Preparing Students for the 21st Century

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INTERNATIONAL BUSINESS is not a new discipline. Although still reaffirming its legiti-macy among the business disciplines—marketing, finance, management, accounting and economics—international business has been practiced for thousands of years.

In the first article in this issue, Farok J. Contractor reviews the history of international busi-ness, starting around 25,000 BCE but focusing primarily on the 19th century. Using his-torical and archeological data, Contractor reminds us that the problems of 21st century economics are not new. Tracing both the Roman and the British empires' trade deficits with China, Contractor shows that global financial and trade imbalances are historical. Then, nation states used military power and colonial policies. Today, however, countries and companies must abide by international and national laws and the court of public opin-ion. Today's globalization is also marked by globalization of firms from the periphery. How emerging market firms will globalize and use their authority, power and national origin remains to be seen.

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The second article, by Henry Lane and Allan Bird, shows how one institution has responded to the global challenge. Northeastern University is among the leaders in international busi-ness education. Its Bachelor of Science in International Business is among the most progressive of its kind, utilizing international work experiences combined with foreign living experiences and a rich curriculum. Self-development of the students' global competencies is a cornerstone objective which differentiates the program from others in the field. In the article, Lane and Bird share best practices from which other schools can learn.

The third article, written by Daniel Laufer, discusses a much deliberated topic in international media today: prod-uct failures and crisis management. In today's global environment, mistakes at the national level quickly be-come internationally known. Designing a course around global crisis management is discussed in detail in the article. Course materials are divided into pre-crisis, crisis and post-crisis phases. Examples of genetically modified foods and Toyota are included, suggestions for readings are provided and course content coverage is suggested. Professors considering teaching global crisis management can benefit from integrating the suggestions and read-ings in the article.

In the final article, Karl Sauvant of Columbia University discusses the transition of China to a higher value added econ-omy and away from cheap labor manufactured goods. Chinese labor intensive factories are moving to Bangladesh, India, Indonesia, Vietnam and some African countries. This global shift of production is not new. The Asian tigers went through a similar transition in their development. However, the role of China as the workshop of the world's economy is gradually changing.

Not everything about the contemporary world is new. Many of the dilemmas of today were experienced by past generations of international business practitioners (international merchants), policy makers and nation states. In the age of globalization and technology, what is different is the speed and diffusion of ideas. Responses to imbalances in the global economy cannot be one sided. Both the number of stakeholders and the complexity of relations have increased the need for a sophisticated response to common and much-treaded global issues.

Today's students need a more nuanced education, one that emphasizes the identification of global problems that become local and local problems that become global, analyses that cross borders and solutions that can be custom-ized to individual cultures and differing nation states. International business educators need to instill these skills in not only those who major in international business but also all business students who plan to work in the global village.

The Story of Globalization: From the Neolithic Era to the Tea-Opium Countertrade of the 19th Century

Farok J. Contractor, Rutgers University, USA

The story of globalization begins in prehistory, when humankind had split into distinct far-flung tribes. Economic forces then impelled organization and specialization within each tribe, and later trade across tribes and distances. This brief essay begins in the Neolithic era, alludes in passing to trade between Rome, China and India along the silk route two millennia ago, but then focuses in more detail on the last three hundred years with the example of the countertrade of tea for opium enforced by Imperial Britain on China.

How Old is "International Business"?

Concentration of value-added activities in workshops or factories, sequencing of repetitive tasks, economies of scale and learning, and trade across distances began millennia before nation-states ever existed. A tool-making workshop dating to around 25,000 BCE has been discovered by University of Michigan archeologists at Grotta Sant Angelo in the Abruzzo region of Italy (Whallon, 2012). The raw material, flint, is not found everywhere. Flint knapping is a learned art and a considerably weight-losing manufacturing process. It therefore made sense to concentrate the production in a workshop near the raw material source, where skilled knappers would learn from one another, descend their "experience curves" and from there distribute or barter the finished tools over a wide area. Obsidian mined in Corsica during the late Neolithic period (ca. 6000–3000 BCE) has been found hundreds of kilometers away (Tykot, 2002). By the Chalcolithic era (4th millennium BCE) in the Levant, factories became so specialized that some would manufacture only drills or micro-borers, others only tabular scrapers or only sickles and so on. From there, the output was distributed all over the Eastern Mediterranean (Levy, 2003). Ochre of various colors (brown from Roussillon, France, and yellow from Cyprus) was used to paint dwellings, bodies and murals and for "religious" rituals all over the Mediterranean basin (Maniscalco, 1989).

By Roman times so great was the demand for Indian cotton and Chinese silks that Pliny the Elder complained of the huge trade deficit suffered by Rome against China and India. In *Natural History*, he wrote, "*By the lowest reckoning, India, Seres[1] and the Arabian peninsula take from our Empire 100 millions of Sesterces every year… That is how much our luxuries and women cost us.*"

Because Rome had relatively few goods it could export to China or India, it was forced to pay for its imports with bullion. As a result, Roman gold and silver coins are periodically excavated today along trade routes in

India, Central Asia, China and Thailand. But human history is not all an inexorably upward climb. The glories of Rome, Chang An (modern day Xian) and Pataliputra (capital of the powerful Mauryan Empire in India) were followed by a millennium and a half during which international trade declined in the West and may have been stagnant or plateaued in Asia. While Rome could do little about its trade deficit, Britain, facing the same problem some 1800 years later, came up with a military solution.

Figure 1: Trade Routes Between the Roman Empire, China and India

IB in the Era of Nation-States

How a Desire for Tea in Britain Caused Suffering to Millions in Asia

An interesting echo of the Roman trade deficit and the consequent drain of bullion, or specie, from Rome to India and China occurred in the 18th and early 19th centuries with Britain suffering an unsustainable deficit against imperial China because of the newly-acquired habit of its middle classes for a mild stimulant called tea, then grown only in China. Only nation-states such as Britain, with centralized power and economic statistics, can complain about trade deficits. And only nation-states have used military muscle as an instrument of trade policy.

A cup of tea constitutes a happy break from work around the world and is a refreshing drink whose cultivation and distribution may today employ upwards of 8 million persons worldwide. But the globalization of tea is a relatively recent 19th century story, with a dark underside to it. Tamil refugees who fled the just-concluded civil war in Sri Lanka, the grieving widows of policemen killed in the northeastern Indian state

of Assam by Bodo terrorists (Bodos are an indigenous Tibeto-Burmese tribe) or Chinese nationalists still smarting over occupation of parts of China by Western powers may seem to have little in common with tea. Each refreshing cup symbolizes the happier aspects of international business. But the globalization of tea also carried with it a tale of international intrigue, monopolies, wars and ethnic displacements.

Figure 2: Catherine de Braganza

How Tea Became the Western World's Favorite Drink, Started a Revolution, and Instigated Two Wars

Tea consumption on a mass scale is little more than 200 years old. Until 250 years ago, tea was a relatively rare libation made from a little bush (*Camellia Sinensis*) that originated in the hilly provinces of southern China such as Yunnan. Consumed only by a few Buddhist monks, or Chinese and Japanese aristocrats, it was more or less unknown to the rest of the world, although small shipments may have made their way—as curiosities or medicine—along the Silk Road to India and the Middle East.

The first bulk exports were made by the Dutch, who transshipped Chinese tea from Java to Holland starting in 1606. But it remained little known in the rest of Europe or in the United Kingdom (which today has around the highest per-capita consumption) until Catherine of Braganza, a Portuguese princess, arrived in England to marry Charles II of England in 1662. After a difficult Channel crossing, stepping ashore at Portsmouth, Catherine of Braganza asked for her favorite drink. But no tea was available. The nonplussed English offered her a glass of ale instead, which did little to settle her stomach. But the court sets the

fashion, and tea drinking spread among the English nobility (UK Tea Council, 2012). Initially, only the rich could consume it since, based on mercantilist principles, UK tariffs were punitively high, ranging at one time as high as 119 percent **ad valorem** (although they were later reduced to more moderate levels after tea began to be smuggled into England by privateers, to avoid paying the tariffs) (Macfarlane, 2004). Tariffs were also needed to fund the Franco-English war that began in North America in 1754 and then spread to Europe and to India, with fighting between the British and French as far eastward as Indonesia. The American patriots (some called them ruffians led by Samuel Adams) who threw the cargo of British imported tea into Boston Harbor in 1773 were protesting high tariffs on the import—a trade then monopolized by the East India Company. Resentment against high tariffs and taxes, imposed from London, were the direct causes of the American revolution. After winning independence, tea drinking was considered unpatriotic and declined in America, but its popularity increased steadily in the UK where millions of middle-class English found their "favorite cuppa" to be indispensable (Scott, 1965).

What Was the Connection between Tea and Opium?

By the late 18th century, the British faced a mercantilist dilemma. Tea cultivation existed only in China, with the Chinese refusing any foreigners access to their tea plantations. China therefore had a tight monopoly. But the supposedly "inscrutable" Chinese, as sole suppliers of tea to the world, refused to import much from the West and insisted on being paid in silver. This meant that tea imports—by now massive since England had a large middle class with a tea-drinking habit—had to be financed in silver and bullion shipped out from England, in exchange for the Chinese monopoly product. It was a case of a British import monopsony (under the British East India Company) versus the Chinese monopolist producer.

As in Rome 1,800 years earlier, the massive drain of silver out of England caused grave concern and threatened the health of the UK economy. (Incidentally, this makes for yet another interesting parallel with the US and Europe's complaint about today's massive trade surplus enjoyed by China, and the accumulation of huge Chinese foreign exchange reserves in dollars and Euros.) Finally, the East India Company had an idea to solve the drain of bullion going to China. It invested in Indian plantations to grow opium in Bihar and financed poppy cultivation in Malwa (an Indian province) through Indian intermediaries. This opium was not for Indian consumption but was intended as an export to China to be exchanged for tea. Naturally, the Chinese government was horrified and prohibited the import of a narcotic that, already by the 1830s, had turned tens of thousands of Chinese into addicts and fostered an illegal smuggling of opium into China (Janin, 1999).

Figure 3: Opium Ships in China

Victorian Hypocrisy Was a Spur to Modern Indian Entrepreneurship

The British government was aware of the cost to Chinese society from addiction, smuggling and the emergence of a large underworld mafia with its corrupting influence on Guangdong government officials. The government and the East India Company could never openly admit that these evils were forced on the Chinese because of their Victorian middle-classes' appetite for a mild Chinese stimulant called tea. Nor would they openly admit that the British were involved in the tea for opium trade.

Indian entrepreneurs provided the cover. Indian companies (some with partial equity JV stakes from ex-East India Company employees like William Jardine) such as Jamshedji Jejeebhoy & Co., Bharda & Sons or P. & D.N. Cama Company would buy opium from growers in Malwa and export it to Canton or Lintin, where it would be exchanged with smugglers for silver. The silver would then be given to British agents in China to buy tea. The Indian traders would receive Bills of Exchange (promissory notes convertible for cash in London, Calcutta or Bombay) or other trade goods to take back to India. This way, the British could say that they were not officially involved in the China trade except for the legal purchase and import of tea into the UK. Besides avoiding the taint of a narcotics trade, by using intermediaries, the British also avoided the cost of fronting the capital for the opium and the risks of price swings, delays, spoilage, confiscation or arrest by the Chinese authorities, piracy, war and having to deal with shadowy networks of Rajasthani and Bihari opium suppliers (Palsetia, 2008).

Once the East India Company's monopsony was cancelled, other private British firms such as Jardine Matheson were openly involved. Nevertheless, by the late 1830s, 20 of the 42 foreign firms in China remained Parsi-owned, according to Farooqi (2006). (The Parsis were an entrepreneurial merchant community in India that cooperated with the British and founded multinational companies such as Tata based in Bombay, India.) Another source mentioned in Palsetia (2008) indicates that in 1837, eleven Parsi firms did business in Canton compared with only four European and nine American companies. Other Indian merchants were involved, as well as David Sassoon, a leading Shepardic Jew (once the Treasurer of the Pashas of Baghdad who left Iraq for Bombay in 1817 after the Jewish community was repressed there) who built a trading empire between Bombay, Canton and Shanghai.

In the 1830s, Indian Parsi merchants had 50 to 80 "clipper ships" in the trade. This also spurred Indian entrepreneurship in ship building, such as the Wadia yards in Bombay, known for the sturdiness of their ships, and keeping up with the technology of the time which resulted in sleeker and faster vessels that could travel from India to China in a record 23 days. (The journey from as far away as America to India was cut to less than three months with the result that winter ice cut from frozen Massachusetts ponds, packed in sawdust, could be exported to Bombay ice houses. The lyrics of the American National Anthem, "The Star-Spangled Banner" are from a poem composed by Francis Scott Key in September 1814, while he was held captive by the British on board the **HMS Minden**, in Baltimore harbor. The **Minden**, built in Bombay in 1810 by Wadia & Co. for the British Navy, and used by it to bombard Fort McHenry in Baltimore harbor is an excellent early example of outsourcing. It was eventually retired to Hong Kong as a hospital ship in 1841 and sold for scrap in 1861.)

By the mid-1800s several hundred Indians lived in China—mainly Parsis, many accompanied by their families, as well as Elias David Sassoon (the second son of David Sassoon)—anchoring the eastern end of the tea for opium countertrade. Parsi cemeteries in Whampoa, Hong Kong, Shanghai and Macao, and Macao's **Estrada dos Parses** (Parsi Road) attest to a now vanished presence.

War and the Legacy of the Tea and Opium Trade

Finally goaded beyond endurance by rampant smuggling, corruption and addiction, the Qing Emperor appointed a new commissioner who cracked down severely on the business in 1838. The British response was the First Opium War (1839–1842) fought between Imperial Britain and an enfeebled China, which together with the Second Opium War (1856–1860) forced open Chinese ports, handed over to the foreigners enclaves such as Hong Kong, and collected large indemnities from the Chinese—all because they dared to resist the smuggling of an narcotic. Opium and tea could now be freely imported and exported.

Millions in the middle classes of the UK and Europe got to enjoy their cups of tea, with the habit spreading worldwide and even to India by the late 1800s. But the humiliation at the hands of the British and other European powers rankles to this day in the minds of many educated Chinese and shapes their anti-Western attitudes.

Figure 4: Cartoon Showing British Admiral Forcing Opium Down the Throat of a Chinese

How Tea Cultivation Moved to South Asia (and Caused Problems There)

It was thought that tea could not be grown outside China. Indeed, several attempts to plant the Chinese cultivar elsewhere ended in failure. Meanwhile, Robert Bruce (a Scotsman who lies buried in the Indian town of Tezpur) discovered a variety of the tea bush in the Himalayan foothills of Assam (a state in Northeast India then populated by Tibeto-Burmese tribes such as the Bodos). This proved to be a close substitute for the Chinese cultivar. India's tea exports supplanted those of China by the 1860s. But this came at a further large cost in human suffering.

In the heedless fashion that was common in the colonial era, the British moved tens of thousands of indentured laborers from other poorer areas in India such as Chota Nagpur, Bihar and Bengal to work the tea estates in Assam, since the indigenous Assamese population was content in its own culture and unwilling to work as plantation labor. There followed traders, railroad workers and other enterprising Indians who took over and displaced the Tibeto-Burmese indigenes. These ethnic tensions and conflicts have culminated in separatist movements and terrorism that simmers beneath the surface in Northeast India to this day.

The highlands of Ceylon (today's Sri Lanka) also proved salubrious to the tea bush. Not many of the proud, and relatively well-off, Singhalese population deigned to work as plantation laborers. The British imported tens of thousands of Tamils from India to work in their tea and rubber companies in Ceylon. The Tamils never assimilated with the native Buddhist Singhalese, multiplied and formed a distinct ethnic minority in Sri Lanka that by the mid-20th century began to assert their rights and demanded independence. This induced migration, to support British foreign direct investments (FDI) in tea and rubber estates in Sri Lanka, directly led to the just-concluded civil war in that country which has left nearly 100,000 dead and hundreds of thousands injured, with millions more becoming refugees.

What Ethical Lens Should We Apply?

From Ireland to Israel/Palestine, from Guyana to Fiji, from China to Assam and Sri Lanka, migrations induced by British colonialism and commerce have left a legacy of ethnic tension, conflict and tears. To the Jejeebhoys, the Sassoons and Camas or to their British colleagues in the trade such as Jardine and Matheson, the riches they amassed would have been considered cleanly earned, and their honors and Baronetcies they would have considered well-deserved. The Chinese opium eater or the Santhal tea plucker were a race and class apart, and their lives were considered to be outside the domain of corporate responsibility.

But is it appropriate to apply today's ethical standards to the past? We may be too harsh in our judgment of the British or the Indian Parsi traders using the narrower and more stringent ethical lens of the 21st century. We can rejoice that our global standards today are higher, thanks to the globalization of ideas. The same globalization that still causes angst and ethnic tensions has also contributed to world prosperity. Trade and foreign direct investment have lifted literally billions today into a middle class status—and tea into their list of favorite beverages.

The History of Globalization: From "*De Unum, Multis*" to "*E Pluribus, Unum*"

The story of humankind has been one of geographic and cultural dispersion, and then back to becoming, once again, a single global family. According to one theory, all *Homo sapiens sapiens* are the offspring of a single African mother. Her descendants after 60,000 BCE broke into separate bands in their long walk out of Africa, culturally evolving into separate tribes on distant continents (Oppenheimer, 2003). Then, in the Chalcolithic era around 8,000 BCE the economic forces of comparative advantage, specialization, scale and learning began to spur trade and barter across increasing distances, beginning the reconnection of the various dispersed tribes and culminating in the last three centuries of our era in an unprecedented level of international interdependence, integration and conflict—but also prosperity. When the world history of the 19th and 20th centuries is written in future millennia, all the wars, terrorist incidents and conflicts may be reduced to a passing mention, or just footnotes. But one salient fact will be recorded—the emergence of billions of humans from poverty to a middle class status, from agrarian backwardness to productivity, from ignorance to enlightenment, and from tribalism to a globally unified consciousness—all the result of globalization. By the 21st century, companies from nations such as China or India emerged to rival multinationals from the West. The natives had their "revenge" in the year 2000. In an acquisition redolent with symbolism for the future, the UK's leading tea company, Tetley Tea, was taken over (in a "reverse" foreign direct investment) by the Tata Group based in India.

The concluding chapters in the story of globalization yet remain to be recorded. While the formerly isolated human tribes have reconnected, and the planet is swathed in a maze of fiber-optic cables in which the dance of photons carries immense information across continents, cultural and institutional "distance" is still a major determining factor in trade and FDI patterns (Ghemawat, 2001).

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Endnotes

[1]   *Seres* was the term Romans used to depict what is today Western China and Central Asia, their source of silk. The "Arabian peninsula" was included in Pliny's declamation only because important branches of the trade routes from India and China passed through Arabia and the Middle East, whose intermediaries were among the first to receive payment in Roman coinage.

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Preparing Undergraduates for an International Assignment

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Business educators have come to recognize that a forward-looking business education must address the issue of globalization. Yet, as delineated in "What's Your Global IQ?" (Dyer & Tarimcilar, 2011), globalization presents educators with a complex challenge when it comes to how to introduce a *meaningful*, *transferrable* and *integrated* global dimension to the student experience and, in particular, the undergraduate experience. This experience all too often runs a quiet second to the MBA program in terms of resources and attention (Frank, 2006). Available models run the gamut, from the direct experience of study abroad and travel programs down to the indirect experience provided by coursework, experiential exercises and simulations. Northeastern University has addressed this challenge continually, beginning in 1994, when its College of Business Administration faculty established the Bachelor of Science in International Business (BSIB) program to offer students, in addition to a rigorous classroom experience, opportunities to study and work overseas in the language of the host country. There's no question, the international experience is important. But preparing students for that experience, the foundation that is established before the international experience occurs, is equally important. To this end we created a preparatory course called "Managing the International Assignment: Living and Working Abroad." Here we describe our experience with that course, its role in the BSIB program and three of its core, pre-departure assignments. We believe this course is a unique, meaningful addition to the international business curriculum that may be transferrable to other schools. We hope our work may be useful to our colleagues at other institutions as they, too, develop and refine the global dimensions of their undergraduate business programs.

The Bachelor of Science in International Business Program

BSIB is designed to train students to become future global managers who bring a competitive edge to their jobs and careers. It operates with partner schools in Mexico, South America, Europe, Japan and China, most of which are members of the International Partnership of Business Schools (IPBS, http://www.ipbs-edu.net/). The program rests on four pillars as described by Deans (2011): a study abroad component; a business school strategy leading the way in making the university's goal of an international, experiential experience a reality for all students; practical business applications built into the program; and a curriculum designed to support the program's goals.

BSIB students study in three general academic areas: the liberal arts, business and a foreign language. In the business area, they take six core courses and four international business (IB) courses. The six core courses are typical of what any business major might take, but they have been contextualized for the BSIB program by incorporating a global perspective, achieved by the use of international cases and examples. Of the four international business courses, three are what one would expect to find in an IB curriculum. The course that we explore here, Managing the International Assignment: Living and Working Abroad, is an unusual course in that it begins at the pre-departure stage and continues through the foreign assignment and reentry experiences. This course captures the distinctiveness of our BSIB program and supports it. The contextualized business and IB courses are listed in Table 1.

Table 1: Bachelor of Science in International Business Courses

Six Core Courses with Global Perspective	Four International Business Courses
Financial Accounting and Reporting in a Global Context	Becoming a Global Manager (fall, year 1)
Managerial Accounting in a Global Context	Analyzing the Global Business Environment (spring, year 2)
Financial Management in a Global Context	Managing the International Assignment: Living and Working Abroad (spring, year 3)*
Introduction to Marketing in a Global Context	Executing Global Strategy (fall, year 5)
Business Statistics in a Global Context	
Organizational Behavior in a Global Context	

* This course starts in classroom format in year 3 and continues online in year 4 during study in a partner university and work abroad. It concludes after students have returned from their international assignment.

In the BSIB program, students spend their fourth (junior) year abroad, beginning with a semester at a partner school to study in the language of the host country, boosting a fluency that they have developed in courses on campus. (Northeastern University is a five-year school due to the cooperative education format.) Then they complete a four to six month co-op work assignment, also in the foreign setting. Students also have the option to stay at the partner institution in the host country another year to complete the double degree requirements to receive a degree from that institution in addition to their Northeastern degree, with roughly 20 percent pursuing that option. The combination of study and work enables students to increase their understanding of the country's business practices, develop further proficiency in a foreign language, gain meaningful experience in the realities of international business and develop a deep level of cross-cultural awareness and skills.

To prepare for their foreign assignment, BSIB students enroll in Managing the International Assignment. All BSIB faculty members teaching in the program have lived and worked abroad as expatriates and speak at least a second language, so they understand what students will be experiencing in their adjustments to foreign assignments and can draw upon their own expatriate experiences in their teaching. They recognize that a cognitive, intellectual understanding of international business, although necessary, is not sufficient for success. Students need to understand how living and working abroad as expatriates could affect them behaviorally.

Preparing Undergraduates for an International Assignment

How do you behaviorally prepare undergraduates who are embarking on an international assignment of one to two years in duration? We have taken our cues from best practices in the corporate world to create what we believe is a unique course.

This course begins the semester before students depart for their foreign assignment and continues through the assignment and on to a reflection period once they have returned. Throughout the course, from its title to how we talk about what they will do when they are abroad, the emphasis is on shaping students' view of their experience as something that closely parallels an expatriate assignment in a company, not a study abroad experience. The expatriate assignment frame continues to be emphasized in assignments they complete while abroad and once they have returned. As part of the course, they will learn to recognize, understand and work with the cultural diversity that they will encounter in their assignment, and they will develop awareness of the pervasive but hidden influence of culture on how people live, learn, work and manage. The course helps them prepare for their international assignment because it:

- develops abilities needed to function effectively in situations of cultural diversity;
- develops appreciation for issues that BSIB students may confront

during their international assignment at our partner schools and in their co-op assignments; and

- creates awareness of the personal impact an international assignment may have.

Table 2 outlines the eight themes that run through the course.

Table 2: Class Themes

The Impact of Culture on Living and Working Internationally

Experience Entering and Functioning in Another Culture

Building a Life Abroad: The Hero's Adventure

Identifying and Achieving Intercultural Effectiveness

Intercultural Effectiveness: Experience Working in Multicultural Teams

The Expatriate Experience: The Road of Trials

How They See Us: Views of America and Americans

Strangers in a Strange Land: Lessons from Experience

In the remainder of the article we focus on assignments in the first segment of the course that takes place in Boston before students depart. The intellectual roots of the experiential orientation of Managing the International Assignment are found in Northeastern's co-op tradition and also in the work of the educational theorists David Kolb (1984) and Donald Schon (1983). Kolb's experiential education model explains the learning process in four steps: Concrete Experience, Reflective Observation, Abstract Conceptualization and Active Experimentation. These ideas provide the structural backbone of the course, whose three modules are: (1) Preparing for the International Assignment, (2) On Assignment: Living, Studying and Working Internationally and (3) Debriefing the International Assignment. Donald Schon's process of reflection-in-action, as developed in his *Reflective Practitioner*, is the ability of professionals to "think what they are doing while they are doing it," and it is "central to the art by which practitioners . . . deal with situations of uncertainty, instability, uniqueness and value conflict." We know that managers in global companies face highly ambiguous situations regularly and need to know how to be able to observe and think while they are doing, a kind of sophisticated thinking on their feet.

A view of our assignments in Managing the International Assignment provides a sense of how we implement our course goals. Here we briefly describe the course's first assignment, a mid-course assignment, and then the last assignment that students complete before they leave on assignment. These first and last assignments are linked, and they bridge to the international assignment and follow-up work such as a debriefing and a reflection paper, while the diversity field project bridges to the international assignment as well.

No Regrets: First, Middle and Last Assignments in Managing the International Assignment, Pre-Departure

Several years ago, one student returning from her international assignment expressed regret for not having done a number of things she had hoped to do while abroad. Thinking about her disappointment led us to realize that, for the most part, students had not set any objectives that had significant meaning for them for their international assignment. As part of their application, they did write essays on why they wanted to go on the foreign assignment, and most of them included very general statements on the importance of globalization and the effect the assignment would likely have on their careers. We address this issue both before and during the international assignment in a way that makes missed opportunities and disappointments less likely. The first assignment is to formulate *specific objectives*. The first time we used the assignment, one student observed, "You are the first person to ask me this."

The First Assignment

The first assignment has two parts, both to be completed and emailed to the professor before the first class meeting. Students are asked first to write a statement that specifies their objectives for the overseas assignment and then to review advice provided by BSIB students who are currently abroad on assignment. Prior to the first class, students email their professor a *thoughtful*, prioritized statement of their goals or objectives for the international assignment. These objectives are what students really want to accomplish. Effective objectives focus on the students' important priorities and are limited in number, usually between four and six. In addition, we ask that these objectives be SMART, Specific, Measureable, Achievable, Realistic and Time-bound (Deverett 2011). This assignment is paired with an assignment that asks students to visit a BSIB e-advice forum used by students currently on assignment and known as El Rastro, named after the well-known secondhand market in Madrid.

El Rastro is the central information exchange on a range of topics for students on assignment. It developed when a BSIB student returning from Spain told us that it would have been helpful to have a place to sell things such as cell phones to the students who would be following them the next year. We expanded the idea to include an apartment swap site and a co-op job lead site. Students overseas said they also would like a place to provide tips and advice to the next generation of BSIB students, so an advice forum was added. On El Rastro, students in Boston are able to ask students already overseas all sorts of questions about how to get their lives set up in their assignment location. El

Rastro now has 31 forums organized by country and general content. To supplement their El Rastro advice boards, students abroad recently have set up Skype conferencing sessions with outbound students in Boston.

We encourage students in Managing the International Assignment to use El Rastro because the BSIB students currently on assignment are probably the best sources of up-to-date information and advice. The second part of their initial assignment is to review the relevant El Rastro forums for their own country and at least one other country. They email their professor a statement of what they think are the three most important pieces of advice that the BSIB students currently on assignment provided to help them succeed and what they intend to do with this advice. The meaningful part of this assignment, beyond building familiarity with the new location and the issues they may encounter, has to do with short-term goals. Planning for the foreign assignment tends to be focused almost exclusively on the short term, the activities students will have to take care of when they first arrive in their host countries. This focus is understandable, and these early activities are important: finding housing, opening a bank account, arranging for cell phone service and an Internet account, arranging for government documents such as a *carte de séjour* in France, registering for classes, meeting new classmates, travelling and learning about a new country and starting the search for a co-op job. Although many of these tasks seem straightforward, in some of the host countries they can become bureaucratic obstacle courses, consume an inordinate amount of time and cause extreme anxiety and frustration. We want students to realize that their initial goals will be short term and that achieving these goals is an important part of the adjustment process. We also want students

> **"***Discussion is not enough. Such is the danger of the short term overwhelming the longer term . . .***"**

to recognize that if they are not careful, the initial short-term activities will be replaced by more short-term activities. They may forget their original objectives, those outlined in the first part of this assignment, and return home with regrets. Reading the advice forums brings examples of short-term focus to the fore, where they can be analyzed and discussed.

Discussion is not enough. Such is the danger of the short term overwhelming the longer term that when the students are on assignment, we build on this initial exercise. In the following semester, around the second week of December, after students have settled in to their assignment and learned to organize their daily life in a new culture, we email them the objectives they wrote for this first assignment, along with the action plan they develop at the end of the preparatory course. We ask them to re-visit their objectives and action plan, gauge how they are doing and make whatever adjustments they think are neces-

sary. This particular time is chosen since they will be leaving school for the holidays, a good time to reflect on their first few months abroad. After the holidays, we add a mandatory new forum to the Blackboard course site, "New Year's Resolutions," and ask them to comment on their objectives and changes they plan to make. So, the first assignment in Managing the International Assignment reappears for development in the second part of the course, once students are actually on assignment. This is an example of the integration we seek to build in throughout the BSIB program.

Experiencing Diversity Field Project

So that students have an experience of the sort of diversity they are likely to encounter while on assignment, Managing the International Assignment has a field project that involves entering and functioning in a new culture. For this project, culture is defined as "the software of the mind that distinguishes one group from another" (Hofstede, 1984: 64). Each student chooses an unfamiliar cultural setting (not necessarily a national culture) and then spends a period of time in that culture in a way that allows some participation in it. The objective is to understand the worldview of people who are different from themselves and to understand their own behavior in a new and different cultural setting. The emphasis in this fieldwork assignment is on experiential learning. The task is to *experience entering and functioning* in another culture directly, as opposed to studying about it second-hand. Since culture is a collective phenomenon, students must choose an intact, identifiable group with which to interact; interactions with only an individual are not acceptable. This group should be outside their personal life and their normal business life. It should not include family members, acquaintances or work associates. Situations in which they pay to attend, such as a yoga class or dance class, or places open to the general public that they can attend by themselves, such as bars or casinos, also are not acceptable. The project must be done in "real-time" during the course rather than be an analysis of previous experience. However, any previous experience should be brought into the report as part of reflection. Students must pay attention to their own behavior and their reactions in the period prior to their first contact, as they attempt to gain entry, and during their experience and afterwards. They then write a report about the experience and what they learned as it applies to their upcoming assignment. In their reports, students should be trying to draw generalizations from the project experience, their previous experiences and the course. They should try to integrate their learning from these different situations and generate insights from these varied inputs and experiences. The insights at which they and their classmates arrive are now available to support better functioning in new cultural environments.

The Last Assignment, Pre-Departure

The last assignment in the Managing the International Assignment course before students depart goes to the action plan mentioned earlier. We ask students to re-visit their objectives and add an action plan to their statement. Since during the course students have read many cases and critical incidents that previous BSIB students have faced on their

assignments, composing an action plan is less daunting than it would have been earlier in the semester. Students also have been on El Rastro and have heard the tales of the returned students who come to class as speakers, so they now have a much richer idea of what life in their host country may be like and how the students who have preceded them have handled various situations. When they visit our classes, the BSIB returnees from the global frontier are asked to avoid the nitty-gritty daily activity like bank accounts and phones and concentrate on the bigger picture—language, school, culture shock, co-op jobs, the best of times and the worst of times, what the assignment meant to them, how they changed and things they wished they had done differently.

Assessment

That we know what is working in BSIB and what needs to be strengthened is critical. Presently, our debriefing sessions and assignments, including the reflection paper and student meetings with core instructors during the semester following their return from their foreign assignment and discussions on El Rastro, offer valuable approaches to assessment. We also recently have begun a pre- and post-evaluation of student development of cross-cultural skills using the Intercultural Effectiveness Scale, which evaluates competencies critical to interacting effectively with people from other cultural backgrounds.

Conclusion

We conclude the way we often do in our final pre-departure class, by giving the last word to Rudyard Kipling and T. S. Eliot, two poets who express the idea of the global mindset more eloquently then do we.

From Rudyard Kipling's "We and They," the final stanza:

> All good people agree,
> And all good people say,
> All nice people like Us are We
> And everyone else is They:
> But if you cross over the sea,
> Instead of over the way,
> You may end up (think of it!)
> Looking on We as only a sort of They!

The notion of understanding our own place and ourselves—the "we" in Kipling's words—is captured by the final stanza of "Little Gidding," the last of T.S. Eliot's *Four Quartets*:

> We shall not cease from exploration
> And the end of all our exploring
> Will be to arrive where we started
> And know that place for the very first time.

We hope this brief discussion of the pre-departure preparation segment of the BSIB program stimulates ideas for other schools as they develop or refine the global dimensions of their curricula to help students in their global exploration.

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Incorporating a Global Perspective in Teaching Crisis Management

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Courses in crisis management should help students prepare for global crises. This is increasingly important since the global reach of companies has increased significantly over the years due to common customer needs, global channels, the internet and favorable trade policies such as free trade agreements. Unfortunately very few articles have been written about developing crisis management courses in business schools (for an exception, see Laufer, 2010a), and a discussion of global issues in crisis management courses is even more difficult to find. This paper provides suggestions for course content that has proven to be effective in teaching numerous crisis management courses around the world. These courses were taught over a five-year period on undergraduate, graduate and executive levels in various countries including the United States, Canada, Germany, Austria and Israel.

This paper provides suggestions for course content structured around the three-phase approach to crisis management, which is one of the most common approaches to teaching crisis management courses (Coombs, 2001). The three-phase approach involves teaching topics related to the pre-crisis, crisis, and post-crisis phases. In the following sections I will explain how a global perspective can be incorporated in (1) the pre-crisis phase through an understanding of cross-national differences in issues management; (2) the crisis phase through a discussion of cross-national differences in how consumers assess blame during a crisis; and (3) the post-crisis phase through a discussion of how cultural differences can influence the effective dissemination of lessons learned as a result of a crisis.

Course Material for the Pre-Crisis Phase: Country Differences in Issues Management

The pre-crisis phase involves actions that can be taken by organizations before a crisis occurs. These actions include analyzing the environment for risks, taking actions to prevent crises from occurring and making preparations to deal with a crisis if it cannot be prevented. An important part of crisis prevention is issues management. In issues management the organization "anticipates the issues that are potential crises and ranks them in order of possible damage to the organization. Then strategies and tactics are developed and implemented to lessen the likelihood of crises" (Fearn-Banks, 2002: 20).

In discussing issues management in a crisis management course, it is important to incorporate the global context. The potential for an issue

in one country to evolve into a crisis is not necessarily the same as in another one. An example that I have used successfully in my courses to illustrate this point is genetically modified (GM) food. In discussing this topic I always begin by asking students to imagine they are a food manufacturer that sells GM food products. I ask them whether they believe entering into a new market overseas could potentially trigger a crisis for the food manufacturer. Based on my experience teaching crisis management courses around the world, I have found that student responses are highly dependent on the country they are from. For example, European students in Germany and Austria expressed concern that key overseas stakeholders (such as consumers and government agencies) would probably be alarmed by the potential long-term health consequences of consumers eating GM foods. In terms of issues management, the European students ranked GM foods high in a priority list of issues that could evolve into a crisis for the food manufacturer. The students felt that there was a high likelihood that a consumer boycott or regulatory actions such as banning the product would take place if the company didn't proactively address the issue.

American students, on the other hand, viewed the issue of GM foods very differently than the European students. They viewed GM foods as technological advances that enable companies to produce greater quantities of food at lower prices. The students also felt that the long-term health implications of eating GM foods were not an issue because there wasn't any scientific evidence establishing a link between GM foods and the health of consumers.

The responses of both the European and American students are a great example of how people make assessments based on their own cultural frame of reference. In order to create a global mindset, differences between consumers in various countries need to be "acknowledged, respected, adapted to, and integrated into one's personal frame of reference" (Weathersby, 1992: 13). Clearly the European students are concerned about the possible health implications of GM foods, and the Americans students are focused on the technological innovation of GM foods and the lack of scientific evidence linking GM foods with adverse health effects. However, in selling GM foods overseas, what is important is how stakeholders in the target market feel about GM foods. This can differ greatly from the views of the decision maker, who is influenced by different cultural factors than are stakeholders in the company's new target market. Therefore, from an issues management standpoint, the potential for GM foods to generate a crisis in a new overseas market

may differ greatly from the food manufacturer's home country. For example, consumers in China may view GM foods very differently than Europeans. If a European food manufacturer views the possible Chinese response through the lens of the European experience, the company may over-react. This may be costly in terms of resources, and other issues may be given a lower priority, despite being of greater risk to the company when entering into the new market.

An excellent resource to accompany the discussion on GM foods is an article examining cross-cultural differences in perceptions of GM foods in Europe and the United States (Guehlstorf & Hallstrom, 2005). This article can be used as part of a course reading packet or as resource material for the instructor to prepare for the discussion. The article provides students with an example of how companies operating overseas should analyze issues, and it highlights the importance of considering cultural factors in the analysis.

Another excellent teaching tool to discuss cross-national differences in issues management is the case "American Girl: A Protest over Corporate Philanthropy" (Halvorsen-Ganepola & Murphy, 2006). The case is about American Girl, a large American toy company, which entered into a strategic alliance with Girls Inc., a non-profit organization that advocates for girls' rights. As part of the alliance, American Girl made donations to Girls Inc. to support the organization's causes. The case describes a crisis American Girl faced when two activist groups called for a boycott of the company's products because of its association with Girls Inc. The reason for the boycott was opposition to Girls Inc.'s positions on issues relating to sexual orientation and the right to choose to terminate a pregnancy, positions which the activist groups vehemently opposed. Despite not taking a political stance on these issues, American Girl was targeted by the activist groups because of their support of Girls Inc. through the strategic alliance and the company's donations.

Based on my experience, this case generates a lot of discussion among students. During the case discussion, many students outside the United States expressed the view that "this type of situation would never happen here" and "this happens only in the United States." As part of the discussion I ask students why they believe that the reactions in their countries would differ from the United States. Most students justified their responses by explaining that issues relating to sexual orientation and the right to choose to terminate a pregnancy are not as controversial as in the United States, and the influence of activist groups is not as powerful in their countries when compared with the United States.

By discussing these topics, the students learn more about differences in how stakeholders perceive issues overseas. The discussion also helps achieve the learning objective of recognizing cultural factors in issues management. At the end of the case discussion I always emphasize that what is relevant in issues management is how stakeholders feel about the issues in the target market. The students' personal feelings, or how they believe people in their home countries would react, should not be playing a role in issues management in an overseas market.

Course Material for Crisis Phase: Country-Differences in Consumer Reactions to Product Harm Crises

A major consideration for organizations in determining how to respond to a crisis is assessing how stakeholders view the company's role. Do stakeholders believe the company played a major role in the crisis, or do they feel it was beyond the control of the company? The degree to which a company is held responsible directly influences how a company needs to respond in order to protect its reputation.

> *The degree to which a company is held responsible directly influences how a company needs to respond in order to protect its reputation.*

Situational Crisis Communication Theory (Coombs, 2007: 138–147) is an important topic to discuss in a crisis management course. The theory provides recommendations for the selection of an appropriate company response to a crisis based on a number of criteria. One important variable that plays a role in the company response is how people perceive the culpability of the company. According to Situational Crisis Communication Theory, the more blame that is assessed to the company, the greater the reputational damage. As a result, in order to limit the reputational damage, a company needs to respond differently when it is blamed for a crisis. For example, in the context of a product harm crisis in which consumers are injured as a result of using a company's products, a company needs to make a super effort if it is viewed as the culpable party (Laufer & Coombs, 2006). A super effort differs from a voluntary recall in that a super effort involves compensation and an extensive communications campaign to promote the recall effort, whereas a voluntary recall does not involve such an extensive use of corporate resources (Laufer & Coombs, 2006; Siomkos & Kurzbard, 1994).

In discussing Situational Crisis Communication Theory in a crisis management course, it is important to discuss cross-cultural differences that could cause consumers to assess different levels of blame to a company for an identical crisis. Based on Situational Crisis Communication Theory, this could generate a different corporate response depending on the level of blame assessed in the particular cultural context. An excellent resource to incorporate in a crisis management course to discuss this issue is an article by Laufer (2010b): "Global Product Harm Crises: Cross-Cultural Differences in Blame Attributions and Managerial Implications for MNCs." In this article, Laufer (2010b) describes factors that influence

blame attributions overseas, including uncertainty avoidance and the fundamental attribution error. Uncertainty avoidance represents "the extent to which the members of a culture feel threatened by uncertain or unknown situations" (Hofstede, 1997: 263) and the fundamental attribution error is the tendency of observers to favor dispositional over situational factors in explaining why events occurred (Ross, 1977). Laufer (2010b) explains that "consumers in countries with lower levels of uncertainty avoidance feel less of a need to resolve the uncertainty regarding who is to blame, and are more likely to wait for more additional information before assigning blame." With regard to the fundamental attribution error, Laufer believes that "research from the field of psychology suggests that consumers in Western cultures such as the United States and Europe may be more likely to blame the company for an ambiguous product harm crisis. On the other hand, consumers in China, Japan, and South Korea may be more likely to consider situational factors, and, as a result, assess less blame to a company for an ambiguous product harm crisis." As previously discussed, blame levels have important implications regarding corporate responses, and companies operating overseas may have to adapt their response based on the cultural context.

In order to reinforce the concepts after discussing cross-cultural differences in blame attributions in the classroom, I ask students to imagine they are working as a brand manager at a multinational corporation, and they are facing a product harm crisis in the United States or Japan (or Germany and South Korea). I then pose the question, "How would consumers in these different countries react to an identical crisis reported in the media in their respective countries based on the previous classroom discussion on cross-cultural differences in blame attributions?" In addition, based on the students' assessments of blame attributions, I ask them whether they believe the corporate response needs to differ depending on the country where the crisis takes place. I always end the discussion by saying that the perceived cultural differences in blame attributions can be used as a basis for developing hypotheses regarding country differences in consumer reactions to crises, but this always needs to be verified through marketing research, typically focus groups since during a crisis a company does not have enough time to conduct more extensive research.

Course Material for Post-Crisis Phase: Challenges with Disseminating Crisis Performance Information

During the post-crisis phase the company learns from a crisis and tries to implement changes that can help prevent crises from reoccurring in the future. Different lessons can be learned by companies as a result of experiencing various types of crises. For example, a company could create a new checklist to conduct due-diligence before entering into

a strategic alliance with a non-profit organization as a result of a crisis. That checklist could include examining a non-profit's positions on controversial issues. Another example of learning from a crisis could be to stop using a toxic ingredient in the production process that causes workers to become ill. Finally, a company may conclude that it needs to change its recruiting practices in order to minimize the risk of employee fraud and embezzlement.

Finding the cause of a crisis and identifying a remedy is only the first step in preventing a reoccurrence of the crisis. The company also needs to disseminate lessons learned from a crisis throughout the organization in order to prevent a reoccurrence. However, the effective dissemination of the information is a daunting challenge, especially for a multinational corporation with operations in multiple countries. For example, Toyota, a company headquartered in Japan, may need to implement changes throughout its worldwide operations as a result of the crisis in 2010 associated with sudden acceleration of its vehicles. An important issue for Toyota is determining the most effective way to communicate these changes to the company's subsidiaries around the world, such as the United States and China.

In order to better prepare students for global crisis management, it is useful to incorporate in the post-crisis phase of a crisis management course a discussion of the challenges companies face in effectively disseminating lessons learned from a crisis to its employees in different countries. An excellent resource for this type of discussion is the article

> " *Cultural differences in the importance of status are also related to the concept of 'power distance'* "

"An Intercultural Communication Model for Use in Global Interorganizational Networks" (Griffith & Harvey, 2001). After reading this article students are able to gain a better understanding of the complexity of intercultural communications, and it also helps them understand how to communicate more effectively lessons learned from a crisis. For example, the article describes differences in how Americans and Mexicans view the importance of status. Mexicans are very status oriented, whereas Americans do not place as much importance on status. Cultural differences in the importance of status are also related to the concept of "power distance" (Hofstede, 1997).

In order to generate classroom discussion, a useful exercise after the students read the article by Griffith and Harvey (2001) about the complexity of intercultural communications is to ask how differences in national culture could impact the effective dissemination of lessons learned from a crisis. If you find that students are having a hard time identifying cultural differences, you could ask specifically about the im-

pact of power distance and individualism/collectivism.

After listening to the student responses, it is important to explain the connection between the cultural dimension and the effective dissemination of lessons learned from a crisis. For example in the case of the cultural dimension of power distance, in a high power distance country it is very important that a person with a high status (such as a senior executive) communicates the lessons learned from the crisis. This would maximize the likelihood that the lessons are internalized by a company's employees. The reason this occurs is because people in a high power distance country attribute greater importance to issues conveyed by people of a higher status. In a low power distance country, on the other hand, this would not be as important in order to effectively disseminate lessons learned from a crisis because status does not play as central a role in a low power distance country.

A similar approach could be taken regarding a discussion of the impact of the cultural dimension of individualism/collectivism, which relates to whether people in a country tend have independent self-concepts or interdependent or group-based self-concepts (Triandis, 1995). As part of this discussion it is useful to mention that researchers have found that employees in individualistic countries such as the United States are less likely to share information with co-workers when compared with workers in collectivistic countries such as China (Voel & Han, 2005).

From the standpoint of more effective dissemination of lessons learned from a crisis, the implication would be to make more of an effort to communicate frequently with employees in an individualistic society because there is a lower likelihood of the employees sharing the crisis information with each other in that particular cultural context.

Teaching a Global Crisis Management Class: A Recap

Understanding the complexities of dealing with a global crisis should be an important component of any crisis management course. As recent high profile crises such as Toyota and Vioxx illustrate, companies needs to understand not only how to deal with a crisis in their home countries, but they also need to be prepared to address crises in all of their countries of operation.

This paper helps instructors incorporate global issues in a crisis management course. It is very important that global issues are integrated in teaching all three phases of a crisis (pre-crisis, crisis and post-crisis) because global factors influence best practices in all of these areas of crisis management. The examples in this paper for course content (see Table 1 for a summary) can greatly assist instructors in creating a crisis management course that helps prepare students for an increasingly complex global environment.

Table 1: Resources for Incorporating a Global Perspective in Teaching Crisis Management

Crisis Stage	Topic	Learning Objective	Resources/Exercises
Pre-Crisis	Issues Management	Demonstrate that the potential for issues to evolve into crises can differ in various countries	Article: "The role of culture in risk regulations: a comparative case study of genetically modified corn in the United States of America and European Union" (Guehlstorf & Hallstrom, 2005)
			Case: "American Girl: A Protest Over Corporate Philanthropy" (Halvorsen-Ganepola & Murphy, 2006)
Crisis	Blame Attributions by Consumers during a Product Harm Crisis	Explain why blame attributions by consumers for an identical crisis can differ in various countries, and the implications of these differences for developing effective company responses	Article: "How Should a Company Respond to a Product-Harm Crisis? The Role of Corporate Reputation and Consumer-Based Cues" (Laufer & Coombs, 2006)
			Article: "Global Product Harm Crises: Cross-Cultural Differences in Blame Attributions and Managerial Implications for MNCs" (Laufer, 2010b)
Post-Crisis	Effective Dissemination of Lessons from a Crisis	Explain how cultural factors can impact the effective dissemination of lessons from a crisis	Article: "An Intercultural Communication Model for Use in Global Interorganizational Networks" (Griffith & Harvey, 2001)

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Perspectives: China's Manufacturing Sector is Moving Up and Out

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SOMETHING BIG IS HAPPENING IN CHINA: parts of its manufacturing sector are moving up the value-added chain and out of the country.

Production costs (wages, office rents, land, capital, etc.) in China's coastal provinces – where most of the country's manufacturing and service production, as well as foreign direct investment (FDI), are located -- are rising. Since last year alone, minimum wages in nine out of twelve coastal provinces (including Beijing) rose by an average of more than 21 percent in 2011. At the same time, the country's currency is appreciating. As a result, the production of goods and services is becoming more expensive. This matters especially for labor-intensive goods and services (ranging from toys to data-entry services) destined for export, be it by the affiliates of foreign multinational enterprises located in China (which account for more than half of China's exports) or by local firms, as they become less and less competitive in international markets.

To maintain its export-oriented production base, production has to move up the value-added chain, toward more sophisticated products. Multinational enterprises can do that within their integrated international production networks which allow them to organize an international intra-firm division of labor, in the framework of which any part of the production chain can be located wherever it suits the firms' international competitiveness best – and they have the experience to scout the globe for the right investment locations.

Domestic firms, too, need to respond to these pressures and produce more sophisticated goods and services. They are helped in this effort by the rapid deepening of China's skills and technology base. Partly, this occurs because of training in foreign affiliates; but this happens especially because of a sustained effort by the Chinese government to foster education and training and to encourage the transfer of technology from foreign firms to domestic ones and, in particular, to build up research and technology capabilities.

The implication: producers of more sophisticated goods and services in developed countries and a number of emerging markets need to be prepared for the growing competition from China.

At the same time, China's labor intensive production will increasingly move to countries with lower labor costs. These include Bangladesh, India, Indonesia, and Vietnam, but increasingly also various African countries. It is a process that has already begun and is supported, since the beginning of the past decade, by the government's "Going Global"

policy through which it supports outward foreign direct investment from China. China's soaring outward FDI testifies to this trend: outflows of such investment more than doubled from $23 billion in 2007 to $52 billion in 2008 and rose even further in 2009 (when world FDI flows collapsed by about 50% on account of the western financial and economic crisis), to reach $68 billion in 2010; not counting Hong Kong, this made China the world's fifth largest outward investor that year. To give just one example: Chinese firms have established about 1,000 affiliates in neighboring Vietnam.

This development opens new opportunities for other developing countries to insert themselves into the international division of labour and benefit from the trade associated with it. The investment promotion agencies of these countries – indeed all countries, including developed ones -- should increasingly target firms in China to lure them to their shores. In so doing, they should target not only big state-owned companies, but also the rising number of vibrant private small and medium-sized enterprises in China that can be found in all sectors of the economy.

An important caveat needs to be made, however: China has a vast interior that is by far not as developed as the country's coastal provinces. The government is making special efforts to develop these areas in the framework of its "Great Western Development Strategy", including by building modern infrastructure, promoting high-quality education, science and technology (all key determinants of the location of production), and encouraging investment there. As a result, firms in the coastal provinces that have to move their production (and assuming that they see no need to diversify away from China) have the choice to relocate to China's interior as opposed to going abroad.

All this is not new: it happened before with labor intensive manufacturing in developed countries, when firms headquartered in Europe, Japan and the United States moved such production to developing countries. In Asia, Hong Kong, the Republic of Korea, Singapore, and Taiwan were (and have been) among the beneficiaries. In turn, when costs for labor intensive goods and services became too high in these countries, they were (and are being) shifted elsewhere, flying-geese style; since the beginning of the past decade, this relocation of manufacturing has been followed also by the off-shoring of services whose information-intensive components have become tradable. In fact, China itself was (and has been) a beneficiary of this process – and it is now beginning to shed labor intensive industries herself. It is the result of an open interna-

tional trade and investment regime that allows firms to locate production where it is most beneficial for their international competitiveness.

Governments, for their part, need to have policies in place to adapt to this global shift in production. On the one hand, governments need to help their firms to adapt to the outward move of the production of some goods and services through training, stimulating innovation and maintaining or creating a competitive environment that encourages creative destruction while providing for a social safety net. On the other hand, governments that attract the production shedded elsewhere need to have policies in place to benefit as much as possible from this global shift in production in order to further their own economic development.

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