

International Business Economics

1. IBE and Globalization



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Cofinanciado por el
programa Erasmus+
de la Unión Europea



**GOBIERNO
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CANTABRIA**

Session overview

- Meaning and features of International Business management.
- Globalization
- Brief review of International Trade theories
- Globalization, political economy and development.

What is International Business?

- Meaning ([Quiz: Q1 and Q2](#)):
- 1) IBE is concerned with those issues facing international companies and governments in dealing with all types of crossborder transactions.
- 2) IBE comprises all business transactions involving two or more countries.
- 3) Transaction of resources include capital, skills, people, etc., for the international production of goods and services.

International Business main features

- Large scale operations
- Integration of economies (use of resources from different countries)
- Traditionally dominated by developed countries and MNCs, but now changing (shifting wealth)
- Keen competition? Or monopoly?
- Important role of innovation, technology and science
- International restrictions (on capital and tech flow, barriers, trade blocks, etc)

What Is Globalization?

- **Globalization** – process of integration and interaction among different governments, companies, people, etc.
- The world is moving toward an integrated global economic and cultural system.

Globalization of Markets

- Distinct and differentiated national markets are merging
- Different globalization waves (19th C, 20th C, now..)
- Nowadays, instead of “national markets” we talk about the “global market”
 - Removal of trade barriers (Trump and/or Brexit effect?)
 - Convergence of customers’ preferences.
 - Product standardization

Globalization of Production

- National differences regarding production factors (capital, land, labor, etc)
- Firms benefit from globalization because:
 - Lower costs
 - Product offering improvements

ANY EXAMPLES?

Drivers of globalization

- Quiz question 4 Discuss!!
- Cross-border barriers removal (or reductions), But..is this changing nowadays?
- Technological change
 - Transport infrastructure
 - ICTs

Globalization over 5 centuries (1500-2011)

Shown is the sum of world exports and imports as a share of world GDP (%)

The individual series are labeled with the source of the data

Our World
in Data



Brief review of International Trade theories

- Adam Smith
- David Ricardo
- Heckscher-Ohlin
- New Trade Theory
- Porter's Diamond of Competitive Advantage

Adam Smith's trade Theory

- A country has an absolute advantage in the production of a good/service when it is more efficient than any other nation.
- Countries should specialize in those goods for which they have absolute advantage

David Ricardo's Theory

- What happens if one country has an absolute advantage in the production of all goods?
- Then Nations should specialize in the production of those goods they produce most efficiently in relative terms (comparative advantage).
- Positive sum game

Heckscher-Ohlin Theory

- Comparative advantage is based on differences in local factor endowments (land, labor and capital)
- The prediction is that countries will
 - export those goods that use locally abundant factors
 - Import those goods that use locally scarce factors.

New Trade Theory (Krugman)

- New trade theory is based on firms' capabilities to benefit for economies of scale.
- The world market can only support a limited number of firms – first mover advantages

Porter's Diamond Of Competitive Advantage

- Michael Porter argued that there are four attributes that promote the creation of competitive advantage.
 1. Factor endowments
 2. Demand conditions
 3. Relating and supporting industries
 4. Firm strategy, structure, and rivalry

Globalization, political economy and development

What are the implications of a country's political economy on its level of economic development and its environment for doing business?

- Political Economy (political, economic and legal systems) influence the level of economic well-being and countries' attractiveness to do business,
- Higher levels of economic development might create a more favourable environment for international business

Q. Any other ideas?

Differences in Economic Development

- Economic development affects its attractiveness to foreign firms
- Measure: gross domestic product (GDP) per capita
- Purchasing power parity (PPP) adjustment
- Any other indicators?

Economic Data for Select Countries 2016 (source: World Bank)

Country Name	GDP (current US\$)	GDP, PPP	GDP growth	GDP pc, PPP
Euro area	1.19E+13	1.43E+13	1.80	42080.96
High income	4.93E+13	5.69E+13	1.66	45789.09
Latin America & Caribbean	5.36E+12	9.79E+12	-0.48	15346.67
Low & middle income	2.67E+13	6.42E+13	4.19	10344.53
Low income	5.02E+11	1.41E+12	2.48	1973.40
Least developed countries: UN classification	9.30E+11	2.55E+12	3.61	2606.86
World	7.59E+13	1.21E+14	2.51	16233.96
Arab World	2.50E+12	6.79E+12	3.00	16716.55
Sub-Saharan Africa	1.51E+12	3.85E+12	1.33	3730.32
OECD members	4.76E+13	5.41E+13	1.73	41944.02
East Asia & Pacific	2.25E+13	3.92E+13	4.11	17038.89

Human Development Index (HDI- source United Nations)

	Human Development Index (HDI)	Life expectancy at birth	Expected years of schooling	Mean years of schooling
	Value	(years)	(years)	(years)
	2015	2015	2015	2015
Regions				
Arab States	0.687	70.8	11.7	6.8
East Asia and the Pacific	0.720	74.2	13.0	7.7
Europe and Central Asia	0.756	72.6	13.9	10.3
Latin America and the Caribbean	0.751	75.2	14.1	8.3
South Asia	0.621	68.7	11.3	6.2
Sub-Saharan Africa	0.523	58.9	9.7	5.4
Least developed countries	0.508	63.6	9.4	4.4
Organisation for Economic Co- operation and Development	0.887	80.3	15.9	11.9
World	0.717	71.6	12.3	8.3

Political Economy and Development

Q. What factors influence development?

1. Innovation
2. Geography
3. Education levels

Q. any other factors??

Workshop

Using the “world development indicators” database, fill the following table:

Country Name	Trade (2000)	GDP pc (2000)	Trade (2015)	GDP pc (2015)
Austria				
Belgium				
Bulgaria				
Croatia				
Cyprus				
Czech Republic				
Denmark				
Estonia				
Finland				
France				
Germany				
Greece				
Hungary				
Ireland				
Italy				
Latvia				
Lithuania				
Netherlands				
Norway				
Poland				
Portugal				
Romania				
Serbia				
Slovak Republic				
Slovenia				
Spain				
Sweden				
Switzerland				
United Kingdom				

- a) Using a scatter plot represent the relationship between trade and GDP pc (in constant PPPs) for years 2000 and 2014.
- b) Fit a linear and a polynomial regression line. Get the R-squared.
- c) Let's discuss the results!!!!
- d) Try the same exercise using all Latin American countries. Any substantial differences?

References

- Hill, Charles W. L. (2014): *International Business. Competing in the global marketplace, 10th edition*. Emerald Group Publishing Limited.