

3. Use the theory of comparative advantage to explain the way in which Logitech has configured its global operations. Why does the company manufacture in China and Taiwan, undertake basic R&D in California and Switzerland, design products in Ireland, and coordinate marketing and operations from California?
4. Who creates more value for Logitech, the 650 people it employs in Fremont and Switzerland, or the 4,000 employees at its Chinese factory? What are the implications of this observation for the argument that free trade is beneficial?
5. Why do you think the company decided to shift its corporate headquarters from Switzerland to Fremont?
6. To what extent can Porter's diamond help explain the choice of Taiwan as a major manufacturing site for Logitech?
7. Why do you think China is now a favored location for so much high-technology manufacturing activity? How will China's increasing involvement in global trade help that country? How will it help the world's developed economies? What potential problems are associated with moving work to China?

Sources

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The Ecuadorean Rose Industry

Read

It is 6:20 a.m. February 7 in the Ecuadorean town of Cayambe, and Maria Pacheco has just been dropped off for work by the company bus. She pulls on thick rubber gloves, wraps an apron over her white, traditional embroidered dress, and grabs her clippers, ready for another long day. Any other time of year, Maria would work until 2 p.m., but it's a week before Valentine's Day, and Maria along with her 84 coworkers at the farm are likely to be busy until 5 p.m. By then, Maria will have cut more than 1,000 rose stems.

A few days later, after they have been refrigerated and shipped via aircraft, the roses Maria cut will be selling for premium prices in stores from New York to London. Ecuadorean roses are quickly becoming the Rolls-Royce of roses. They have huge heads and unusually vibrant colors, including 10 different reds, from bleeding heart crimson to a rosy lover's blush.

Most of Ecuador's 460 or so rose farms are located in the Cayambe and Cotopaxi regions, 10,000 feet up in the Andes about an hour's drive from the capital, Quito. The rose bushes are planted in huge flat fields at the foot of snowcapped volcanoes that rise to more than 20,000 feet. The bushes are protected by 20-foot-high canopies of plastic sheeting. The combination of intense sunlight, fertile volcanic soil, an equatorial location, and high altitude makes for ideal growing conditions, allowing roses to flower almost year-round. Ecuador apparently has a comparative advantage in the production of roses.

Ecuador's rose industry started some 20 years ago and has been expanding rapidly since. Ecuador is now the world's fourth-largest producer of roses. Roses are the nation's fifth-largest export, with customers all over the

world. Rose farms generate \$240 million in sales and support tens of thousands of jobs. In Cayambe, the population has increased in 10 years from 10,000 to 70,000, primarily as a result of the rose industry. The revenues and taxes from rose growers have helped to pave roads, build schools, and construct sophisticated irrigation systems.

Maria works Monday to Saturday, and earns \$210 a month, which she says is an average wage in Ecuador and substantially above the country's \$120 a month minimum wage. The farm also provides her with health care and a pension. By employing women such as Maria, the industry has fostered a social revolution in which mothers and wives have more control over their family's spending, especially on schooling for their children.

For all of the benefits that roses have brought to Ecuador, where the gross national income per capita is only \$1,080 a year, the industry has come under fire from environmentalists. Large growers have been accused of misusing a toxic mixture of pesticides, fungicides, and fumigants to grow and export unblemished pest-free flowers. Reports claim that workers often fumigate roses in street clothes without protective equipment. Some doctors and scientists claim that many of the industry's 50,000 employees have serious health problems as a result of exposure to toxic chemicals. A study by the International Labor Organization claimed that women in the industry had more miscarriages than average and that some 60 percent of all workers suffered from headaches, nausea, blurred vision, and fatigue. Still, the critics acknowledge that their studies have been hindered by a lack of access to the farms, and they do not know what the true situation is. The International Labor Organization has also claimed that

some rose growers in Ecuador use child labor, a claim that has been strenuously rejected by both the growers and Ecuadorean government agencies.

In Europe, consumer groups have urged the European Union to press for improved environmental safeguards. In response, some Ecuadorean growers have joined a voluntary program aimed at helping customers identify responsible growers. The certification signifies that the grower has distributed protective gear, trained workers in using chemicals, and hired doctors to visit workers at least weekly. Other environmental groups have pushed for stronger sanctions, including trade sanctions, against Ecuadorean rose growers that are not environmentally certified by a reputable agency. On February 14, however, most consumers are oblivious to these issues; they simply want to show their appreciation to their wives and girlfriends with a perfect bunch of roses.¹

Case Discussion Questions

1. What is the basis of Ecuador's comparative advantage in the production of roses?
2. Most Ecuadorean roses are sold in the United States or Europe. Who in these countries benefits from

the importation of Ecuadorean roses, and how do they benefit? Who loses? Do you think the benefits outweigh the costs?

3. How does the rose export industry benefit Ecuador? Do these benefits have any implications for the United States and Europe?
4. How should developed nations respond to reports of poor working conditions in this industry? Should importers in some way certify Ecuadorean producers, only importing from those who adhere to strict labor and environmental standards?

Sources

1. G. Thompson, "Behind Roses' Beauty, Poor and Ill Workers," *The New York Times*, February 13, 2003, pp. A1, A27; J. Stuart, "You've Come a Long Way Baby," *The Independent*, February 14, 2003, p. 1; V. Marino, "By Any Other Name, It's Usually a Rosa," *The New York Times*, May 11, 2003, p. A9; A. DePalma, "In Trade Issue, the Pressure Is on Flowers," *The New York Times*, January 24, 2002, p. 1; and "The Search for Roses Without Thorns," *The Economist*, February 18, 2006, p. 38.

The European Energy Market

For several years the European Union, the largest regional trading bloc in the world, has been trying to liberalize its energy market, replacing the markets of its 27 member states with a single continentwide market for electricity and gas. The first phase of liberalization went into effect in June 2007. When fully implemented, the ability of energy producers to sell electricity and gas across national borders will increase competition. The road toward the creation of a single EU energy market, however, has been anything but easy. Many national markets are dominated by a single enterprise, often a former state-owned utility. Electricite de France, for example, has an 87 percent share of that country's electricity market. Injecting competition into such concentrated markets will prove difficult.

To complicate matters, most of these utilities are vertically integrated, producing, transmitting, and selling power. These vertically integrated producers have little interest in letting other utilities use their transmission grids to sell power to end users, or in buying power from other producers. For the full benefits of competition to take hold, the EU recognizes that utilities need to be split into generation, transmission, and marketing companies so that the business of selling energy can be separated from the businesses of producing it and transmitting it. Only then, so the thinking goes, will independent power marketing companies be able to buy energy from the cheapest source, whether it is within national borders or

elsewhere in the EU, and resell it to consumers, thereby promoting competition.

For now, efforts to mandate the deintegration of utilities are some way off. In February 2007 national energy ministers from the different EU states rejected a call from the European Commission, the top competition body in the EU, to break apart utilities. Instead the energy ministers asked the commission for more details about what such a move would accomplish, thereby effectively delaying any attempt to deintegrate national power companies. In mid-2008, they reached a compromise that fell short of mandating the unbundling, or deintegration, of national energy companies due to powerful opposition from France and Germany among others (both nations have large vertically integrated energy companies).

The response of established utilities to the creation of a single continentwide market for energy has been to try to acquire utilities in other EU nations in an effort to build systems that serve more than one country. The underlying logic is that larger utilities should be able to realize economies of scale, and this would enable them to compete more effectively in a liberalized market. However, some cross-border takeover bids have run into fierce opposition from local politicians who resent their "national energy companies" being taken over by foreign entities. Most notably, when E.ON, the largest German utility, made a bid to acquire Endesa, Spain's largest