PART 2 CROSS-BORDER LINKAGES: TRADE, INVESTMENT AND EXCHANGE

CHAPTER 2 THEORIES OF TRADE, INVESTMENT AND INTERNATIONALISATION

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Opening Case

BANGLADESH'S TEXTILE TRADE

Summary

The opening case examines Bangladesh's competitive advantage in the production of textile products. Bangladesh, a very poor country, has been able to grow even during the most recent global recession thanks to its strong textile industry. Bangladesh, with its low wages, large investments in textile technology and strong network of supporting industries, is now one of the world's lowest-cost producers of textiles. The country has been able to capitalise on these advantages to increase its exports of textiles to $12.5 billion, up from $9.3 billion in 2007. For questions on the case, go the IBGA section 9 at the end of this document.

International Business Graduate Attributes

This chapter's content, learning resources and case studies provide you with the opportunity to develop a number of International Business Graduate Attributes, including the following:

- IBGA1 Discipline Knowledge and Skills
- IBGA2 Critical Analysis
- IBGA3 Problem Solving
- IBGA4 Ethical Decision Making
- IBGA5 Communication
- IBGA6 Social Interaction

Learning Objectives

LO 2.1 Understand why nations trade with each other—benefits of trade.
LO 2.2 Understand the theories explaining trade flows between nations.
LO 2.3 Understand the theories of internationalisation of the firm.
LO 2.4 Be familiar with the arguments of those who maintain that government can play a proactive role in promoting national competitive advantage in certain industries.
LO 2.5 Examine the reasons for rapid internationalisation/born globals.
LO 2.6 Examine the important implications that international trade and internationalisation theory holds for business practice.

Chapter Outline with Lecture Notes and Teaching Tips

INTRODUCTION

A) This chapter has two goals. The first goal is to review a number of theories that explain why it is beneficial for a country to engage in international trade. The second goal is to explain why firms engage in international business.

Teaching Tip: It is often worth asking students before discussing the theories why countries trade the products they do. They will frequently—with a little prompting—hit upon many of the ideas presented in this chapter and consequently relate better to the various theories that are discussed.

MERCANTILISM

A) The first theory of international trade emerged in England in the mid-16th century. Referred to as **mercantilism**, its principal assertion was that it is in a country's best interest to maintain a trade surplus—to export more than it imports. Consistent with this belief, the mercantilist doctrine advocated government intervention to achieve a surplus in the balance of trade.

Teaching Tip: A historical perspective of mercantilism is available at www.hec.ulg.ac.be. Students can search within this site.

B) The flaw of mercantilism was that it viewed trade as a **zero-sum game**, one in which a gain by one country results in a loss by another. It was left to Adam Smith and David Ricardo to show the short-sightedness of this approach and to demonstrate that trade is a **positive-sum game**. As an economic philosophy, mercantilism is problematic and not valid. Yet many political views today have the goal of boosting exports while limiting imports by seeking only selective liberalisation of trade.

ABSOLUTE ADVANTAGE

A) In his 1776 landmark book *The Wealth of Nations*, Adam Smith attacked the mercantilist assumption that trade is a zero-sum game. Smith argued that countries differ in their ability to produce goods efficiently, and that a country has an **absolute advantage** in the production of a product when it is more efficient than any other country in producing it. According to Smith, countries should specialise in the production of goods for which they have an absolute advantage and then trade these goods for the goods produced by other countries. The text provides an example of Smith's theory from the perspective of the English who had an absolute advantage in the production of textiles, the French with an absolute advantage in the production of wine and Australia in producing high-grade iron ore.

B) When each country has an absolute advantage in one of the products, it is clear that trade is beneficial. But what if one country has an absolute advantage in both products?

COMPARATIVE ADVANTAGE

Ricardo's Theory

A) David Ricardo took Adam Smith's theory one step further by exploring what might happen when one country has an absolute advantage in the production of all goods. Smith's theory of absolute advantage suggests that such a country might derive no benefits from international trade. In his 1817 book Principles of Political Economy and Taxation, Ricardo showed that this was not the case. According to Ricardo's theory of comparative advantage, it makes sense for a country to specialise in the production of those goods that it produces most efficiently and to buy the goods that it produces less efficiently from other countries, even if this means buying goods from other countries that it could produce more efficiently itself. The textbook provides a detailed example to explain the rationale of this theory.

The Gains from Trade

The first explanation is from the gains from trade which shows comparative advantage and the gains from trade in an example in Table 2.1. This simple example of comparative advantage presented in the text makes a number of assumptions: only two countries and two goods; zero transportation costs; similar prices and values; resources are mobile between goods within countries, but not across countries; constant returns to scale; fixed stocks of resources; and no effects on income distribution within countries. While these are all unrealistic, the general proposition that countries will produce and export those goods that they are the most efficient at producing has been shown to be quite valid.

Qualifications and Assumptions

For more details on these issues, see the assumptions listed from 1–7 in the text.

Extensions of the Ricardian Model

Extensions to Ricardo's model is explored by relaxing three of the assumptions identified earlier in the simple comparative advantage model. These are: that resources move freely from the production of one good to another within a country; that there are constant returns to scale; and that trade does not change a country's stock of resources or the efficiency with which those resources are utilised.

Immobile Resources
In the simple comparative advantage model of Ghana and South Korea in the text, an issue discussed argues that, while resources may be easily converted for the production of, say, cocoa to rice and vice-versa and this may hold true for these agricultural products, in many other instances this assumption about resources does not always hold true from producing one good to another so easily.

Diminishing Returns
The simple comparative advantage model developed earlier also assumes 'constant returns to specialisation'. By this we mean that the units of resources required to produce a good (cocoa or rice) are assumed to remain constant no matter where one is on a country's production possibility frontier. Thus, we assumed that it always took Ghana 10 units of resources to produce one tonne of cocoa. However, it is more realistic to assume diminishing returns to specialisation. The reasons why it is more realistic to assume diminishing returns is firstly, because all resources are not of the same quality and secondly, different goods use resources in different proportions.

Dynamic Effects and Economic Growth
The simple comparative advantage model assumes that trade does not change a country's stock of resources or the efficiency with which it utilises those resources. This static assumption makes no allowances for the dynamic changes that might result from trade. If we relax this assumption, it becomes apparent that opening an economy to trade is likely to generate dynamic gains of sorts. Firstly, free trade might increase a country's stock of resources, as increased supplies of labour and capital from abroad become available for use within the country. Secondly, free trade might also increase the efficiency with which a country uses its resources.

<u>The Samuelson Critique</u>

Samuelson's critique looks at what happens when a rich country such as Australia enters into a free trade agreement with a developing country such as China, which rapidly improves its productivity after the introduction of a free trade regime (that is, there is a dynamic gain in the efficiency with which resources are used in the poorer country). Essentially, the Samuelson's model suggests that, in such cases, the lower prices that Australian consumers pay for goods imported from China following the introduction of a free trade regime may not be enough to produce a net gain for the Australian economy if the dynamic effect of free trade is to lower real wage rates in Australia. Of note in particular is the ability to move offshore service jobs that traditionally were not internationally mobile. Expanding the labour market for these jobs is to include educated people in places such as India, the Philippines and China. The effect, however, on middle-class wages in developed countries such as the United States and Australia may be similar to mass inward migration into those countries: it will lower the market clearing wage rate, perhaps by enough to outweigh the positive benefits of international trade.

<u>Evidence for the Link between Trade and Growth</u>

Many economic studies have looked at the relationship between trade and economic growth. In general, these studies suggest that, as predicted by the standard theory of comparative advantage, countries that adopt a more open stance towards international trade enjoy higher growth rates than those that close their economies to trade. (The chapter Opening Case provides evidence of the link between trade and growth.)

Heckscher-Ohlin Theory

B) Heckscher and Ohlin argued that comparative advantage arises from differences in national **factor endowments**. As a result, the Heckscher-Ohlin theory predicts that countries will export goods that make intensive use of those factors that are locally abundant, while importing goods that make intensive use of factors that are locally scarce.

Teaching Tip: A more complete description of the Heckscher-Ohlin theory is available at www.newschool.edu/scepa/links.htm.

The Leontief Paradox

C) Using the Heckscher-Ohlin theory, Leontief postulated in 1953 that since the US was relatively abundant in capital compared to other nations, the US would be an exporter of capital-intensive goods and an importer of labour-intensive goods. To his surprise, however, he found that US exports were less capital intensive than US imports. Since this result was at variance with the predictions of the theory, it has become known as the Leontief paradox.

Teaching Tip: A more extensive description of the Leontief paradox is available at www.newschool.edu/scepa/links.htm.

Management Focus: Hollowing out the Manufacturing-based Economy

The thrust of this highlight is an argument about what free trade has done and continues to do particularly over the past quarter century, and that is to see the movement of low-skill, blue-collar manufacturing jobs out of rich developed countries (such as Australia and New Zealand) towards low-wage countries—for example, textiles and shoes to China, information technology to India, and so on. Examples include Pacific Brands to Asia (the owner of brands such as Bonds, King Gee and Holeproof) and Australian boot-maker Blundstone shifting its manufacturing overseas, with the loss of 350 jobs in Tasmania and New Zealand, when it was unable to compete with cheaper imports because of the relatively high wages in Australia and New Zealand.

While many observers fear the ‘hollowing out’ of Australian and New Zealand manufacturing, economists argue high-skilled and high-wage, white-collar jobs associated with the service and knowledge-based economy will stay in Australia. Companies that outsource or relocate skilled jobs clearly benefit from lower costs, enhanced competitiveness in the global economy and greater profits. Developing nations such as India and the Philippines, which have a good supply of well-educated, skilled and (by global standards) low-cost labour, also benefit. Whether the developed nations will suffer under these arrangements is argued by many economists to be not the case. They support this contention with three arguments:

1. Routine jobs, not specialised jobs, will be outsourced, giving Australia a comparative advantage in these areas.
2. The lower price of services that results from such outsourcing means that the average Australian or New Zealand consumer can afford to consume more of these services, or can use any savings to consume more of other goods and services, thereby boosting economic wellbeing.
3. Economists believe that any economic growth that occurs in China, India, the Philippines and like countries as a result of this trend will ultimately benefit Australia, since consumers in those countries will be able to purchase more Australian goods and services.

Teaching Tip: An overview of the ideas and philosophies of David Ricardo, from which his theory of comparative advantage emerged, is available at www.econlib.org. Students may also consult www.newschool.edu/scepa/links.htm for information on numerous philosophers.

THE PRODUCT LIFE-CYCLE THEORY

A) Raymond Vernon initially proposed the product life-cycle theory in the mid-1960s. According to the theory, as products mature both the location of sales and the optimal production location will change, affecting the flow and direction of trade.

B) Early in the life cycle of a typical new product, while demand is starting to grow in the US, demand in other advanced countries is limited to high-income groups. The limited initial demand in other advanced countries does not make it worthwhile for firms in those countries to start producing the new product, but it does necessitate some exports from the US to those countries. Over time, however, demand for the new product starts to grow in other advanced countries. As it does, it becomes worthwhile for foreign producers to begin producing for their home markets. In addition, US firms might set up production facilities in those advanced countries where demand is growing. Consequently, production within other advanced countries begins to limit the potential for exports from the US.

C) As the market in the US and other advanced nations matures, the product becomes more standardised, and price becomes the main competitive weapon. One result is that producers based in advanced countries where labour costs are lower than the US might now be able to export to the US.

D) If cost pressures become intense, the process might not stop there. The cycle by which the US lost its advantage to other advanced countries might be repeated once more as developing countries begin to acquire a production advantage over advanced countries.

E) The consequences of these trends for the pattern of world trade is that the US switches from being an exporter of the product to an importer of the product as production becomes more concentrated in lower-cost foreign locations.

Evaluating the Product Life-Cycle Theory

F) While the product life-cycle theory accurately explains what has happened for products like photocopiers and a number of other high-technology products developed in the US in the 1960s and 1970s, the increasing globalisation and integration of the world economy has made this theory less valid in today's world.

NEW TRADE THEORY

A) New trade theory suggests that because of **economies of scale** (unit cost reductions associated with a large scale of output) and increasing returns to specialisation, in some industries there are likely to be only a few profitable firms. Thus firms with first-mover advantages (economic and strategic advantages that accrue to early entrants into an industry) will develop economies of scale and create barriers to entry for other firms.

Increasing Product Variety and Reducing Costs

B) According to new trade theory, a nation may be able to specialise in producing a narrower range of products than it would in the absence of trade, yet by buying goods that it does not make from other countries, each nation can simultaneously increase the variety of goods available to its consumers and lower the costs of those goods.

Economies of Scale, First-Mover Advantages and the Pattern of Trade

C) A second theme in new trade theory is that the pattern of trade we observe in the world economy may be the result of **first-mover advantages** (economic and strategic advantages that accrue to early entrants into an industry) and economies of scale.

Implications of New Trade Theory

D) New trade theory suggests that nations may benefit from trade even when they do not differ in resource endowments or technology. The theory also suggests that a country may predominate in the export of a good simply because it was lucky enough to have one or more firms among the first to produce that good.

E) New trade theory is at variance with the Heckscher-Ohlin theory, which suggests that a country will predominate in the export of a product when it is particularly well endowed with those factors used intensively in its manufacture. New trade theory does not contradict the theory of comparative advantage, but instead identifies a source of comparative advantage.

F) An obvious and controversial extension of new trade theory is the implication that governments should consider strategic trade policies. Strategic trade policies would suggest that governments should nurture and protect firms and industries where first-mover advantages and economies of scale are likely to be important, as doing so can make it more likely that a firm will build economies of scale and eventually end up a winner in the global competitive race.

NATIONAL COMPETITIVE ADVANTAGE: PORTER'S DIAMOND

A) Porter's 1990 study tried to explain why a nation achieves international success in a particular industry. This study found four broad attributes that promote or impede the creation of competitive advantage. These are shown in Figure 2.5.

Factor Endowments

B) A nation's position in factors of production, such as skilled labour or infrastructure necessary to compete in a given industry, can be critical. These factors can be either basic (natural resources, climate, location) or advanced (skilled labour, infrastructure, technological know-how). While either can be important, advanced factors are more likely to lead to competitive advantage.

Demand Conditions

C) The nature of home demand for the industry's product or service influences the development of capabilities. Sophisticated and demanding customers pressure firms to be competitive.

Relating and Supporting Industries

D) The presence in a nation of supplier industries and related industries that are internationally competitive can spill over and contribute to other industries. Successful industries tend to be grouped in clusters in countries—having world-class manufacturers of semiconductor processing equipment can lead to (and be a result of having) a competitive semiconductor industry.

Firm Strategy, Structure and Rivalry

E) The conditions in the nation governing how companies are created, organised and managed, and the nature of domestic rivalry impacts firms' competitiveness. Firms that face strong domestic competition will be better able to face competitors from other firms.

Evaluating Porter's Theory

F) In addition to these four main attributes, government policies and chance can impact any of the four. Government policy can affect demand through product standards, influence rivalry through regulation and antitrust laws, and impact the availability of highly educated workers and advanced transportation infrastructure.

G) The four attributes of the diamond, government policy and chance work as a reinforcing system, complementing each other and in combination create the conditions appropriate for competitive advantage. The Country Focus on Nokia provides a good example of how this Finnish firm built its competitive advantage as a result of factors in Porter's diamond.

Country Focus: The Rise of Finland's Nokia

Summary

This feature is about the growth of the mobile telephone equipment industry, and more specifically, about the rise in competitiveness of Nokia, a Finnish mobile telephone company. The feature explains the reasons that Nokia was particularly well positioned to take advantage of the growth of the global mobile telephone industry.

Suggested Discussion Questions

1. Using the new trade theory and Porter's theory of national competitive advantage, describe why Nokia emerged as a leading competitor in the global mobile telephone equipment industry.

Discussion Points: New trade theory suggests that a country may be the dominant exporter of a particular product simply because it was lucky enough to be a first-mover firm for the product. The theory would suggest that Nokia was able to benefit from its innovations that helped it gain first-mover advantages, but also that it was simply lucky enough to be in the right place at the right time. Porter argues that a nation's competitive advantage is dependent on its factor endowments, demand conditions, related and supporting industries, and firm strategy, structure and rivalry. Students will probably recognise that Finland's limited traditional telephone service (see Question 2 below) meant that demand was strong. At the same time, the company was able to benefit from the fact that the country does not have a national telephone monopoly. Instead, about 50 companies all battle for market share. For Nokia, that meant a focus on bringing costs down, while remaining on the leading edge of technology.

2. Explain why the mobile telephone industry caught on in Finland and the other Scandinavian countries faster than the rest of the world.

Discussion Points: Geography appears to be the key reason why mobile telephone service appears to have caught on in Scandinavian countries more quickly than in other parts of the world. With its cold climate and sparse population, Scandinavia found traditional wire-line service costly and embraced the cheaper alternative of mobile service. Students will probably recognise that this situation combined with the need for communication services meant that countries like Finland had a greater incentive to develop the industry—which of course helped Nokia become a leading player in the industry.

3. Why didn't the development of the mobile telephone equipment industry take place in Mexico or another Central or South American country rather than Finland, Sweden and the US? Base your answer of the international trade theories described in this chapter.

Discussion Points: Students will probably recognise that the conditions in Scandinavia set the stage for the development of mobile telephone service. Not only were Scandinavians open and able to try new products, they also needed communications services. Governments like Finland's also saw the benefits of developing the industry as a cheaper alternative to traditional services.

Teaching Tip: For more information on the company, go to Nokia's homepage at www.nokia.com.

FOREIGN DIRECT INVESTMENT IN THE WORLD ECONOMY

In this section of the text, several theories of FDIs are discussed. These theories attempt to explain the observed pattern of FDI flows.

Why Foreign Direct Investment?

A) Why do so many firms apparently prefer FDI to either **exporting** (producing goods at home and then shipping them to the receiving country for sale) or **licensing** (granting a foreign entity the right to produce and sell the firm's product in return for a royalty fee on every unit that the foreign entity sells)? The answer lies in the limitations of these methods for exploiting foreign market opportunities by producing goods at home and then shipping them to the receiving country for sale.

Internalisation Theory

The branch of economic theory known as internalisation theory seeks to explain why firms often prefer foreign direct investment over licensing as a strategy for entering foreign markets. According to internalisation theory, when market imperfections are making transactions less efficient, a company may undertake FDI. These market imperfections include trade barriers and the protection of specialised knowledge.

Limitations of Exporting
The viability of an exporting strategy is often constrained by transportation costs and trade barriers. When transportation costs are added to production costs, it becomes unprofitable to ship some products over a large distance. This is particularly true of products that have a low value-to-weight ratio and can be produced in almost any location. For exporting and licensing in terms of overcoming market imperfections, see examples for cement products, electronic components, personal computers, medical equipment, computer software and soft drinks in the text.

Limitations of Licensing
According to internalisation theory, licensing has three major drawbacks as a strategy for exploiting foreign market opportunities. Firstly, licensing may result in a firm giving away valuable technological know-how to a potential foreign competitor. A second problem is that licensing does not give a firm the tight control over manufacturing, marketing and strategy in a foreign country that may be required to maximise its profitability. A third problem with licensing arises when the firm's competitive advantage is based not so much on its products, as on the management, marketing and manufacturing capabilities that produce those products. The problem here is that such capabilities are often not amenable to licensing.

Advantages of Foreign Direct Investment

It follows that a firm will favour FDI over exporting as an entry strategy when transportation costs or trade barriers make exporting unattractive. Furthermore, the firm will favour FDI over licensing (or franchising) when it wishes to maintain control over its technological know-how or over its operations and business strategy, or when the firm's capabilities are simply not amenable to licensing, as may often be the case.

The Pattern of Foreign Direct Investment

B) One theory used to explain FDI patterns is based on the idea that FDI flows are a reflection of strategic rivalry between firms in the global marketplace.

Strategic Behaviour

A variant of this argument has been found in oligopolistic firms (where there is a limited number of large firms), and when there is multipoint competition (a situation when two or more enterprises encounter each other in different regional markets, national markets and industries).

The Eclectic Paradigm

C) The **eclectic paradigm** has been championed by the British economist John Dunning. Dunning argues that in addition to the various factors discussed above, **location-specific advantages** (that arise from using resource endowments or assets that are tied to a particular location and that a firm finds valuable to combine with its own unique assets) and **externalities** (knowledge 'spillovers' that occur when companies in the same industry locate in the same area) are also of considerable importance in explaining both the rationale for and the direction of FDI.

THE STAGE MODELS OF INTERNATIONALISATION: AN INCREMENTAL SEQUENTIAL APPROACH

A) In the previous sections, theories attempting to explain foreign direct investment were discussed. Over the last four decades, a number of models have emerged to try to explain how firms move from supplying domestic markets to overseas ones. Overall, the 'stage models' are some of the most widely reported models in the internationalisation field, although a single unifying model is yet to emerge. With no single acceptable stage model of export behaviour discovered as yet, two schools of thought have emerged in the literature to explain the internationalisation process. Otto Andersen categorised them as the 'Uppsala internationalisation models (U-Models)' and the 'Innovation-related internationalisation models (I-Models)'.

The Uppsala Models (U-Models)

The U-Models were pioneered by researchers in Sweden. Johanson and Wiedersheim-Paul, supported by evidence from a case study of four Swedish manufacturing firms, identified four different stages of entering an international market, where each successive stage represents a greater degree of internationalisation:

- *Stage 1:* No regular export activity.
- *Stage 2:* Export via independent representatives (agents).
- *Stage 3:* Establishment of an overseas sales subsidiary.
- *Stage 4:* Overseas production/manufacturing units.

The framework was further developed by Johanson and Vahlne. To explain the incremental nature of internationalisation, they formulated a dynamic model in which the outcome of one cycle is the input to the next cycle. The main structure is given by the distinction between the *state* and *change* aspects of internationalisation (see Figure 2.6). In this model it is assumed that market commitment affects not only commitment decisions but also the way the current activities are performed. These lead to changes in knowledge and commitment. The underlying assumption in this model is that the firm tries to increase its long-term profit along with growth, and that these objectives shape the decision making of the firm.

According to Sullivan and Bauerschmidt, 'the internationalization of the firm is an incremental process owing to the progressive reduction of psychic distance through managers' gradual accumulation of knowledge of foreign markets'. Figure 2.6 provides a comparison of the theoretical and operational levels of this model. As can be seen, the relationship between the concepts of the theoretical model and linkages between the theoretical and the operational level tend to be quite vague, making it difficult to test the model. The tests that have been carried out have produced mixed results. Researchers such as Kwon and Hu gave support for the evolutionary path, but Millington and Bayliss did not. There have been other criticisms of the model, such as its inability to explain the tendency for the firms to be 'born-global'.

Overall, the U-Model researchers have made a significant contribution towards the understanding of the internationalisation process and have influenced much of the subsequent empirical research conducted around the world. They have highlighted the importance of knowledge in export market development. In their revised model, Johanson and Vahlne also recognised the importance of networks.

The Innovation Models (I-Models)

The body of research referred to as I-Models encompasses a number of studies. Innovation-related models differ from the U-Models in that they view exporting as an innovation for the firm. Researchers relied on the application of Rogers' theory of innovation diffusion to explain the export behaviour of firms. This theory is widely accepted in other fields of study such as consumer behaviour. The basic premise common to these models is that the internationalisation process is a series of innovations for the firm. The focus of these models is primarily on the export development process of SMEs.

INTERNATIONAL NEW VENTURES/BORN GLOBAL FIRMS

A) Various terms have been used to describe firms that internationalise rapidly, including global start-ups, international new ventures and born globals. In general, a born global is a firm that internationalises rapidly, within a few years of inception. The growth in the number of these firms can be attributed to three dominant factors: the globalisation of the international marketplace; improvements in communication, production and transportation technologies; and managerial experience and international orientation/knowledge.

FOCUS ON MANAGERIAL IMPLICATIONS

There are five main implications of the material discussed in this chapter for international businesses. They are 1) acceleration of internationalisation, 2) the theory of FDI, 3) location, 4) first-mover advantages and 5) policy.

Acceleration of Internationalisation

Evidence points to the fact that many managers who start up born global firms or international new ventures already have a good knowledge of international markets based on experience gained elsewhere and from the beginning of the new firm are interested in international markets. Firms operating in small domestic markets such as Australia and New Zealand need to explore international markets if they are to expand. Improved communication, wider use of the internet, reduction in transportation costs and trade barriers and short product life cycles all contribute to acceleration of the internationalisation process for SMEs.

The Theory of FDI

The implications of the theories of FDI for business practice are straightforward. First, the location-specific advantages argument associated with John Dunning helps explain the direction of FDI. However, the location-specific advantages argument does not explain why firms prefer FDI to licensing or exporting. In this regard, from both an explanatory and a business perspective, perhaps the most useful theories are those that focus on the limitations of exporting and licensing.

Location

One way in which the material discussed in this chapter matters to an international business concerns the link between the theories of international trade and a firm's decision about where to locate its various productive activities. Underlying most of the theories is the notion that different countries have particular advantages in different productive activities. Thus, from a profit perspective, it makes sense for a firm to disperse its various productive activities to those countries where, according to the theory of international trade, they can be performed most efficiently. Being a first mover can have important competitive implications, especially if there are economies of scale and the global industry will only support a few competitors. Firms need to be prepared to undertake huge investments and suffer losses for several years in order to reap the eventual rewards.

First-Mover Advantages

Being a first mover can have important competitive implications, especially if there are economies of scale and the global industry will only support a few competitors. Firms need to be prepared to undertake huge investments and suffer losses for several years in order to reap the eventual rewards.

Policy

The theories of international trade also matter to international businesses because business firms are major players on the international trade scene. Because of their pivotal role in international trade, business firms can and do exert a strong influence on government trade policy. Government policies with respect to free trade or protecting domestic industries can significantly impact global competitiveness. One of the most important implications for businesses is that they should work to encourage governmental policies that support free trade. If a business is able to get its goods from the best sources worldwide, and compete in the sale of products into the most competitive markets, it has a good chance to survive and prosper. If such openness is restricted, a business's long-term survival will be in greater question.

Key Terms

absolute advantage p. 78
born global p. 105
clusters p. 102
comparative advantage p. 79
eclectic paradigm p. 98
economies of scale p. 90
exporting p. 98
externalities p. 102
first-mover advantages p. 91
free trade p. 76
internalisation advantages p. 101
internalisation theory p. 99
licensing p. 98
location-specific advantages p. 102
mercantilism p. 77
multipoint competition p. 101
oligopoly p. 101
ownership advantages p. 101
positive-sum game p. 78
production possibility frontier (PPF) p. 79
psychic distance p. 104
zero-sum game p. 78

Summary

This chapter introduces theories of trade, investment and internationalisation. The chapter begins with an introduction to several theories that help explain the patterns of international trade that are observed in practice. The discussion begins with an explanation of the theory of mercantilism and then proceeds to discuss the theories of absolute advantage and comparative advantage. Four additional theories are discussed: the Heckscher-Ohlin theory, the product life-cycle theory, the new trade theory and the theory of national competitive advantage. Each of these theories helps explain why certain goods are (or should be) made in certain countries. The section ends by discussing the link between the theories of international trade and 1) a firm's decision about where (in the world) to locate its various productive activities, 2) the importance of establishing first-mover advantages and 3) government trade policies.

The next section deals with foreign direct investment (FDI). The theoretical underpinnings of FDI are discussed, which describe under what circumstances it is advantageous for a firm to invest in production facilities in a foreign country. In the final section of the chapter, theories attempting to explain the internationalisation of small- to medium-sized enterprises (SMEs) are discussed through 'stage' theories, including the newer developments regarding international new venture/'born global' firms. The chapter concludes with a discussion of implications for business in relation to FDI.

International Business Graduate Attributes (IBGA): Learning and Assessment Tasks

IBGA1: Discipline Knowledge and Skills

1. 'Japan is a neo-mercantilist nation. It protects industries where it has no competitive advantage in the world economy, such as domestic agriculture, while demanding that other countries open up those markets where Japanese producers have a competitive advantage, such as automobiles'. Discuss this statement.

Answer Guide: A country following a neo-mercantilist philosophy typically equates political power with economic power and economic power with a balance-of-trade surplus. Accordingly, the strategy of nations following this policy is to simultaneously boost exports and limit imports. Most students will probably recognise that while Japan may be considered guilty of pursuing a neo-mercantilist strategy, elements of neo-mercantilism can also be found in the trading practices of countries like the US. Virtually every country supports some protectionist measures for some industries.

2. Unions in developed nations often oppose imports from low-wage countries such as Bangladesh and advocate trade barriers to protect jobs from what they often characterise as 'unfair' import competition. Is such competition 'unfair'? Do you think that this argument is in the best interests of: (a) the unions' (b) the people they represent; and/or (c) the country as a whole?

Answer Guide: The theory of comparative advantage suggests that a country should specialise in producing those goods that it can produce most efficiently, while buying goods that it can produce relatively less efficiently from other countries. Furthermore, the theory suggests that opening a country to free trade stimulates economic growth, which creates dynamic gains from trade. Therefore, it would follow that if low-wage countries can make certain products more efficiently than high-wage countries, the low-wage countries should produce and export those products. While trade barriers may protect workers and companies, they are a short-term fix at best. Moreover, by protecting industries, the government is not encouraging companies to become more efficient. Instead, they are promoting inefficiency. Consumers lose out because they have higher prices and less choice.

3. Drawing upon the new trade theory and Porter's theory of national competitive advantage, outline the case for government policies that would build national competitive advantage in a particular industry. What kinds of policies would you recommend that the government adopt?

Are these policies at variance with the basic free trade philosophy?

Answer Guide: Porter's theory of national competitive advantage argues that four broad attributes of a nation shape the environment in which local firms compete, and that these attributes promote or impede the creation of competitive advantage. These attributes are: factor endowments; demand conditions; related and supporting industries; and firm strategy, structure and rivalry. Porter goes on to argue that firms are most likely to succeed in industries in which the diamond (which are the four attributes collectively) is favourable. Porter adds two factors to the list of attributes described above: chance and government policy. The new trade theory addresses a separate issue, arguing that due to the presence of substantial scale economies, world demand will support only a few firms in many industries. Underpinning this argument is the notion of first-mover advantages, which are the economic and strategic advantages that accrue to early entrants into an industry. One could argue that when the attributes of a nation are conductive to the production of a product, and when the manufacturers of that product have experienced some 'chance' events that have provided them first-mover advantages, the governmental policies of that nation should promote the building of national competitive advantage in that particular area. This could be accomplished through government research and development (R&D) grants, policies that favour the industry in capital markets, policies towards education, the creation of a favourable regulatory atmosphere, tax abatements, and the like. Ask your students whether they think this policy is at variance with the basic free trade philosophy. One could argue that it is, because the government intervention is creating the basis for comparative advantage. Conversely, one could argue that if a country establishes a comparative advantage in a particular area that is based on a unique set of attributes (such as Swiss production of watches), world output will be favourably impacted by letting that country pursue its area of comparative advantage.

IBGA3: Problem Solving

4. One of the most significant factor endowments is education, with important measures being literacy rate and the literacy rate gap between the genders. Which of the following countries do you think has the highest literacy rate and which country has the largest literacy gap between males and females? (a) Iraq, (b) Rwanda, (c) Chile, (d) India.

Answer Guide: Over two-thirds of the world's 793 million illiterate adults are found in only eight countries (Bangladesh, China, Egypt, Ethiopia, India, Indonesia, Nigeria and Pakistan). Of all the illiterate adults in the world, two-thirds are women; extremely low literacy rates are concentrated in three regions (South and West Asia and Sub-Saharan Africa), where around one-third of the men and half of all women are illiterate.

Country	Literacy Rate (all)	Male Literacy	Female Literacy	Criteria
Iraq	78.2%	86%	81%	Age 15 and over can read and write (2010 est.)
Rwanda	99.6%	99.7%	99.5%	Age 15 and over can read and write (2010 est.)
Chile	95.7%	95.8%	95.6%	Age 15 and over can read and write (2002 census)
India	74.04%	82.14%	65.46%	Age 15 and over can read and write (2011 census)

Source:

1. www.unicef.org/infobycountry/Iraq_statistics.html
2. CIA World Book

IBGA4: Ethical Decision Making

5. 'The world's poorest countries are at a competitive disadvantage in every sector of their economies. They have little to export. They have no capital; their land is of poor quality; they often have too many people, given the available work opportunities; and they are poorly educated. Free trade cannot possibly be in the interests of such nations!' Discuss.

Answer Guide: This is a difficult question. Certainly, most students will recognise that these countries are in dire straits and need assistance from richer countries. Most students will probably be sympathetic to their cause and suggest various aid programs including education and monetary support to help the countries develop. However, others may be more cautious and promote the notion that assistance would have to come in an organised form with multiple nations working together. The question is an interesting one that should provide students with an eye-opening experience. The following is a more specific example and addresses the principles of free trade and fair trade.

Free Trade
Free trade refers to a situation where a government does not attempt to influence, through quotas or duties, what its citizens can buy from another country or what they can produce and sell to another country. This concept was supported by Adam Smith, who argued that the 'invisible hand' of the market mechanism, rather than government policy, should determine what a country imports and what it exports. The concept of mercantilism is not compatible with the concept of free trade. The main tenet of mercantilism is that it is in a country's best interests to maintain a trade surplus by exporting more than it imports. Consistent with this belief, the mercantilist doctrine advocated government intervention to achieve a surplus in the balance of trade.

Fair Trade
One of the best examples of where fair trade within a free trade environment is one practiced by the Starbucks company. In 2000, the company introduced a line of fair trade products.[1] Of the approximately 136 000 metric tonnes (300 million pounds) of coffee Starbucks purchased in 2006, only about 6% was certified as fair trade.[2]

Starbucks Coffee Beans
According to Starbucks, they purchased 2180 metric tonnes (4.8 million pounds) of Certified Fair Trade coffee in fiscal year 2004 and 5220 metric tonnes (11.5 million pounds) in 2005. They have become the largest buyer of Certified Fair Trade coffee in North America (10% of the global market). Transfair USA,[3] a third-party certifier of Fair Trade Certified coffee in the United States, has noted the impact Starbucks has made in the area of Fair Trade and coffee farmers' lives. For example, low-cost loans to farmers in Mexico has enabled those farmers to harvest and manufacture their coffee beans with confidence. Short-term (1–2 years) loans from Starbucks is coordinated through an intermediary banking organisation, obviating any need for Starbucks to be involved in the finance agreements directly. Starbucks has not bought into the farmers businesses with any ownership rights, nor do they view the loans to farmers as charity. It is a business relationship with intent to secure supply of high-quality coffee at reasonable cost for the foreseeable future.[4]

Since launching its FTC coffee line in 2000, Starbucks has undeniably made a significant contribution to family farmers through their rapidly growing FTC coffee volume.[4] By offering FTC coffee in thousands of stores, Starbucks has also given the FTC label greater visibility, helping to raise consumer awareness in the process.[4] All espresso roast sold in the UK and Ireland is Fair trade.[5] Groups such as Global Exchange are calling for Starbucks to further increase its sales of fair trade coffees.[6] Beyond Fair Trade Certification, Starbucks argues that it pays above market prices for all of its coffee.[4] According to the company, in 2004 it paid on average $1.42 per pound ($2.64 kg) for high-quality coffee beans, 74% above the commodity prices at the time.[7]

Source:

1. Fefer, Mark D. 'In the wake of WTO, "fair trade" gets a boost in Seattle'. http://web.archive.org/web/20060414062317/http:/www.seattleweekly.com/news/0048/news-fefer2.php. Seattleweekly.com. Retrieved 3 July 2006.
2. Laidlaw, Stuart (1 September 2007). 'The fine print of ethical shopping'. *The Star: Living* (Toronto). Retrieved 1 April 2010. 'About 6 per cent of Starbucks' coffee (about 18 million pounds) was certified as fair trade in 2006. The company buys almost 300 million pounds of coffee a year'.
3. www.transfairusa.org. Retrieved 3 July 2006.
4. QUT instructor's International Business video.
5. 'When you care about what you do, it shows'. Starbuckscoffee.co.uk. Retrieved 24 October 2010.
6. James, Deborah. 'Justice and Java: Coffee in a Fair Trade Market'. Global Exchange. www.globalexchange.org/fairtrade/coffee/starbucks. Retrieved 19 October 2012.
7. 'Premium Prices and Transparency'. http://web.archive.org/web/20070602102402/http:/www.starbucks.com/aboutus/bizofcoffee.asp. Archived on 2 June 2007.

IBGA5: Communication

6. You are the international manager of an Australian or New Zealand business that has just developed a revolutionary new personal computer that can perform the same functions as PCs but costs only half as much to manufacture. Your CEO has asked you to formulate a recommendation for how to expand into the European Union market. Your options are: (a) to export from your home market; (b) to license a European firm to manufacture and market the computer in Europe; and (c) to set up a wholly owned subsidiary in Europe. Evaluate the pros and cons of each alternative and write a brief report suggesting a course of action to your CEO.

Answer Guide: If there were no significant barriers to exporting, then option (b) would seem unnecessarily risky and expensive. The transportation costs required to ship a computer can be assumed to be small relative to the value of the product. The Australian firm loses tight control over manufacturing, marketing and strategy that is required to realising experience curve and location economies. Loss of technological know-how to foreign companies would need to be assessed as worthwhile. One reason to consider option (b) would be if an existing firm could also give it much better access to the market.

Both options (a) and (c) would expose the firm to less risk of technological loss, and would allow the firm to maintain much tighter control over the quality and costs of the computer manufacturing.
The choice between (a) and (c) can be reduced to a question of which way will be the most effective in entering and securing the market. If a foreign sales agent can be found that is already quite familiar with the market and who will agree to aggressively market the product, the agent may be able to increase market share more quickly than a wholly owned marketing subsidiary that will take some time to get going. On the other hand, in the long run the firm will learn a great deal more about the market and will likely earn greater profits if sets up its own sales force.

7. The UNCTAD *World Investment Report and World Investment Directory* provide quick electronic access to comprehensive statistics on foreign direct investment and the operations of transnational corporations. Compile a list of the largest transnational corporations in terms of their FDI and identify their home country (that is, headquarters country). Then provide a 15-minute commentary about the characteristics of countries that have the greatest number of transnational firms.

Answer Guide: Go to http://unctad.org and search under 'transnational corporations' (TNC). TNCs are incorporated or unincorporated enterprises comprising parent enterprises and their subsidiaries. An equity capital stake of 10 per cent or more of the ordinary shares or voting power for an incorporated enterprise, or its equivalent for an unincorporated enterprise, is normally considered as a threshold for the control of assets. In some countries, an equity stake other than that of 10 per cent is still used. In Australia, for example, a stake of 20 per cent or above is regarded as sizeable. To compile a list of the largest transnational corporations, two sub sites could be explored, namely, 'The universe of the largest transnational corporations' and 'Trade and development report, 1981–2011: three decades of thinking development', both in PDF format files.

IBGA6: Social Interaction

8. Your company is considering opening a new factory in an Asian country, and management is evaluating the specific country locations for this direct investment. The pool of candidate countries has been narrowed to China, India and Thailand. Form a small group of four or five peers and prepare a short report comparing the FDI environment and location advantage of these three countries.

Answer Guide: The best way to undertake this exercise would be to analyse the respective countries in a framework approach to analysis. One such approach is the CAGE framework developed by Professor Pankaj Ghemawat of Harvard Business School. The CAGE framework encompasses both country-level and industry-level analysis. The CAGE acronym stands for cultural, administrative, geographic and economic. This framework highlights the differences in 'distance' between countries in terms of the above four components. Figure 9.1 in Chapter 9 summarises the key elements of this framework.

In Chapter 5, we discuss the complex nature of culture and the centrality of understanding cultural norms and beliefs in achieving international business success. In terms of the CAGE framework, *cultural distance* includes language, religion, social norms, content relevance and perception of time. Research has demonstrated that a common language can increase the potential for trade by 200 per cent. In undertaking a country market analysis, a practical measure of cultural distance could be the application of Hofstede's work-related values (see Table 5.1 in Chapter 5) or other similar frameworks.

Administrative determinants such as membership of a common trading bloc, colony/coloniser relationship (United Kingdom and Australia), common past coloniser between countries (Australia and New Zealand, with Britain as the common coloniser) and a common currency (euro zone) tend to significantly encourage trade. *Economic factors* such as market size and income levels also positively influence trade.

Geographic factors tend to be less important. As noted in Chapter 7, the long-run economic benefits of doing business in a country are a function of factors such as the size of the market (in terms of demographics), the present wealth (purchasing power) of consumers in that market, and the likely future wealth of consumers, which depends upon economic growth rates. Although some markets are very large when measured by number of consumers (for example, India and Indonesia), businesses must also consider living standards and economic growth. On this basis, India, whilst relatively poor, is growing so rapidly it is an attractive target for inward investment. In addition, applying the CAGE framework would tend to suggest that India is a more suitable country for Australian businesses to invest in than Indonesia, a country that is geographically close but culturally and administratively more distant. India and Australia had a common coloniser, Britain, and the primary language for conducting business in India is English, unlike in Indonesia. While the identification of country market attractiveness is a useful exercise, it is more meaningful to undertake the analysis at the industry level, as the selection of the country market will be influenced by industry factors. The CAGE framework has the flexibility to be applied at both the country and industry level.

In understanding this framework, students can now apply the four principles to China, India and

Thailand. Reproduced for quick overview is Figure 9.1from Chapter 9.

Figure 9.1 The CAGE framework for country-level analysis in international distance

Cultural Distance	Administrative Distance
• Language • Religion • Social norms • Relation with authority • Context relevance • Perception of time • Aesthetics and vanity	• Colonial ties • Local currency • Political stability • Laws and regulations • Institutions • Commercial and trade agreements • Duties, taxes and quotas

Geographical Distance	Economic Distance
• Country physical distance • Ports and airports • Access to oceans and rivers • Highways • Size of country • Transport • Weather • Neighbouring countries • Telecommunication	• Population • Income • Development • Education • Unemployment • Cost of labour • Life expectancy • Family size

Source: Adapted by Constanza Bianchi from P. Ghemawat (2001). 'Distance Still Matters. The Hard Reality of Global Expansion', *Harvard Business Review,* 79 (8), pp. 137-47.

IBGA1: Discipline Knowledge and Skills; IBGA2: Critical Analysis

9. CASE ANALYSIS Read again the OPENING CASE, 'Bangladesh's Textile Trade', and answer the following questions.

Summary

The opening case examines Bangladesh's competitive advantage in the production of textile products. Bangladesh, a very poor country, has been able to grow even during the most recent global recession thanks to its strong textile industry. Bangladesh, with its low wages, large investments in textile technology and strong network of supporting industries, is now one of the world's lowest-cost producers of textiles. The country has been able to capitalise on these advantages to increase its exports of textiles to $12.5 billion, up from $9.3 billion in 2007. A discussion of the opening case can revolve around the following questions as per the IBGA attributes.

a. How has Bangladesh benefited from free trade and globalisation?

Answer Guide: Bangladesh was able to benefit from free trade thanks to its comparative advantage in the production of textiles. The country is one of the lowest-cost producers of textile products in the world. This cost advantage has allowed Bangladesh to compete with other countries even during the recent recession.

b. What did the end of the quota system mean for the country?

Answer Guide: In 2005, many analysts predicted that Bangladesh would be hard hit by the end of a quota system on textiles that gave the country preferential access to large markets in the United States and Europe. However, Bangladesh not only survived the end of the system, it prospered. In 2008–9, big importers such as Wal-Mart increased their purchases of inexpensive garments from Bangladesh to better serve their customers, who were looking for low prices. Kmart in Australia is another example. Obviously, this benefits producers in Bangladesh, but it also benefits consumers in developed nations who can use money saved on garment purchases to buy other goods and services.

c. Using Porter's Diamond of Competitive Advantage, explain Bangladesh's competitive advantage in the production of textiles.

Answer Guide: Porter's Diamond of Competitive Advantage suggests that a country will have a competitive advantage when four conditions exist. First, the country needs to have the necessary factors of production to compete in the industry. Bangladesh has a large labour force willing to work at relatively low wage rates. Current wage rates in Bangladesh's textile industry are about $50 a month, barely half the minimum wage in China. Second, the country needs the right type of demand conditions. While most of Bangladesh's textiles are exported, the country does have strong demand from big importers for the products that help to support the industry. Third, a country needs a strong network of related and supporting industries. In Bangladesh, this network is very strong. Almost three-quarters of all inputs are actually made locally, which helps lower transportation and storage costs, import duties and lead times. The final component in Porter's Diamond relates to firm strategy, structure and rivalry. Western importers saw a need to diversify their supply sources, obviating the need for reliance and becoming too dependent upon China for imports of specific goods. It is all about supply chain management surety.

d. How important are Bangladesh's supporting industries to its textile trade?

Answer Guide: Many companies in the textile industry in Bangladesh have invested in technology to help boost productivity and increase competitiveness. Firms in the supporting industries are also able to take advantage of the country's relatively low wage rates. In addition, the local supporting industries help to boost the productivity of Bangladesh's garment manufacturers, giving them a cost and opportunity advantage that goes beyond low wage rates.

Teaching Tip: For more information on the growth of the textile industry in Bangladesh, go to www.globalpolicy.org/component/content/article/220-trade/47246.html.

Lecture Note: Students may benefit from exploring some of the latest issues against the backdrop of the Bangladesh situation. See www.globalpolicy.org/globalization/cases-of-globalization.html.

10. CASE ANALYSIS Read the CLOSING CASE, 'Logitech', and answer the questions that follow.

Summary

The Closing Case describes the global activities of Switzerland's Logitech, one of the world's largest producers of computer mice. Although its basic R&D work still takes place in Switzerland, the company is now headquartered in California and has operations in Taiwan and China. Discussion of the case can be based around the following questions.

a. Is Logitech an International New Venture/'born global' firm? Explain.

Answer Guide: A born global firm is a firm that initiates any international business activity rapidly and outside the traditional 'stage' theories. Researchers from around the world have identified (mostly) high-technology firms that have internationalised rapidly. These include Logitech, a producer of aids for personal computers based in Switzerland, and Cochlear, an Australian company producing implants for deaf persons. A study by AMC/McKinsey examined exports by manufacturers in the areas of emerging high value added and/or elaborately transformed manufacturers. The study found a trend for firms to be born globals. The study also found that successful exporters are generally firms where top management has a desire and commitment to export, that compete on value and also have a strong customer orientation.

b. Explain how trade lowers the costs of making Logitech computer peripherals such as mice and keyboards, and increases the diversity of products available to consumers.

Answer Guide: The theories of Smith, Ricardo and Heckscher-Ohlin show why it is beneficial for a country to engage in international trade even for products it is able to produce for itself. International trade allows a country to specialise in the manufacture and export of products that can be produced most efficiently in that country, while importing products that can be produced more efficiently in other countries.

c. Using the theories discussed in this chapter, 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?

Answer Guide: The theory of comparative advantage suggests that it makes sense for a country to specialise in producing those goods that it can produce most efficiently, while buying goods that it can produce relatively less efficiently from other countries—even if that means buying goods from other countries that it could produce more efficiently itself. Logitech has successfully located the various parts of its value-added chain around the world to take advantage of those attributes that are available in each of the locations in which it operates.

d. Why do you think the company decided to shift its corporate headquarters from Switzerland to Fremont, California?

Answer Guide: Switzerland is still important to Logitech. Indeed, the company undertakes basic R&D work there. However, in an effort to be closer to many of America's high-technology enterprises, Logitech moved its headquarters to Freemont, California. Freemont is now home to the company's global marketing, finance and logistics functions, and is also the location for some additional R&D work.

e. To what extent can Porter's diamond help explain the choice of Taiwan as a major manufacturing site for Logitech?

Answer Guide: According to Porter, four broad attributes of a nation shape the environment in which local firms compete, and these attributes promote or impede the creation of competitive advantage. The four attributes are factor endowments, demand conditions, related and supporting industries, and firm strategy, structure and rivalry. The first attribute, factor endowments, clearly helps explain the choice of Taiwan as a major manufacturing site for Logitech. Taiwan has a well-developed supply base for parts as well as qualified people. In addition, Taiwan's rapidly expanding local computer industry (related and supporting industries) also puts the country in a strong position to be a major manufacturing site for Logitech.

f. Why do you think China is now a favoured 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?

Answer Guide: Foreign companies now account for three-quarters of China's high-tech exports. Porter's diamond would suggest that like Taiwan, China has strong factor endowments and strong related and supporting industries. Together, these attributes make China an attractive location of high-tech manufacturing. China's increasing involvement in global trade should help the country by spurring its economic growth. This in turn should create more demand for imports which should be beneficial to the world's developed economies.

Continuous Country Analysis

The theoretical frameworks discussed in this chapter will provide guidance on the suitable internationalisation process to be adopted by companies based on their size, resource and managerial skills. For SMEs located in markets such as Australia, a stage approach to internationalisation may be appropriate if the firms have limited resources.

Teaching Tip: For information about countries and their approaches to international trade, visit www.dfat.gov.au/geo/.

Additional Readings and Sources of Information

Audiovisual Material
Born Global Product Concept—Femme Fatale
Austrade University Resources
www.austrade.gov.au/University-resources/default.aspx or www.youtube.com/AustradeEducation

IBM Develops Program for Call Centers
www.washingtonpost.com/wp-dyn/content/article/2006/11/07/AR2006110700619.html

Don't Be Afraid of Offshoring
www.businessweek.com/globalbiz/content/mar2006/gb20060322_649013.htm?chan=search

Can Free Trade Be Fair Trade?
www.globalpolicy.org/socecon/trade/2005/0228freetrade.htm

Nokia: Dialling North America
www.businessweek.com/technology/content/feb2006/tc20060207_097233.htm?chan=search

Nokia Realigns for the Future
www.businessweek.com/technology/content/feb2006/tc20060216_176562.htm?chan=search

The Other Side of Adam Smith
www.businessweek.com/bwdaily/dnflash/nov2002/nf20021115_2141.htm

Free Trade Can Be Too Free
www.businessweek.com/magazine/content/06_27/b3991076.htm?chan=search