International Business Capstone - Notes

Globalization: Trade & Investment Theories

Globalization

Globalization refers to the increased connectedness of countries and their economies

It is the idea of one global marketplace, with no barriers to consumption, the movement of capital and people

Globalization & International Business

As a result of globalization, distinctly separate national markets have begun to merge. As a result of falling barriers to cross-border trade, it has become easier for businesses to target international markets

Mercantilism

Mercantilism (popular in the 16th century) is a belief that emphasizes that national prosperity results from maximizing exports and minimizing imports

This theory is inherently flawed as it states that a country should only "sell" and not "buy"

Absolute Advantage Principle (Adam Smith)

The absolute advantage principal refers to the concept of a country producing only the goods that it can produce using fewer resources than another country (absolute advantage)

This theory is inherently flawed as it assumes that each country will hold an absolute advantage in producing a certain good.

Comparative Advantage Theory (David Ricardo)

The comparative advantage theory refers to the ability of an individual, group or country to produce goods at a lower opportunity cost than another individual, group or country

The comparative advantage theory states that it is beneficial for two countries to trade even if one holds an absolute advantage as what matters is not the absolute cost of production, but rather the relative efficiency with which goods can be produced.

Factor Proportions (Endowment) Theory

The factor endowment theory states that countries should produce and export products that primarily use easily accessible factors of production, and import goods that primarily use scare factors of production

International Product Life Cycle Theory

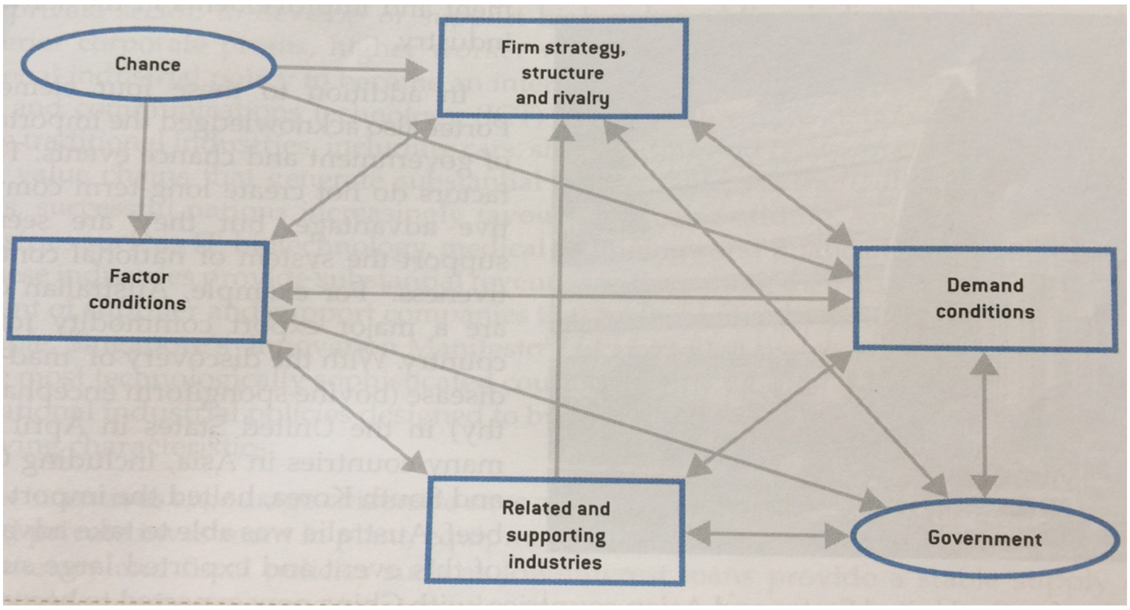
In an international context, every product goes through the following stages of existence: introduction, maturity, and standardisation

Introduction stage → refers to when the inventor country enjoys a monopoly in both manufacturing and exports – Ie: the television set

Maturity stage → refers to when the product's manufacturing becomes relatively standardized, and other countries start producing and exporting the product

Standardization stage → refers to when manufacturing ceases in the original innovator country, and this country becomes a net importer of the product

Michael Porter's Diamond Model: Sources of National Competitive Advantage



Michael Porter's Diamond model states that there are 4 sources of national competitive advantage:

1. Factor conditions → refers to the quality and quantity of land (natural resources), labour, and capital (including technology), and entrepreneurship

2. Related and supporting industries → refers to the presence of suppliers, competitors, and complementary firms that excel within a given industry

3. Demand conditions at home → refers to the strengths and sophistication of customer demand

4. Firm strategy, structure, and rivalry → refers to the nature of domestic rivalry and the conditions that determine how a nation's firms are created, organized, and managed

Note → Michael's model acknowledges the role of government and chance events

FDI-Based Explanation

Internalization Theory

The internationalization theory explains how multinational enterprises choose to acquire and retain one of more value-chain activities

By purchasing and retaining an international value-chain activity, a business is able to gain greater control over its foreign operations

Dunning's Eclectic Paradigm

Dunning's eclectic paradigm states that a business must consider 3 conditions before entering a foreign country via foreign-direct-investment:

1. Ownership-specific advantages → knowledge, skills, capabilities, relationships, or physical assets that the business owns, that form the basis of their competitive advantage

2. Location-specific advantages → specific advantages that exist in the country that the MNE is seeking to enter such as natural resources, low-cost labour, or skilled labour

3. Internalization advantages → refers to increased control derived from internalizing foreign-based manufacturing, distribution, or other value-chain activities

Uppsala Model of Internationalization

Originally formed in 1977, and updated in 2009, the Uppsala model states that a business should increase their commitment to foreign markets over time

This theory recognizes the liability of foreignness, and the problems associated with geographic and psychic distance in during the internationalization process

Born-Global Theory

The born-global theory refers to businesses that go international from inception, or very soon after. These businesses achieve global economies of scale

Research in International business: assessing global opportunities

Global Market Opportunities

Global market opportunity refers to the concept of a favorable combination of circumstances, locations or timing that offers prospects for exporting, investing, sourcing or partnering in foreign markets

Country Potential Analysis

There are four elements in a country potential analysis including:

1. Conduct a PESTLE analysis
2. Collect data on the country
3. Conduct a risk assessment
4. Consider the market potential index

PESTLE Analysis

A PESTLE analysis can be used to analyse the international macro-environment of a business

- Political (government type and policy)
- Economic (Inflation, Interest rate, GDP, purchasing power, labour cost)
- Social (population, education, lifestyle, culture)
- Technological (information technology, internet users, innovation)
- Legal (legal systems, employment law, standards, regulations)
- Environment (sustainability, green strategies, carbon emission laws)

Collecting Data

- CIA Factbook
- GlobalEdge (very good for risk assessment)
- WTO website
- World Bank
- International Monetary Fund
- Austrade and DFAT websites
- Doing Business (World Bank) website
- United Nations Conference on Trade and Development - World Investment Reports
- United Nations Human Development Reports

Assessing Risks

A business must consider a number of potential risks including general approaches, competitive risks, monetary risks and political risks