. International operations can be as simple as exporting a product to a single foreign country or as complex as operating manufacturing, distribution, and marketing facilities in many countries.

Globalization

Globalization is a process of doing business worldwide, so strategic decisions are made based on global profitability of the firm rather than just domestic considerations. A global strategy seeks to meet the needs of customers worldwide, with the highest value at the lowest cost. This may mean locating production in countries with the lowest labor costs or abundant natural resources, locating research and complex engineering centers where skilled scientists and engineers can be found, and locating marketing activities close to the markets to be served. A global strategy includes designing, producing, and marketing products with global needs in mind, instead of considering individual countries alone.

A global strategy integrates actions against competitors into a worldwide plan. Today, there are global buyers and sellers, and the instant transmission of money and information across continents. It is clear that different industries become global for different reasons. The need to amortize massive R&D investments over many markets is a major reason why the aircraft manufacturing industry became global. Monitoring globalization in one's industry is an important strategic-management activity.

Knowing how to use that information for one's competitive advantage is even more important. For example, firms may look around the world for the best technology and select one that has the most promise for the largest number of markets. When firms design a product, they design it to be marketable in as many countries as possible. When firms manufacture a product, they select the lowest-cost source, which may be Japan for semiconductors, Sri Lanka for textiles, Malaysia for simple electronics, and Europe for precision machinery.

A Weak Economy

A weak economy still plagues many countries around the world. The British pound reached a 23-year low against the U.S. dollar in January 2009. Two consecutive quarters of a decline in real gross domestic product is commonly used as a definition of a recession, and the last quarter of 2008 marked this occurrence in the United Kingdom. The speed and breadth at which the United Kingdom's economy shrunk makes economists think the UK recession could last through 2012. Like the U.S. government, the UK government has poured hundreds of billions of pounds into stimulus and financial bailout measures. Further interest rate cuts by the Bank of England are expected soon, although the bank's rates are already the lowest in the bank's 315-year history. The pound's fall has done little to boost exports. David Sandall, a businessman in Cheshire, Northern England, says, "It doesn't matter what the price of something is if your customer hasn't got the money." And that is the primary situation in the United Kingdom's two largest trading regions—Europe and the United States.

Unemployment rates are high across the United States and around the world. Consumer spending remains low and cautious while banks continue to be reluctant to loan money. Stock prices have rebounded, but many investors still have an appetite only for government securities. New corporate profit warnings and bankruptcies spell continued recession in many countries.

United States versus Foreign Business Cultures

To compete successfully in world markets, U.S. managers must obtain a better knowledge of historical, cultural, and religious forces that motivate and drive people in other countries. In Japan, for example, business relations operate within the context of Wa, which stresses group harmony and social cohesion. In China, business behavior revolves around guanxi, or personal relations. In South Korea, activities involve concern for inhwa, or harmony based on respect of hierarchical relationships, including obedience to authority.4

In Europe, it is generally true that the farther north on the continent, the more participatory the management style. Most European workers are unionized and enjoy more frequent vacations and holidays than U.S. workers. A 90-minute lunch break plus 20-minute morning and afternoon breaks are common in European firms. Guaranteed permanent employment is typically a part of employment contracts in Europe. In socialist countries such as France, Belgium, and the United Kingdom, the only grounds for immediate dismissal from work is a criminal offense. A six-month trial period at the beginning of employment is usually part of the contract with a European firm. Many Europeans resent pay-for-performance, commission salaries, and objective measurement and reward systems. This is true especially of workers in southern Europe. Many Europeans also find the notion of team spirit difficult to grasp because the unionized environment has dichotomized worker–management relations throughout Europe.

A weakness of some U.S. firms in competing with Pacific Rim firms is a lack of understanding of Asian cultures, including how Asians think and behave. Spoken Chinese, for example, has more in common with spoken English than with spoken Japanese or Korean. U.S. managers consistently put more weight on being friendly and liked, whereas Asian and European managers often exercise authority without this concern. Americans tend to use first names instantly in business dealings with foreigners, but foreigners find this presumptuous. In Japan, for example, first names are used only among family members and intimate friends; even longtime business associates and coworkers shy away from the use of first names. Table 11-1 lists other cultural differences or pitfalls that

U.S. managers need to know about. U.S. managers have a low tolerance for silence, whereas Asian managers view extended periods of silence as important for organizing and evaluating one's thoughts. U.S. managers are much more action oriented than their counterparts around the world; they rush to appointments, conferences, and meetings—and then feel the day has been productive. But for many foreign managers, resting, listening, meditating, and thinking is considered productive.

TABLE 11-1 Cultural Pitfalls That May Help You Be a Better Manager

- Waving is a serious insult in Greece and Nigeria, particularly if the hand is near someone's face.
- Making a "good-bye" wave in Europe can mean "No," but it means "Come here" in Peru.
- In China, last names are written first.
- A man named Carlos Lopez-Garcia should be addressed as Mr. Lopez in Latin America but as Mr. Garcia in Brazil.
- Breakfast meetings are considered uncivilized in most foreign countries.
- Latin Americans are on average 20 minutes late to business appointments.
- Direct eye contact is impolite in Japan.
- Don't cross your legs in any Arab or many Asian countries—it's rude to show the sole of your shoe.
- In Brazil, touching your thumb and first finger—an American "Okay" sign—is the equivalent of raising your middle finger.
- Nodding or tossing your head back in southern Italy, Malta, Greece, and Tunisia means "No." In India, this body motion means "Yes."
- Snapping your fingers is vulgar in France and Belgium.
- Folding your arms across your chest is a sign of annoyance in Finland.
- In China, leave some food on your plate to show that your host was so generous that you couldn't finish.
- Do not eat with your left hand when dining with clients from Malaysia or India.
- One form of communication works the same worldwide. It's the smile—so take that along wherever you go.

Sitting through a conference without talking is unproductive in the United States, but it is viewed as positive in Japan if one's silence helps preserve unity. U.S.

managers place greater emphasis on short-term results than foreign managers. In marketing, for example, Japanese managers strive to achieve “everlasting customers,” whereas many Americans strive to make a onetime sale. Marketing managers in Japan see making a sale as the beginning, not the end, of the selling process. This is an important distinction. Japanese managers often criticize U.S. managers for worrying more about shareholders, whom they do not know, than employees, whom they do know. Americans refer to “hourly employees,” whereas many Japanese companies still refer to “lifetime employees.” Rose Knotts recently summarized some important cultural differences between U.S. and foreign managers:5

1. Americans place an exceptionally high priority on time, viewing time as an asset. Many foreigners place more worth on relationships. This difference results in foreign managers often viewing U.S. managers as “more interested in business than people.”
2. Personal touching and distance norms differ around the world. Americans generally stand about three feet from each other when carrying on business conversations, but Arabs and Africans stand about one foot apart. Touching another person with the left hand in business dealings is taboo in some countries. American managers need to learn the personal-space rules of foreign managers with whom they interact in business.
3. Family roles and relationships vary in different countries. For example, males are valued more than females in some cultures, and peer pressure, work situations, and business interactions reinforce this phenomenon.
4. Business and daily life in some societies are governed by religious factors. Prayer times, holidays, daily events, and dietary restrictions, for example, need to be respected by American managers not familiar with these practices in some countries.
5. Time spent with the family and the quality of relationships are more important in some cultures than the personal achievement and accomplishments espoused by the traditional U.S. manager.
6. Many cultures around the world value modesty, team spirit, collectivity, and patience much more than the competitiveness and individualism that are so important in the United States.
7. Punctuality is a valued personal trait when conducting business in the United States, but it is not revered in many of the world’s societies. Eating habits also differ dramatically across cultures. For example, belching is acceptable in some countries as evidence of satisfaction with the food that has been prepared. Chinese culture considers it good manners to sample a portion of each food served.
8. To prevent social blunders when meeting with managers from other lands, one must learn and respect the rules of etiquette of others. Sitting on a toilet seat is viewed as unsanitary in most countries, but not in the United States. Leaving food or drink after dining is considered impolite in some countries, but not in China. Bowing instead of shaking hands is customary in many countries. Some cultures view Americans as unsanitary for locating toilet and bathing facilities in the same area, whereas Americans view people of some cultures as unsanitary for not taking a bath or shower every day.
9. Americans often do business with individuals they do not know, unlike businesspersons in many other cultures. In Mexico and Japan, for example, an amicable relationship is often mandatory before conducting business.

In many countries, effective managers are those who are best at negotiating with government bureaucrats rather than those who inspire workers. Many U.S. managers are uncomfortable with nepotism and bribery, which are practiced in some countries. The United States has gained a reputation for defending women from sexual harassment and minorities from discrimination, but not all countries embrace the same values.

American managers in China have to be careful about how they arrange office furniture because Chinese workers believe in feng shui, the practice of harnessing natural forces. U.S. managers in Japan have to be careful about nemaswashio, whereby Japanese workers expect supervisors to alert them privately of changes rather than informing them in a meeting. Japanese managers have little appreciation for versatility, expecting all managers to be the same. In Japan, "If a nail sticks out, you hit it into the wall," says Brad Lashbrook, an international consultant for Wilson Learning.

Probably the biggest obstacle to the effectiveness of U.S. managers—or managers from any country working in another—is the fact that it is almost impossible to change the attitude of a foreign workforce. "The system drives you; you cannot fight the system or culture," says Bill Parker, president of Phillips Petroleum in Norway.

The Mexican Culture

Mexico is an authoritarian society in terms of schools, churches, businesses, and families. Employers seek workers who are agreeable, respectful, and obedient, rather than innovative, creative, and independent. Mexican workers tend to be activity oriented rather than problem solvers. When visitors walk into a Mexican business, they are impressed by the cordial, friendly atmosphere. This is almost always true because Mexicans desire harmony rather than conflict; desire for harmony is part of the social fabric in worker–manager relations. There is a much lower tolerance for adversarial relations or friction at work in Mexico as compared to the United States.

Mexican employers are paternalistic, providing workers with more than a paycheck, but in return they expect allegiance. Weekly food baskets, free meals, free bus service, and free day care are often part of compensation. The ideal working condition for a Mexican worker is the family model, with people all working together, doing their share, according to their designated roles. Mexican workers do not expect or desire a work environment in which self-expression and initiative are encouraged. Whereas U.S. business embodies individualism, achievement, competition, curiosity, pragmatism, informality, spontaneity, and doing more than expected on the job, Mexican businesses stress collectivism, continuity, cooperation, belongingness, formality, and doing exactly what you're told.

In Mexico, business associates rarely entertain each other at their homes, which are places reserved exclusively for close friends and family. Business meetings and entertaining are nearly always done at a restaurant. Preserving one's honor, saving face, and looking important are also exceptionally important in Mexico. This is why Mexicans do not accept criticism and change easily; many find it humiliating to acknowledge having made a mistake. A meeting among employees and managers in a business located in Mexico is a forum for giving orders and directions rather than for discussing problems or participating in decision making. Mexican workers want to be closely supervised, cared for, and corrected in a civil manner. Opinions expressed by employees are often regarded as back talk in Mexico. Mexican supervisors are viewed as weak if they explain the rationale for their orders to workers.

Mexicans do not feel compelled to follow rules that are not associated with a particular person in authority they work for or know well. Thus signs to wear earplugs or safety glasses, or attendance or seniority policies, and even one-way street signs are often ignored. Whereas Americans follow the rules, Mexicans often do not.

Life is slower in Mexico than in the United States. The first priority is often assigned to the last request, rather than to the first. Telephone systems break down. Banks may suddenly not have pesos. Phone repair can take a month. Electricity for an entire plant or town can be down for hours or even days. Business and government offices may open and close at odd hours. Buses and taxis may be hours off schedule. Meeting times for appointments are not rigid. Tardiness is common everywhere. Effectively doing business in Mexico requires knowledge of the Mexican way of life, culture, beliefs, and customs.

The Japanese Culture

The Japanese place great importance on group loyalty and consensus, a concept called Wa. Nearly all corporate activities in Japan encourage Wa among managers and employees. Wa requires that all members of a group agree and cooperate; this results in constant discussion and compromise. Japanese managers evaluate the potential attractiveness of alternative business decisions in terms of the long-term effect on the group's Wa. This is why silence, used for pondering alternatives, can be a plus in a formal Japanese meeting. Discussions potentially disruptive to Wa are generally conducted in very informal settings, such as at a bar, so as to minimize harm to the group's Wa. Entertaining is an important business activity in Japan because it strengthens Wa. Formal meetings are often conducted in informal settings. When confronted with disturbing questions or opinions, Japanese managers tend to remain silent, whereas Americans tend to respond directly, defending themselves through explanation and argument.

Most Japanese managers are reserved, quiet, distant, introspective, and other oriented, whereas most U.S. managers are talkative, insensitive, impulsive, direct, and individual oriented. Americans often perceive Japanese managers as wasting time and carrying on pointless conversations, whereas U.S. managers often use blunt criticism, ask prying questions, and make quick decisions. These kinds of cultural differences have disrupted many potentially productive Japanese–American business endeavors. Viewing the Japanese communication style as a prototype for all Asian cultures is a stereotype that must be avoided.

Communication Differences Across Countries

Americans increasingly interact with managers in other countries, so it is important to understand foreign business cultures. Americans often come across as intrusive, manipulative, and garrulous; this impression may reduce their effectiveness in communication. Forbes recently provided the following cultural hints from Charis Intercultural Training:

1. Italians, Germans, and French generally do not soften up executives with praise before they criticize. Americans do soften up folks, and this practice seems manipulative to Europeans.
2. Israelis are accustomed to fast-paced meetings and have little patience for American informality and small talk.
3. British executives often complain that American executives chatter too much. Informality, egalitarianism, and spontaneity from Americans in business settings jolt many foreigners.

4. Europeans feel they are being treated like children when asked to wear name tags by Americans.
5. Executives in India are used to interrupting one another. Thus, when American executives listen without asking for clarification or posing questions, they are viewed by Indians as not paying attention.
6. When negotiating orally with Malaysian or Japanese executives, it is appropriate to allow periodically for a time of silence. However, no pause is needed when negotiating in Israel.
7. Refrain from asking foreign managers questions such as "How was your weekend?" That is intrusive to foreigners, who tend to regard their business and private lives as totally separate.6

Americans have more freedom to control their own fates than do the Japanese. Life in the United States and life in Japan are very different; the United States offers more upward mobility to its people. This is a great strength of the United States, as indicated here:

America is not like Japan and can never be. America's strength is the opposite: It opens its doors and brings the world's disorder in. It tolerates social change that would tear most other societies apart. This openness encourages Americans to adapt as individuals rather than as a group. Americans go west to California to get a new start; they move east to Manhattan to try to make the big time; they move to Vermont or to a farm to get close to the soil. They break away from their parents' religions or values or class; they rediscover their ethnicity. They go to night school; they change their names. 7

Worldwide Tax Rates

The lowest corporate tax rates among developed countries reside in Europe, and European countries are lowering tax rates further to attract investment. The average corporate tax rate among European Union countries is 26 percent, compared with 30 percent in the Asia-Pacific region and 38 percent in the United States and Japan. Ireland and the former Soviet-bloc nations of Eastern Europe recently slashed corporate tax rates to nearly zero, attracting substantial investment. Germany cut its corporate tax rate from 39 percent in 2007 to just under 30 percent in 2008. Great Britain cut its corporate tax rate to 28 percent from 30 percent. France cut its rate from 34 percent to 27 percent in 2008.

Other factors besides the corporate tax rate obviously affect companies' decisions to locate plants and facilities. For example, the large and affluent market and efficient infrastructure in Germany and Britain attract companies, but the high labor costs and strict labor laws keep other companies away.

Ralph Gomory, president of the Alfred P. Sloan Foundation and a former top executive at IBM, warns of a growing divergence between the interests of U.S. corporations and interests of the U.S. government. Specifically, he says U.S. trade liberalization/ globalization policies for the last two decades have encouraged corporations to seek the lowest-cost locations for their operations. The new 1,200-worker Intel semiconductor plant in Vietnam is just one example among thousands. Gomory says the United States must use the corporate income tax to reward companies that invest in jobs here, especially high-tech jobs, and must penalize companies that move facilities overseas. We must make it in the self-interest of companies to invest in America, Gomory says. Otherwise, living standards here will inevitably decline and America will severely weaken economically.8

Joint Ventures in India

The government of India is highly in debt, 80 percent of GDP, and is cutting expenses to curtail spending, so the gap between rich and poor is widening further. (The U.S. federal debt is about 65 percent of GDP.) But India's middle class is growing, so foreign firms continue to invest. Nissan Motor is building a factory in Chennai in conjunction with Mahindra & Mahindra Ltd., India's largest maker of jeeps and tractors. The factory began operating in 2009.

Joint ventures remain mandatory for foreign companies doing business in India. Verizon Business India, a joint venture between Verizon and Videocon Group of Mumbai, is rapidly expanding its phone and Internet services in India to compete more fiercely with AT&T and other telecom companies. Almost 20 million new cell phone customers are added in India every quarter, about the same rate of increase as in China—compared with only about 2.8 million new cell phone customers added in the United States quarterly. India's Reliance Communications Ltd. is in a battle with Britain's Vodafone Group PLC for control of India's fourth-largest cellular service, Hutchison Essar. But Vodafone must find a local partner because Indian law restricts foreign firms to 74 percent ownership of any India-based firm.

Most joint ventures among firms in India and foreign firms fail. Of 25 major joint ventures between foreign and Indian companies between 1993 and 2003, only three survive today. The Indian government has eased the joint-venture restriction in the investmentbanking industry, but not in other areas. Even Wal-Mart has an Indian partner, Bharti Enterprises Ltd. Heavy friction exists in virtually all joint-ventures in India. John Band, president of Zoom Cortex in Mumbai, says, "Anyone that gets into a joint venture in India should assume it will fail and should be comfortable with the terms of what happens when it does fail." 9

Due to tourism growing 12 percent annually, hotel chains are scrambling to get established in India. Hilton Hotels just established a joint venture with New Delhi–based DLF Ltd. to develop 75 hotels in India in 2007–2010. Marriott, Four Seasons, and Carlson Companies are also establishing joint ventures in India and building hotels rapidly.