The Rise of Emerging Markets in the Global Economy

CHAPTER 2

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"This is a fantastic time to be entering the business world because business is going to change more in the next 10 years than it has in the last 50."

—Bill Gates

Learning Objectives

1. Describe key changes that have occurred in international business since the United States was founded.
2. Describe the factors that drive a nation's economic wealth.
3. Discuss the differences between an international company, a multinational company, a global company, and a transnational company.
4. How do international companies help or harm small, local businesses?

Chapter Outline

Introduction

International Companies and Global Companies

Developing Competitive Advantage

Demographic Changes and Their Impact on International Commerce

Diaspora

Introduction

What causes some markets to evolve much faster than others? According to Ricardo Hausman of Harvard University, for about 200 years, the wealthiest countries in the world grew faster than the poorer countries through a process referred to by Lant Pritchett as "divergence, big time" (Hausmann, 2014). In 1776, Adam Smith, a Scottish economist and moral philosopher, authored the two-volume economic book *An Inquiry into the Nature and Causes of the Wealth of Nations*. At that time, the Netherlands was considered the most prosperous nation in the world, with per capita income approximately four times that of the poorest countries. But two centuries later, the Netherlands was 40 times richer than China, 24 times richer than India, and 10 times richer than Thailand.

However, within the last 30 years, the economic situation has changed dramatically. Today, the Netherlands is 11 times wealthier than India and only 4 times wealthier than China and Thailand. Economist Michael Spence (cited in Hausmann, 2014) argues that we are poised for "the next convergence." Some countries, however, are still in the divergence phase. In 1980, the Netherlands was 5.8, 7.7, and 15 times wealthier than Nicaragua, Côte d'Ivoire, and Kenya, respectively. Yet by 2012, the Netherlands' per capita income had grown to 10.5, 21.1, and 24.4 times that of the other countries (Hausmann, 2014).

Tulips were introduced into Europe from Turkey in 1554, and by the end of the century, they had become the rage in the Netherlands and throughout Europe, especially as a status symbol for the wealthy. Tulips became so popular that many people who could afford to invested in tulip bulbs. By 1637, certain tulip bulbs sold for more than 10 times the annual income of a skilled craftsman (Sandborn, 2023).

Source: Shutterstock AI Generated

Hausmann (2014) explains that the significant economic expansion over the last two centuries was driven by an explosion of knowledge and understanding of what can be made and how it can be made. This knowledge base has fueled an explosion in technologies, enabling countries to produce more complex goods and services. Therefore, countries with better technology become wealthier, whereas those without it fall further behind.

Of the approximately 200 countries worldwide, only 40 are considered developed nations according to the United Nations Human Development Index (HDI) ranking (Wikipedia, 2026). The HDI measures an economy's level of human development. Although there is a strong correlation between a higher HDI score and a prosperous economy, the HDI reflects how income is translated into health and educational opportunities, thereby indicating advanced levels of human development. The United Nations Development Programme released the 2025 Human Development Report on May 6, 2025 (see Table 2-1).

Economic multiplier A value that causes changes (increases or decreases) in related variables. For example, if a city builds a small civic center, nearby businesses, such as hotels, restaurants, gas stations, florists, and caterers, may earn additional revenue attributed to civic center activity.

An important concept in economics and especially in terms of economic development is the impact of the **economic multiplier**. The economic multiplier can be easily

TABLE 2-1 The United Nations Human Development Index Countries, 1–20

Rank	Change since 2015	Country or Territory	HDI Value	% Annual Growth (2010–2023)
1	▲ 2	*Iceland*	0.972	▲ 0.28%
2	▼ (1)	*Norway*	0.970	▲ 0.25%
3	—	*Switzerland*	0.970	▲ 0.24%
4	▲ (2)	*Denmark*	0.962	▲ 0.35%
5	▼ (1)	*Germany*	0.959	▲ 0.19%
6	—	*Sweden*	0.959	▲ 0.38%
7	▲ (1)	*Australia*	0.958	▲ 0.20%
8	▲ (2)	*Netherlands*	0.955	▲ 0.26%
9	▼ (1)	*Hong Kong*	0.955	▲ 0.38%
10	▲ (3)	*Belgium*	0.951	▲ 0.26%
11	▲ (4)	*Ireland*	0.949	▲ 0.38%
12	▼ (4)	*Finland*	0.948	▲ 0.27%
13	▼ (2)	*Singapore*	0.946	▲ 0.25%
14	▲ (2)	*United Kingdom*	0.946	▲ 0.24%
15	▲ (27)	*United Arab Emirates*	0.940	▲ 1.04%
16	▼ (2)	*Canada*	0.939	▲ 0.22%
17	▲ (1)	*Liechtenstein*	0.938	▲ 0.23%
18	▼ (5)	*New Zealand*	0.938	▲ 0.13%
19	—	*United States*	0.938	▲ 0.10%
20	▲ (1)	*South Korea*	0.937	▲ 0.36%

Source: Based on Wikipedia. (2026, January 15). *Developed country*. https://en.wikipedia.org/wiki/Developed_country

explained in the example of a city civic center. The civic center is usually surrounded by other businesses including hotels, restaurants, and gas stations. In addition, local service businesses may provide goods and services such as wedding and other event flowers, table linens and napkins, limo services, catering services, and cleaning services. The civic center serves to draw customers to these other local businesses and often accounts for a substantial portion of the business's revenue.

Countries love most foreign direct investment as when a foreign company, say Toyota, invests $10 billion to open a new manufacturing facility in Texas because the employment opportunities will cause real estate and the local economy to surge. Homebuyers will not only purchase homes but everything one purchases when they buy a new home. This often includes furniture, appliances, lawn and gardening equipment, groceries at the local market, and so on.

International Companies and Global Companies

Through globalization, production functions can be performed in different countries worldwide. This allows countries to begin production sooner, especially when they have limited capabilities that can be expanded as they develop.

Developed nations typically have a greater demand for industrial and consumer goods because their income is higher. But more importantly, their higher levels of knowledge fuel the demand for more technical and consumer industrial products.

Worldwide businesses choose to operate in many ways. The terms we use for these companies are generally used interchangeably, although there are important distinctions in how they operate worldwide. Companies can operate as international firms, exporting and selling goods to other countries and often importing raw materials to produce their products. However, an **international company** has no other investments in those countries. Company headquarters and business functions are housed in the home country, and there are no branches of the firm. For management purposes, this arrangement streamlines the company, enabling faster decision making and cost savings by avoiding the establishment of local branches in other countries. The downside to this type of business operation is that international companies may lack a good understanding of global markets. An example of an international firm is Apple. Apple produces consumer electronics, including tablets, computers, and mobile phones, that are sold worldwide, although the company's headquarters and product development are in the United States. Also, small businesses that sell online and through distributors in other countries may also be considered international firms (Smyth, 2019).

International companies Companies that market to one or more other countries.

Global companies choose countries for investment and operations. Global companies often establish subsidiaries in many countries. However, a global company makes decisions that drive the business from a central headquarters, and the same products are marketed in every country where it does business. In some instances, the global company will make minor adaptations to local markets to meet tastes and preferences, as well as product specifications and legal requirements. Although marketing is adapted to local preferences, the international firm maintains one corporate culture. Globalization allows for distinct functions to be performed at different national locations. So, for example, raw materials could be sourced from countries in North Africa, engineering and design could take place in Germany, manufacturing could take place in Canada, and the company's products could be sold in many countries around the world, with overall management operations in the United States.

Global companies Companies that operate in several or many countries while maintaining headquarters in the home country and operating under a unified business strategy.

Multinational companies Companies that operate in several countries, maintaining a centralized headquarters while producing or delivering services across borders.

An example of a global company is McDonald's. McDonald's operates thousands of restaurants across the globe but generally offers the same menu at all McDonald's locations. Although there are some menu variations to meet local tastes and preferences, major management decisions evolve from the global operations management (Smyth, 2019).

McDonald's Big Macs are enjoyed by consumers in more than 100 countries around the world.

Source: Takashi Images/Shutterstock

A **multinational company** also has establishments in the nations it chooses to operate in, not just sales. The company establishes branches and operations in these nations to oversee the sales and/or importation from that country. Multinational companies typically have fewer countries of interest than a global company might, mainly because they manage their local offerings differently.

In a multinational company, there is still a central headquarters, but the branches in different countries oversee the localization of products and marketing to fit the culture. This offers the advantage of providing somewhat tailored products across various nations but also increases the complexity of producing and managing the different offerings (Smyth, 2019).

Examples of multinational companies include the following:

- Starbucks, where most of the menu is the same, but offerings change based on local tastes. Starbucks also customizes its locations to local culture, offering different seating and layouts to make customers feel more comfortable.

- Honda, whose headquarters are in Japan, but there are established branches all over the world. The product lineup varies by country—for example, Honda trucks were developed for the U.S. market.

A **transnational company** is a company with sizeable business operations in several or more countries. Transnational businesses evolve into highly complex operations because each branch exercises its own decision-making authority, operates its own markets, and selects its own products. This international operation offers the greatest versatility and flexibility but comes at the expense of reorganized management and a streamlined product catalog (Smyth, 2019).

Transnational companies Global companies that may operate in diverse industries and regions while highlighting innovation and global market influence.

Some examples of transnational companies include the following (Smyth, 2019):

- Nestlé: Although Nestlé has a center of operations, the individual international offices make their own decisions on business operations and merchandise offerings.
- General Electric (GE): GE has business locations worldwide, many of which make local decisions on business policy and business objectives.

In today's dynamic global business environment, some companies switch from one type to another and operate as hybrids. Occasionally, a company creates a strategy that is unclear to employees and customers. Still, most successful businesses today realize they need a tailored approach to meet customer needs while maintaining their overall global strategy.

Today, global businesses can have both positive and negative impacts on local economies. Global companies create employment and stimulate the economy. Global companies can also pioneer new products in a country or region that previously lacked them and thereby improve residents' standards of living. International companies tend to be larger than local or national companies, and because larger companies often have established **economies of scale**, their products are more affordable to consumers in more countries. So, for consumers, international companies offer many advantages (Smyth, 2019).

Economies of scale Arise when a business increases profitability as the business grows; the cost for producing each unit decreases when the number of products produced increases. As a result of cost savings from economies of scale, larger businesses gain a competitive advantage over their smaller competitors.

Despite the positive effects of multinational companies, local businesses often bear their negative impacts. One of the biggest issues is that small businesses cannot compete on the basis of price, and the more price-sensitive consumers become, the more likely it is that they will purchase less expensive imported goods. Another problem arises from the inability to compete on price—companies close and employees lose their jobs, further affecting the local economy.

At best, we can consider the impact of global businesses a mixed bag, depending on the country where the business is located and the local economy. Therefore, multinational companies should develop a good understanding of regional economies before investing in those countries. For many companies today, worldwide market expansion may seem to be a clear pathway to additional revenue streams and business success. However, it is critical for every company aspiring to enter the global market to develop an understanding of how to conduct international business and succeed.

Developing Competitive Advantage

Companies understand that the key to long-term survival in highly competitive markets is to become a low-cost producer. But innovative companies also understand that not all customers buy solely on price; they may instead purchase goods based on cost, convenience, features, guarantees, or service. Figure 2-1 shows Michael Porter's Diamond Model, which describes the relationship between key conditions and company activities in the typical international business situation.

The points in Porter's Diamond Model help explain how a country can develop a **global competitive advantage** over competitors in the global marketplace. Porter's Diamond Model highlights key areas, including firm strategy, structure, and rivalry; related supporting industries; and demand conditions (Porter, 1990).

Global competitive advantage A competitive edge that a business can maintain across various countries and regions, regardless of resources.

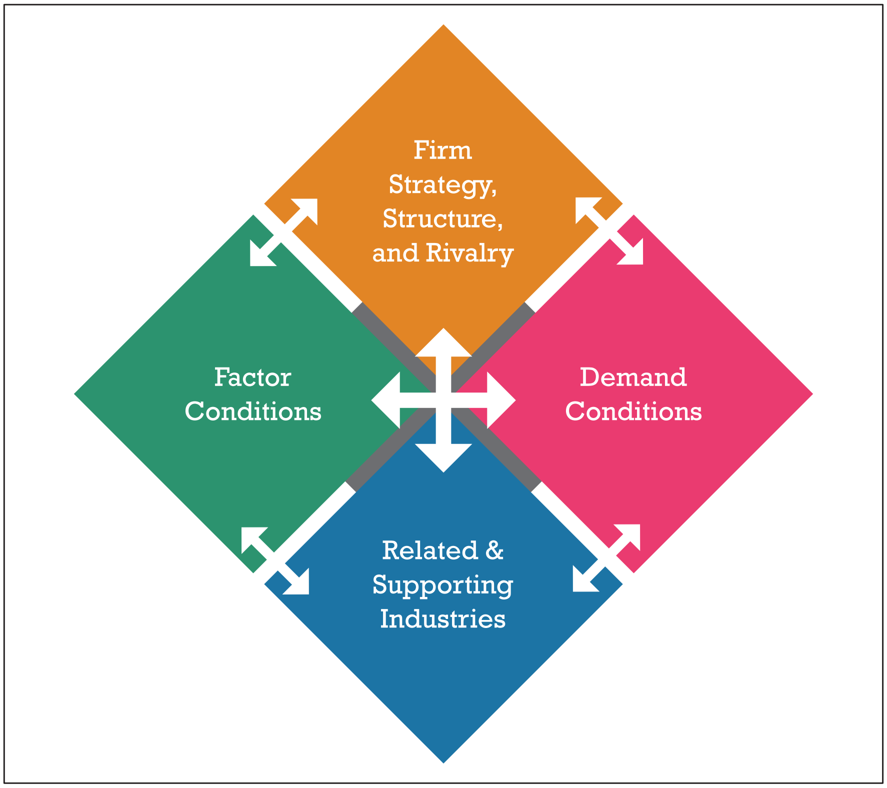

FIGURE 2-1 **Porter's Diamond Model**

Porter's Diamond Model explains why certain industries within a nation are competitively successful. The model consists of four key activities that contribute tonational competitive advantage.

Source: Skyline Graphics/Shutterstock

Factor conditions In Michael Porter's work on competitive advantage, one of the factors that drive competitive advantage. Factor conditions are components that Porter believes a country's economy can develop on its own, for example, a sizeable pool of skilled labor, infrastructure, technological innovation, and capital.

Firm strategy, structure, and rivalry determine that competition leads to increased production and technological innovation. Concentrated market power, the level of competition, and rival firms' ability to enter a nation's market are significant.

Related supporting industries encompass both upstream and downstream industries that enable innovation through the exchange of ideas. This exchange of ideas can stimulate innovation, subject to the degree of transparency and knowledge transfer.

Demand conditions are determined by the nature and size of the customer product market. Market demand drives product innovation and improvement. Bigger consumer markets will increase demand, accelerate differentiation and innovation, and increase market scale for companies.

Porter considers **factor conditions** the most important of the five factors. Factor conditions are components that Porter believes a country's economy can develop on its own, for example, a sizeable pool of skilled labor, infrastructure, technological innovation, and capital. One way for a country to encourage competition among domestic firms is to establish and enforce antitrust laws.

Porter believes that factor conditions are the most important because they enable a country to develop technological innovation, build infrastructure, create skilled labor, and raise capital. Porter argues that these factors

Your company's competitive advantage is its path to success!

Source: Uuganbayar/Shutterstock

TABLE 2-2 Types of Competitive Advantage

In Porter's book *Competitive Advantage: Creating and Sustaining Superior Performance* he identifies three types of competitive advantage (Porter 1985):

- **Focus strategy**: A company develops a focus strategy by targeting a narrow market segment and producing offerings that address the needs of that segment thereby achieving dominance in that niche.
- **Differentiation**: A differentiation strategy includes creating products or services that are different from and more appealing than those of competitors. You can develop a differentiation strategy based on brand image, product design, superior technology, product or service features, or a better customer service or dealer system.
- **Cost leadership**: Become the industry's best low-cost producer. Businesses that become the low-cost leader can offer products at highly competitive prices thereby appealing to price-sensitive customers (Porter 1985).

Focus strategy A strategy that targets a narrow market segment and provides products that meet the needs of that segment, thereby attaining leadership in that niche.

Differentiation When a company employs a differentiation strategy, the company creates products or services that are different from and more attractive than those of the competition. Differentiation can be based on brand image, product design, superior technology, product or service features, or a better customer service or dealer system.

Cost leadership When a company bases its strategy on becoming the low-cost producer in that product market. As the low-cost leader, that company can sell its products or services at much lower prices, which is especially important to price-sensitive customers.

outweigh inherited factors such as land and natural resources. Porter points to Japan as a country that has developed a significant global economic presence far beyond its land and natural resources by cultivating many engineers who have driven technological innovation across industries in Japan (Porter, 1990).

So, specifically, what actions should a company take to develop a competitive advantage? First, identify those things that your company does better than the competition. For example, perhaps the competition lacks key resources such as raw materials, production capacity, or investment capital.

Once you have developed your company strategy based on existing resources and strengths, there are several actions you can take to increase or maintain that competitive advantage. For example (KPMG Consulting Services, 2024):

- Increase production efficiency by automating and streamlining processes.
- Increase company revenue and profitability by finding and eliminating inefficiencies.
- Identify ways to increase productivity while cutting costs.
- Be prepared for disruptions by taking the initiative in risk management.
- Develop a strategic foundation to recognize and reduce risks, achieve a competitive superiority, and nurture steady growth.

Service businesses can develop a competitive advantage in different ways than product industries. First, a company can provide fast "same-day" service or at least speedier service time than the competition. Federal Express is a good example of a company that competes on time. Another option would be to offer superior service, often with little extras that customers appreciate. An example of this is a local car dealer that provides a free car wash—not only when you purchase your vehicle, *but for as long as you own your vehicle!* In addition, service providers can provide a superior service guarantee (longer time, no deductible, etc.). Table 2-2. describes three types of competitive advantage.

Demographic Changes and Their Impact on International Commerce

As shown in Table 2-3, the world population is growing rapidly. Demographers expect the population to reach 10.3 billion by 2080. Some challenges include greater urbanization, which reduces the land available for food production. People around the world, even in the United States, already suffer from food insecurity, and in many other countries, the situation is much worse. The 2025 report by the United Nations Food and Agriculture

TABLE 2-3 Growth in World Population 1950–2080

Year	Population	
1950	2.5 billion	Postwar baby boom accelerates population growth
1960	3 billion	Green revolution boosts global food production
1970	3.7 billion	Developing countries experience rapid population expansion
1980	4.4 billion	Family planning programs slow population growth rates
1990	5.3 billion	Urbanization and economic growth sustain rising populations
2000	6.2 billion	Medical and technological advances drive longevity
2010	7 billion	India and Africa lead global population growth
2020	7.9 billion	COVID-19 pandemic briefly reduces growth rates
2030	8.6 billion	Over 60% of people live in urban areas
2040	9.1 billion	Aging populations slow birth rates worldwide
2050	9.6 billion	Global population nears peak growth levels
2060	10 billion	Climate change disrupts settlement patterns
2070	10.2 billion	Artificial intelligence and automation reshape workforce demographics
2080	10.3 billion	Birth rates decline in developed countries

Source: Based on WORLDOSTATS. (n.d.). *Timeline: How the world's population changed over time (10,000 BC–2100)*. https://worldostats.com/timelines/worlds-population-changed-over-time/

Foreign direct investment A significant, long-term investment made by a foreign company or government that allows for significant control over business operations.

Organization and the World Food Program noted that 2.3 billion people worldwide were suffering from food insecurity, with 16 hotspots around the globe where populations are in severe hunger (Soriano del Castillo, 2025). Food insecurity is compounded by the developing nations' inability to grow enough food to be self-sufficient. Because technology is often easily transferable from one country to another, some production, infrastructure investment, and employment opportunities will assist those nations.

However, those nations with substantial infrastructure, advanced technology, and the ability to secure investment capital will have significant advantages over other countries. A current example is the investment of trillions of dollars in manufacturing investment from companies including Toyota, chipmaker Nvidia, and Taiwan Semiconductor Manufacturing Company (Mordowanek, 2025). The United States receives more **foreign direct investment** than other countries because the United States has a stable government and stable economy, a well-developed infrastructure for production and shipping, and a highly skilled workforce.

Opportunities abound for developed nations to assist developing countries in building infrastructure, creating manufacturing facilities, and marketing consumer goods and services to growing populations with rising incomes. When evaluating such opportunities, companies must consider the demographics of the country. Demographics include characteristics such as age, race, gender, ethnicity, religion, income, education, home ownership, marital status, and family size. Local consumer income is significant in determining whether a consumer market exists in a country. Despite much lower per capita income than American consumers (approximately $17,000 versus $89,000 in 2024), residents of Sofia, Bulgaria, enjoy McDonald's fast food. Sometimes, a product needs to be downgraded for some markets. For example, a washing machine might have a porcelain tub instead of a stainless-steel tub, disposable razors may be sold singly rather than in packages of six, and even soft drinks might be sold in single bottles rather than in six-packs.

When home ownership is high, the local market will purchase a wide range of home maintenance and improvement products for both the inside and the outside of the house, including landscaping/yard-care products. Companies like Home Depot and Lowe's benefit from both the do-it-yourself (DIY) customer and customers who purchase products with installed services at their stores.

Average household size is also an important characteristic. For example, a family of six will purchase more food products than a household of one or two consumers. Family size is a demographic that home builders and automobile manufacturers also monitor very closely. Clothing manufacturers pay close attention to family sizes, birth rates, and ages to plan how many pieces of clothing and in what sizes need to be produced.

Religion is another important demographic consideration. For example, religion may be an essential factor in a grocery chain's decision of which products to carry in its stores. Religion also plays a role when some consumers choose music and literature. Additionally, an international business manager must become knowledgeable about the religious holidays and traditions in the countries they operate in because businesses in some countries may close for days to celebrate their holidays. Holiday closures may also affect shipping and delivery schedules and should be considered when scheduling marketing and promotional activities.

Diaspora

Diaspora refers to people who have left their homeland, either by their own choosing or by being forced out. People may live in one country yet identify with their home country. This is generally not unusual or problematic—for example, some city neighborhoods will have their own "Italian American Club" or "Polish American Club," reflecting the immigrants from those nations who populated areas around the country. However, when immigrants fail to assimilate into their new homeland, problems may arise. Just as global companies share a common strategy, immigrants from other countries must share common goals and values.

Diaspora generally results from war or poverty, often both. When mass migrations result from war or poverty, the effects can be either positive or negative. If the home country has a stable government and resources, it might be better able to support a smaller population and provide food, healthcare, and education. The concern for the home country is that there may be "brain drain" within the population. If the people leaving their home country are well educated or possess technical skills, they will likely be welcomed in the new host country, and the home country will lose important human resources.

However, the host country now benefits from a "brain gain" that can further support the host nation's development. When the host country receives large numbers of immigrants who lack education, training, or key skills, that population can become a drain on the home country's resources.

Diaspora is becoming a genuine issue for developed nations, including the United States, Australia, New Zealand, and most of Western Europe. The problem is not simply

World population growth will provide challenges and opportunities for trade.

Source: MT.PHOTOSTOCK/Shutterstock

mass immigration but rather the much larger number of immigrants than some countries can manage because most immigrants require substantial financial support. In addition, many immigrants are unable to integrate into the culture of their new country. When immigrants do not learn the language of their new host country, it becomes challenging to secure employment, drive an automobile, and participate in community activities.

Summary

Markets around the world are constantly changing—new markets emerge with consumers very different from those in our home country. Consumers in other countries often have very different demographics, income levels, lifestyles, and consumer tastes and preferences. These factors are also heavily influenced by culture. According to the *Encyclopedia Britannica* (White, n.d., under question 2), "culture includes language, ideas, beliefs, customs, codes, institutions, tools, techniques, works of art, rituals, and ceremonies, among other elements."

Being successful in international business requires companies and management to be sensitive to cultural differences and flexible in product design and marketing. Those companies willing to adapt and meet the needs of consumers in other countries will have a substantial advantage over those that do not. Sometimes, a local adaptation might be as simple as moving the steering wheel from the left to the right side for sales in the United Kingdom. Other products might need to be downsized to fit smaller households or packaged in smaller quantities to be affordable to consumers in that country.

Companies in other countries are often quick to adapt and soon become serious competitors for U.S. companies. Remember, the landscape of international business changes rapidly, but the companies that can also change rapidly will remain competitive.

> "The nature of the global business environment guarantees that no matter how hard we work to create a stable and healthy organization, our organization will continue to experience dramatic changes far beyond our control."
>
> —Margaret J. Wheatley,
> organizational consultant and researcher

Summary of Learning Objectives

1. Describe key changes that have occurred in international business since the United States was founded.

There have been several key changes in international business since the United States was founded. Since our country's founding, our manufacturing capacity has skyrocketed. As the country expanded, we used natural resources to fuel production capacity. With substantial timberlands, millions of acres of farmland, plenty of water, long coastlines on both the Atlantic and Pacific Oceans, and an advanced railroad system, the United States became the world's manufacturing powerhouse.

2. Describe the factors that drive a nation's economic wealth.

Factors such as natural resources and manufacturing capability, when supported by a highly trained workforce and advanced technological systems, helped drive a nation's economic wealth. Strong economies keep fueling economic growth and a nation's ability to provide superior health and education systems.

3. Discuss the differences between an international company, a multinational company, a global company, and a transnational company.

A multinational company operates in several or more countries while maintaining a centralized headquarters and producing or delivering services across borders. An international company markets its products and services to one or more other countries, typically through exporting. Transnational companies are global companies that may operate across diverse industries and regions, emphasizing innovation and global market influence. A global company is one with operations in several countries while maintaining its headquarters in the home country and operating under a unified business strategy.

4. How do international companies help or harm small, local businesses?

International companies may help or harm small, local businesses. Companies can provide employment and increase income for local communities. There is an economic multiplier effect because the construction of company facilities requires additional employment and the purchase of goods and services. The same is true for consumer goods. Factory employees rent or purchase homes, which all need furniture, appliances, and a wide range of household goods.

Foreign direct investment has a significant economic impact on our country; demand for goods and services is rising sharply. Again, the economic multiplier effect comes into play: A $1 billion investment by a foreign company might actually have a $10 billion impact.

Diaspora affects international business when immigrants flock to a country for economic reasons but fail to assimilate into their new homeland. When lacking education and failing to learn the local language, immigrants will face limited opportunities for economic advancement.

Key Terms

Cost leadership When a company bases its strategy on becoming the low-cost producer in that product market. As the low-cost leader, that company can sell its products or services at much lower prices, which is especially important to price-sensitive customers. (p. 21)

Differentiation When a company employs a differentiation strategy, the company creates products or services that are different from and more attractive than those of the competition. Differentiation can be based on brand image, product design, superior technology, product or service features, or a better customer service or dealer system. (p. 21)

Economic multiplier A value that causes changes (increases or decreases) in related variables. For example, if a city builds a small civic center, nearby businesses, such as hotels, restaurants, gas stations, florists, and caterers, may earn additional revenue attributed to civic center activity. (p. 16)

Economies of scale Arise when a business increases profitability as the business grows; the cost for producing each unit decreases when the number of products produced increases. As a result of cost savings from economies of scale, larger businesses gain a competitive advantage over their smaller competitors. (p. 19)

Factor conditions In Michael Porter's work on competitive advantage, one of the factors that drive competitive advantage. Factor conditions are components that Porter believes a country's economy can develop on its own, for example, a sizeable pool of skilled labor, infrastructure, technological innovation, and capital. (p. 20)

Focus strategy A strategy that targets a narrow market segment and provides products that meet the needs of that segment, thereby attaining leadership in that niche. (p. 21)

Foreign direct investment A significant, long-term investment made by a foreign company or government that allows for significant control over business operations. (p. 22)

Global companies Companies that operate in several or many countries while maintaining headquarters in the home country and operating under a unified business strategy. (p. 18)

Global competitive advantage A competitive edge that a business can maintain across various countries and regions, regardless of resources. (p. 19)

International companies Companies that market to one or more other countries. (p. 18)

Multinational companies Companies that operate in several countries, maintaining a centralized headquarters while producing or delivering services across borders. (p. 18)

Transnational companies Global companies that may operate in diverse industries and regions while highlighting innovation and global market influence. (p. 19)

Questions for Discussion

1. List and describe some of the key important changes in international business since 1945.
2. What are the factors that are used to determine the economic wealth of a nation?
3. List and describe the differences between an international company, a multinational company, a global company, and a transnational company.
4. In what ways do big international companies help or harm small, local businesses?

AI Exercise

Prompt:
Prepare a 150-word essay on how cultural diaspora impacts a country.

How to use AI for this assignment:
Please submit the output generated by the AI prompt and add a paragraph that summarizes the output. This assignment is for extra credit and will be worth five points.

Getting started with AI:
Generative AIs, such as ChatGPT, are tools that can understand prompts and generate text responses that mimic human writing. Some can even generate images! Generative AI can be used to answer questions, further develop, or review your own work, or create the latest content based on your prompts. This tool can accomplish impressive tasks and may become standard in various jobs in the coming

years, so this is to help you consider how you can use this tool ethically and safely.

Here are some steps to help you get started with ChatGPT (for free).

1. Go to Open AI's page to sign up for an account.
2. Follow the prompts given for the registration process and sign into your account.
3. Go into the ChatGPT area and begin sending message prompts.
   - Review the OpenAI Guide about "GPT Best Practices" for more information on how best to use this tool.

Note that there are other AI chat tools you can use, and there are also paid versions that may offer some extra features. Currently, ChatGPT4 is the paid version of the ChatGPT tool, and ChatGPT3 is the free version. Keep that in mind to avoid accidentally buying something you do not need.

What to consider when using generative AI:

1. Be clear about the prompts you provide. It may be necessary to provide additional context for your prompts to get a better response.
2. Ensure your information is protected! Do not share confidential information or personal details with the system. If you are trying to consider how you might accomplish certain tasks that require personal data, put in sample information (John Doe, 1/1/1901, 555-555-5555.)
3. Sometimes you may get an inaccurate, undesirable, or even offensive response form the generative AI you use. Keep in mind that you will want to fact-check information provided to you by AI tools and that it has no "intention" behind it to be malicious in its replies. The responses are based on a language model provided by various internet sources. AI does have the ability to confidently give a wrong answer, so be cautious in how you use its information.

Case: Penobscot Fisheries, LLC

Steve Wingate and his partner, Bob Jordan, grew up as best friends living along the Maine coast. Both their fathers were lobstermen and well known in the mid-coast area. As Steve and Bob both worked on their fathers' boats while growing up, they learned a lot about the fishing industry and how vital the industry is to Maine. The cold coastal waters not only provided a good lobster harvest but also scallops and a wide variety of fish.

Steve and Bob both joined the Navy Reserve to make a few extra dollars, and each received an enlistment bonus, which they combined and used as a down payment on their own boat. They named their business Penobscot Fisheries, LLC. On Sunday afternoons, Bob and Steve would stop by Blackjack's, the local pub, to watch the Patriots play football and drink a pint or two of one of the local craft beers. Last Sunday, a couple of friends who had not seen each other in years stopped in and talked about how much salmon Europeans eat and how high the selling price of the fish was. In Europe, it was common to pay $15 per pound for salmon, even more in some places. Smoked salmon also commanded a higher price. According to research firm Statista (2025), 70% of all salmon worldwide is farmed. The total amount of farmed salmon was expected to reach more than 3 million metric tons by the year 2025. What intrigued the two men was the significant consumption of fish and seafood in Europe, not only in the United Kingdom, a large island surrounded by water, but also in France, Germany, and other coastal countries.

Starting that night, the two men used whatever spare time they could muster to learn as much about the salmon

Global farmed Atlantic salmon production was projected to reach over 3.12 million metric tons by 2025 (Statista, 2025).
Source: Jacek Chambraszewski/Shutterstock

industry as possible. After considerable time and research, the men found that they could make more money raising salmon on a fish farm and selling frozen and smoked salmon than by fishing for fresh fish. There was a small farm in the nearby town of Belfast, Maine, that, with a little work, would make a suitable location for the business. The farm had a large barn and several outbuildings in good condition, and the farmer who would be selling them the property was more than willing to tell them everything he knew about it. The property was located along a major state highway, and U.S. Route 1 was also close. Either route would get shipping trucks to airports in Portland and Bangor, Maine. This was important because they knew they would need to ship their product via FedEx and UPS to reach customers around

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Case: Penobscot Fisheries, LLC (*continued*)

the globe. The only problem they could identify was that there were no ponds on the property to raise the fish. The farmer was helpful and offered to use his farm equipment to dig out a couple of ponds and drill for water. This cinched the deal for Bob and Steve! The local bank loaned the men the money with a U.S. Small Business Administration loan guarantee, and they took possession of the property in late April.

The first question was where to dig for water. The farmer said, "No problem!"—he had dug many farm ponds over the years. To the men's surprise, the old farmer produced a Y-shaped stick and began walking the property. A divining rod! The men had heard of this technique but thought it was just an old story. To their surprise, when the Y-shaped stick pointed down, the farmer got his tractor going and, once the area was cleared, began drilling into the ground. The rod barely hit 30 feet when water started springing out of the ground!

While the ponds were filling up, Bob and Steve purchased some large used fish tanks from a former fish hatchery in New Hampshire. They cleaned and set up the tanks in the barn and began to prepare everything. The shipment of live salmon to begin fish breeding arrived, and the truckload of fish was placed in the two ponds, with younger fish in one pond and larger fish in the other pond.

Everything was starting to fall into place nicely, although the men knew it would be some time before they could generate any sales and at least two years before they would make a profit. In the meantime, they continued to fish for lobster to make ends meet. The men also spent nights and weekends developing computer systems and a professional website for online ordering.

Then, one morning while driving to work, Steve noticed a large flock of seagulls hovering over the farm. When Steve pulled up to the barn, he saw seagulls diving into the pond and catching the salmon! This was the first big blow to the business, but Steve knew it could also be the final blow.

Later that same day, they received a packet of information from the U.S. Department of Commerce with a whole list of steps they would need to complete before selling their salmon overseas. When that day finally came to an end, both men were down in the dumps and did not know what to do next.

Questions

1. If you were Steve and Bob, is there anything else you should have done prior to starting the business?
2. How could you solve the problem of the seagulls eating your salmon?
3. What kinds of issues do you think companies might encounter when selling salmon internationally?
4. Would it be easier if the men only sold their fish in the United States?
5. Currently, the United States has trade agreements with various European countries. Do these agreements present an opportunity or make it more difficult for the men to do business there?

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