International Business Strategy

Unit 1 International Management and Investment

Contents

Unit Overview

In this unit you will be presented with four of the fundamental questions about international business:

- What are international management and cross-cultural management?
- What is the importance of national culture within international business?
- Why do individuals and companies invest in other countries?
- What forms can the investment take?

Learning outcomes

When you have completed your study of this unit and its readings, you will be able to:

- examine the influence of culture on businesses trading globally
- analyse the principles underlying decisions to invest in countries other than the home base
- judge the relevance of foreign direct investment and portfolio investment.

Reading for Unit 1

Charles WL Hill and G Tomas M Hult (2019) Chapter 1 'Boeing's global production system'; Chapter 4 'Differences in culture'. In: *International Business: Competing in the Global Marketplace*. 12th Edition. New York: McGraw-Hill, pp. 9, 90–127.

Ariane Ollier-Malaterre and Annie Foucreault (2016) 'Cross-national work–life research: cultural and structural impacts for individuals and organizations'. *Journal of Management*, 43 (1), 111–36.

Hendrik Van den Berg (2003) Chapter 5 'International trade and economic growth'; Chapter 10 'The economics of international investment'. In: *International Economics*. New York: McGraw-Hill Higher Education.

Titas Awokuse and Thomas Reardon (2018) 'Agrifood foreign direct investment and waves of globalization of emerging markets: Lessons for U.S. Firms'. *Economic Review*, 103 (4), 75–96.

As the module progresses you will analyse more case studies; this unit is concerned with some fundamentals and the readings here will be generally restricted to accounts of the subject.

1.1 International Management and Cross-cultural Management

This section will explore the constructs of international management and cross-cultural management. The term globalisation will be explained, the events that have led to cross border trading and the factors managers need to consider when operating in an international marketplace.

1.1.1 International management

International trade has been in existence for many years. People have travelled and traded goods, services, ideas and skills across the globe – take for instance Marco Polo travelling to China. Within today's modern trading environment, it is generally assumed that it is possible to trade overseas. Some organisations are known as 'born global' companies when they are formed at the outset with the intention to trade internationally. The main purpose of the organisation is to distribute its resources to trade across borders, with its competence being based on exports. Other companies have been able to expand and trade within the international marketplace due to improvements in transport, technological developments and national economies attempting to merge into integrated global economic systems. As a result of this, international business needs managing, particularly as there has been increased influence from: declining trade and investment barriers, improved trade agreements, the growth of large multi-national corporations, increased migration and the need for greater cultural awareness in managing international business operations.

Trade has been affected in recent years as a result of events such as terrorism and the election around the globe of nationalistic politicians. The process in which all of these activities take place is known as ***globalisation***. This has created an increased interest in the management discipline of International Management.

Although you may not realise it, the influence of globalisation is everywhere. For example, how is the simple home computer made? The development of the product is complex and component parts are gathered from around the globe, for instance, steel could be acquired from China, copper from Chile, glass from Germany, micro-chips from Korea and lithium from Australia. According to the WTO (2017) over £17 trillion goods are sold every year, with the leading exporters and importers being the European Union, China and the United States.

Whilst international trade is welcomed by businesses, there is also resistance to global trading, largely from environmental groups and those protesting against Westernisation. Another concern of globalisation and the lowering of entry barriers relates to jobs and incomes. The global labour pool has increased and organisations are able to move production to countries where labour costs are lower, leaving other nations to lose out.

Globalisation can be split, according to Hill and Hult (2019) into two main areas, firstly, the globalisation of markets and secondly, the globalisation of production.

The *Globalisation of Markets* refers to the weakening of national boundaries and borders in relation to cross-border trade and investment, making it easier for businesses to sell internationally. Some brands have been accepted across the globe and whilst local tastes and regulations may differ to some degree, there are those products that are still well received around the globe, for example, Coca-Cola and Apple.

The *Globalisation of Production* refers to the global sourcing of goods and services in order to produce and manufacture at a cost and quality advantage. Caution is drawn to this practice as some companies can over globalise their production, as in the case of Boeing.

Reading 1.1

Please read the case study 'Boeing's global production system' on page 9 of Hill and Hult (2019) Chapter 1.

Think about the concept of globalisation of production and consider how Boeing used this to its advantage. What issues did Boeing encounter and what action did the company take to address these?

Hill & Hult (2019) Chapter 1 Case Study 'Boeing's global production system' in *International Business: Competing in the Global Marketplace.* p. 9.

Feedback

Boeing used the concept of globalisation of production and 50 outside suppliers for the following reasons:

- 80% of Boeing's customers were from foreign airlines and the company devised a strategy to give business to those nations would contribute to its long-term sustainability
- Boeing was able to acquire component parts from the 'best in the world'
- Boeing could unburden itself from risks associated with developing production facilities for the 787 and push the costs onto suppliers.

Boeing did, however, encounter a number of issues including:

- the company lost coordination of the globally dispersed production system
- some parts turned up late
- some parts did not fit together as expected
- some suppliers faced engineering problems which led to delays in production and the late delivery of the first jet by four years
- it lost the skill to produce and manufacture goods.

In order to address these issues Boeing took the following actions:

- it acquired some suppliers, for example, Vought Aircraft in North Carolina

- Boeing brought back wing production back in-house, in order to re-acquire the expertise of wing production and its core skill.

1.1.2 Managing in the global marketplace

If a company sells its products/services overseas or receives products/services from across international borders then it is engaging in international business, and this needs to be managed accordingly. Companies need to be aware of country-specific factors, such as, the culture of the country, political systems, economic systems and legal systems. In order to address differences between countries, managers need to approach each country individually and adjust management procedures in relation to particular country factors. This approach will help to develop international relationships with suppliers and buyers. Managers must adapt strategies to engage with the various stakeholders, so as to not inadvertently insult them culturally and risk damaging relations. Cultural differences and ways to accommodate these differences will be discussed in the next section.

A company trading within the global marketplace needs to be aware of a range of factors in order to be sustainable, such as: where to site production to minimise costs, whether to utilise low labour costs (but then be subjected to ethical scrutiny), whether the company has the skills and expertise to be able to manage its supplier chain globally, which foreign countries to enter and which entry strategy to adopt (these will be covered in Unit 2), whether there are any investment and trade regulations that could be challenging and, finally, the risks associated with cross-border transactions and currency.

Video 1.1

Watch the following clip from Scott Szwast: The global business next door and reflect on the key messages https://www.youtube.com/watch?v=xtT3zLWmCHg

Refer to the discussion forum on the VLE and share your thoughts with your peers.

1.2 Cross-cultural Management

Cross-cultural management can be defined as follows:

> 'Cross-cultural management, describes organisational behaviour within countries and cultures, compares organisational behaviour across cultures and countries: and seeks to understand and improve the interaction of co-workers, clients, suppliers and alliance partners from different countries and cultures.'
>
> Source: Adler (1991) pp. 10–11.

Cross-cultural literacy is an 'understanding of how cultural differences across and within nations can affect the way business is practiced'. (Hill & Hult, 2019: p. 92).

Cross-cultural management is based on theories from a range of disciplinary areas that include: psychology; international business; organisational behaviour; and social anthropology. Cross-cultural management assists companies in determining how national cultures affect management practices and identify the similarities and differences across cultures in various management practices and organisational contexts, similar to the definition provided by Hill and Hult.

There are many perspectives on what culture is. Dahl (1998: p. 29) explains that 'culture is an abstract entity which involves a number of usually man-made, collective and shared artefacts, behavioural patterns, values or other concepts which taken together form the culture as a whole'.

Tylor (1871: p. 1), refers to culture as, 'that complex whole which includes knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society'.

Kroeber and Kluckhohn (1952: p. 1) suggest, 'culture consists of patterns, explicit and implicit, of and for behaviour acquired and transmitted by symbols, constituting the distinctive achievements of human groups, including their embodiment in artefacts; the essential core of culture consists of traditional ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action, on the other, as conditional elements of future action.'

1.2.1 Hofstede's cultural dimensions

Hofstede (1984: p. 51) defines culture as, 'the collective programming of the mind which distinguishes the members of one human group from another'. Hofstede's work on culture is renowned within the study of international management. He refers to the terms *values and beliefs, norms and social rules* existing within a group or society. Although there are many critics of Hofstede's work (see below), for many years some businesses have utilised his work to grasp some of the very basic cultural contexts of the countries where they trade. His work is based on the following six dimensions.

- *Power distance* – This aspect of the culture dimension deals with distribution of power and inequality. The larger the power distance, the more likely people will accept a hierarchy. When the power distance is smaller people demand greater equality and challenge uneven distribution of power.
- *Individualism vs collectivism* – This dimension considers the extent to which social frameworks are tightly or loosely connected. Under individualism, the social framework is fairly loose and individuals are expected to take care of only themselves and their immediate families. Collectivism is the opposite of this, so social frameworks are tight and individuals look after relatives or members of a particular group in exchange for loyalty.
- *Masculinity vs femininity* – Masculinity is considered in society as achievement, heroism, assertiveness and material rewards for success.

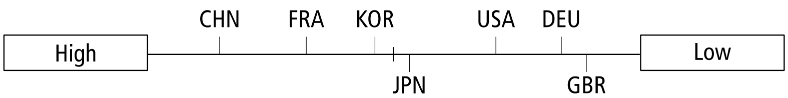
Thus a masculine society is considered more competitive. Femininity, explores cooperation, modesty, caring for the weak and quality of life. Thus a feminine society is deemed more consensus-oriented.

- *Uncertainty avoidance* – Uncertainty avoidance is the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. The higher the score in this dimension will result in rules and rigidity. The weaker the score on this index means that individuals are more relaxed with uncertainty.
- *Long-term vs short-term orientation* - Those who score low on this dimension prefer to maintain traditions and norms while viewing societal change with caution. Those with a culture which scores high, on the other hand, are open to change and could be quicker to respond to it, and in some cases are more likely to take risks.
- *Indulgence vs restraint* – Indulgence stands for enjoying life and having fun. Restraint stands for a society that regulates gratification thought strict social rules and norms.

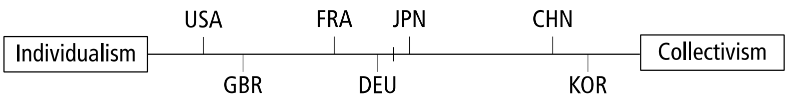
The diagram below explains the cultural dimensions in practice and how different countries fit with each. However, due to the traits mentioned in the section above, these cannot be taken for granted. Look at the UK, for example. The UK has low power distance and therefore strives for equality and less hierarchy; it is considered quite independent and individualistic to its approach to business. Within the international environment, the UK will need to consider its approach and be aware of those nations who are less aggressive in their business negotiations. Similar to the USA, the UK tends not to be distracted by uncertainty and within business is therefore willing to be pragmatic and at times may take unnecessary risks. Its long-term orientation is weak and consequently the nation, or those within the UK operating in the international environment, may be more adaptable to change within the global marketplace.

Figure 1.1 Cultural dimensions

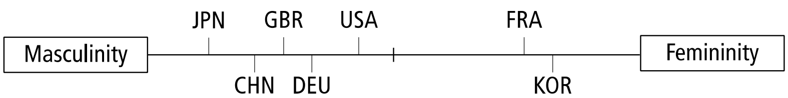
Power distance index



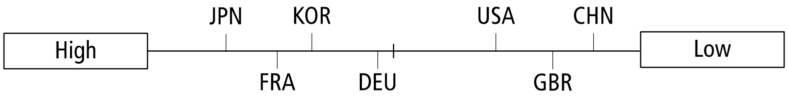
Individualism vs collectivism



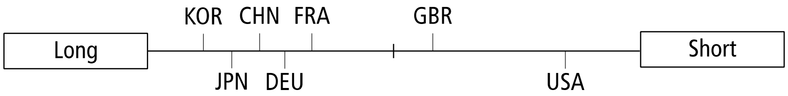
Masculinity vs femininity



Uncertainty avoidance index



Long- vs short-term orientation



Source: drawn from Hofstede and Minkov (2010)

Reading 1.2

Turn to Chapter 4, pages 114–17 in Hill and Hult (2019) and read more about culture and business. Once you have completed this refer to the following website for further information on Hofstede's cultural dimensions.

Select a country of your choice to see how it scores under each dimension: https://www.hofstede-insights.com/product/compare-countries/. Think about how the results could explain how the country may operate within the international environment.

What will an organisation entering your chosen country need to be aware of when conducting business?

Hill & Hult (2019) Chapter 4, Section 'Culture and business'. In *International Business: Competing in the Global Marketplace.* pp. 114–17.

1.2.2 Criticisms of Hofstede's cultural dimensions

There are a number of scholars who question Hofstede's research and some of these criticisms will now be considered.

Hofstede's approach to the research is considered limited as it focuses on one organisation (IBM) and individual assessment via a questionnaire. Olie (1995) takes issue with this as culture is such a vast topic and yet generalisations were made based on one company. Olie does not think that is possible. Dorfman and Howell (1988) also raise cause for concern in relation to the structure of the questionnaire and the crossing over of some items on the scale. Ohmae (1999 [1990]) raises the issue of the research being outdated and criticised the methodology of data collection. In his research, Hofstede surveyed managers working in IBM offices in each country. Thus, the results could also be deemed as biased due to the sample being also influenced by IBM corporate culture. The data was collected during the 1970s and 80s and so is now considered very out of date due to the rapidly changing international environment, globalisation and convergence which is particularly important to think of in the current context of social media. Shaiq *et al* (2011) draw attention to the simplicity of the cultural dimensions as there are only a few and this raises the questions as to whether culture can be measured under such limited parameters.

In addition, some of the surveyed countries consist of very culturally different and specific regions. For example, it is very challenging to regard India having as just one culture: Goa is socioculturally and geopolitically different to, for instance, Punjab; Mumbai, Delhi and Kolkata differ as much as Shanghai (in eastern China) and Chongqing (in western China) do in their sociocultural and organisational patterns and societal values. North Italy and South Italy differ (Milan, Naples and Rome diverge greatly in their sociocultural and organisational patterns and societal values). Also, people migrate, take new jobs and often change their cultural patterns and behaviours adapting to the society around them. Further, some of the dimensions, such as individualism and collectivism do not necessarily exclude one another and also the dimensions change with the time. Further, particular corporate culture and sector culture traits need to be taken into account. The banking sector has different cultural norms in comparison with - manufacturing, or the IT sector; small businesses have different traits to multinational companies. Overall, Hofstede's dimensions seem to be rather simplified traits and reduce cultural complexity and, thus, really need to be approached more critically.

Exercise 1.1

For the same country chosen in the previous exercise, reconsider Hofstede's dimensions through a more critical lens. Would you now apply Hofstede's cultural dimensions in adapting business culture when opening an office in another country? Discuss with your fellow students and the tutor on the VLE.

1.2.3 High and low context culture

Language is important to consider when discussing culture in international business. For many years Edward Hall has written on cultural factors. He suggests two cultural dimensions originating through socialisation and through the dominant values and beliefs that a person is born into. These two dimensions include high and low contexts. Hall and Hall (1990) explain the difference between high and low cultures. In a high-context culture individuals tend to form close connections with others over a longer period of time, as opposed to those in a low context cultures, whereby relationship are many, but tend to be more short term. The following table highlights the differences in relationships between the two contexts and provides some indication of the complexities involved when considering this cultural context within business.

Table 1.1 High and low cultural contexts

	Low context	High context
Example countries	US, UK, Canada, Germany, Denmark, Norway	Japan, China, Egypt, Saudi Arabia, France, Italy, Spain
Business outlook	Competitive	Cooperative
Work ethic	Task-oriented	Relationship-oriented
Work style	Individualistic	Team-oriented
Employee desires	Individual achievement	Team achievement
Relationships	Many, looser, short-term	Fewer, tighter, long-term

	Low context	High context
Decision process	Logical, linear, rule-oriented	Intuitive, relational
Communication	Verbal over non-verbal	Non-verbal over verbal
Planning horizons	More explicit, written, formal	More implicit, oral, informal
Sense of time	Present/future-oriented	Deep respect for the past
View of change	Change over tradition	Tradition over change
Knowledge	Explicit, conscious	Implicit, not fully conscious
Learning	Knowledge is transferable (above the waterline)	Knowledge is situational (below the waterline)

Video 1.2

Watch the following clip from Deborah Rinner, 'What is the Difference Between a High-Context and Low-Context Culture?' https://www.youtube.com/watch?v=qKViQSnW-UA

Consider how high and low contexts can influence international business.

1.2.4 Cultural literacy and competitive advantage

Changes in culture can be slow; however, within international business some merging and converging of cultures has taken place, largely due to improved transportation, communication and telecommunications. Those companies trading across international boundaries strive for advantage and this can be achieved through cultural literacy and making culture a part of the organisation's strategy. Managers need to understand cultural differences when negotiating, setting pay systems and creating organisational structures in order to work with different cultures effectively. In doing this managers can employ citizens of the country to help them to understand the culture; they can ensure home-country employees are educated in the local culture; they can transfer mangers between sites in order for them to gain more experience and understanding of cultures; and they can take action to eliminate ethnocentric behaviour, whereby one culture deems itself superior to another. Hall and Hall (1990) refer to monochronic and polychronic cultures. Those who operate to deadlines will welcome a monochronic approach: this construct is generally representative of nations such as the USA and UK. The opposite of this is those who fall into the polychronic culture, where time is not as rigid and appointments with strict deadlines are less important, for example, in Latin America. Again managers need to understand the complexities of culture when setting meetings and managing trade deadlines.

Video 1.3

Watch the following clip from Deborah Rinner, 'What is the Difference Between a Monochronic and Polychronic Culture?' Reflect on the key messages https://www.youtube.com/watch?v=3H-b4_yBo84

Refer to the discussion forum on the VLE and share your thoughts with your peers on what these dimensions of culture mean within business.

Reading 1.3

Turn to Chapter 4, pages 123–24 in Hill and Hult (2019) and read the case study 'The Emirates Group and employee diversity'.

Hill & Hult (2019) Chapter 4 Case Study 'The Emirates Group and employee diversity'. In *International Business: Competing in the Global Marketplace*. pp. 123–24.

Consider how an international enterprise such as Emirates has embraced diversity.

Reading 1.4

Refer to the reading by Ollier-Malaterre and Foucreault (2016) 'Cross-national work–life research: Cultural and structural impacts for individuals and organizations', as this provides you with the opportunity for further reading on the challenges and complexities of the influence of culture.

Ollier-Malaterre & Foucreault (2016) 'Cross-national work–life research: Cultural and structural impacts for individuals and organizations.' *Journal of Management*, 43 (1), 111–36.

Make a note of the key points to consider from this article.

1.3 The Economics of International Investment

In this section you will study the basic principles of investment, and international investment flows. We start with some fundamentals about investment, or the acquisition of assets.

1.3.1 Investment

It is conventional to define international investment as the purchase of real and financial assets in a country other than that of the investor. It is also usual to define investment as an 'intertemporal transaction' – that is, a payment made in one period for an expected return in some future period. The only difference between a domestic and an overseas investment is the degree of risk and uncertainty involved.

Your initial reading on this subject is from a textbook, *International Economics*, by Hendrik Van den Berg (2003). In this reading, the author develops a two-period model of consumption and investment, explaining that an equilibrium point balancing consumption and investment occurs, which reflects the economy as a whole's preference for consumption now against consumption in the future.

He then goes on to show that if there are better investment opportunities in another economy, investors will transfer some of their asset purchases there. This investment is financed in period 1 through a trade surplus, and in period 2 through a trade deficit. This simple equilibrium model shows the relationship between investment and trade. It also demonstrates that savings levels vary across countries and over time, therefore the funds available for investment, at the economy level, varies between countries.

Van den Berg (2003) then develops a partial equilibrium model for savings between two countries. What this model shows is that if there is no restriction on the flow of savings, differences in returns will be eliminated by the flow of loanable funds to the country where interest rates are highest, producing a gain for those whose funds were previously lent in the lower-interest country and a loss for those whose funds were previously invested in a higher-interest country, but that overall there is a net gain in welfare. As a simple summary, this is the argument for a free flow of funds among countries, together with an explanation for the resistance to the free flow of funds from those who own financial assets in the higher-interest countries.

Reading 1.5

Please read Van den Berg, Chapter 10, Sections 10.2 'A general equilibrium model of international investment' and 10.3 'A partial equilibrium model of international savings'. Then you should read section 10.4 'Risk reduction through international diversification', where the argument is simply that international investment allows investors to gain the rewards from investing in the places where returns are highest and that building a portfolio of investments in many countries allows them to smooth the risks.

You should make notes as you read on the main points raised in the section above.

Van den Berg (2003) Sections 10.2 'A general equilibrium model of international investment', 10.3 'A partial equilibrium model of international savings' and 10.4 'Risk reduction through international diversification.' from Chapter 10 'The economics of international investment' in *International Trade*. pp. 335–48.

So far, you have been studying, mainly, a two-period model, which would predict that international investment, given the free flow of funds, would equalise the return on assets throughout the world, as funds flowed to where they could get the best returns. In countries where capital is relatively scarce and therefore returns high, investors would buy assets until a global equilibrium return is reached. In such a world, corporate as well as individual investment strategies would be relatively simple – find those investment opportunities where equilibrium has not yet been reached and returns will be higher than those investment opportunities where equilibrium already exists.

1.3.2 Investment flows

The question raised in this section is:

- Why does investment not all flow to countries where capital is scarcest, and returns highest?

The simple process of adding more investment to an economy will not produce economic growth because, as investments depreciate, an increasing level of savings is required to replace the stock of capital, and returns to investment will diminish. If this were not the case, economies could not have grown as fast as they manifestly have. The solution to this economists' problem is technological change – each round of investment does not renew the old stock of machines but rather substitutes it with a new, improved set, for instance technological investments in the car industry.

In a later section of this reading, Van den Berg (2003) uses Solow's model to argue that international investment is a vehicle for generating technological change in the recipient countries. This was a major contribution, which led economic analysis away from static treatment of technology and from the assumption that all units of capital are substitutes for each other towards the more real-world case in which technology matters and rates of return on investments depend on more than the simple volume of investment in an economy. Not all investments in countries with small supplies of capital will be successful. Therefore, investment flows will depend not just on the existence of different average rates of return in different economies.

Finally, you will study in this reading Van den Berg's discussion of why investment does not flow as freely as the simple model might suggest.

Reading 1.6

Please look at the study Van den Berg's Section 5.3 'The Solow Growth Model, Section 10.5 on his use of Solow's model and Section 10.7, where Van den Berg turns to the reasons why investment does not flow as freely as the simple model might suggest.

Make notes on the important issues raised in each section, and list the reasons given for the impediments to investment flows.

Van den Berg (2003) Section 5.3 'The Solow Growth Model' from Chapter 5 'International trade and economic growth', Section 10.5 'International investment and economic growth' and 10.7 'The barriers to international investment' from Chapter 10 'The economics of international investment' in *International Trade.* pp. 153–61; 348–54; 357–61.

Feedback

Briefly, Van den Berg's barriers to international investment, which you should have detailed in your notes, are these:

- government policies to restrict investment
- risk
- asymmetric information
- exchange rate risk
- the relative underdevelopment of international institutions.

These issues are dealt with in an introductory way, and we will come back to them in subsequent units.

To make sure you have understood the Hendrik Van den Berg extracts we have looked at, we will turn now to the chapter summary.

Reading 1.7

To make sure you have understood the extracts from the Van den Berg extracts we have looked at, we will turn now to the summary at the end of it, pages 362–63.

This module is designed from the perspective of business decision-making, so not all of the elements of the chapter, especially those that argue for the welfare-maximising effects of international investment, will be relevant to you. It is not the purpose of this module to justify or criticise the investment behaviours of corporations or individuals.

Van den Berg (2003) Section 'Summary' from Chapter 10 'International trade and economic growth' in *International Trade.* pp. 362–63.

1.3.3 International investment

We will consider investment further – foreign direct investment (FDI) and portfolio investment.

Foreign direct investment and portfolio investment

Individuals and companies can make investments in other countries in different ways.

The difference between FDI and portfolio investment can be defined in terms of whether the investment gives the purchaser any control over the use of the asset. So, a small minority shareholding gives no control, but a large block of shares might give some control. The absolute level of investment under each definition is not specified, although Van den Berg (2003) suggests that a 10%+ holding begins to give some control to the stockholder. For a company, the important thing is the purpose of the investment – FDI implies that they want some control over the company in which the investment is to be made.

We can also distinguish between vertical and horizontal FDI – the former being made to establish a supply chain in more than one country, the latter designed to replicate similar facilities in more than one country. About 18% of US investment in poor countries results in products being exported to the US. Rich-country-to-rich-country investment tends to be horizontal. We will look in more detail at global supply chains in Unit 3. The advantage that less developed countries have generally concerns labour costs, regulation strictness and taxation levels.

There are many reasons why companies develop into multinational enterprises (MNE). One theory about what determines the boundary of the firm is the impact of transaction costs on a company as it purchases the goods and services to produce its products – where transaction costs are expensive, at some point it becomes more efficient to internalise the production of those goods and services rather than buy them. If by so doing, the firm has to acquire the supplier companies or set up new ones and those companies are in another country, the logic of minimising transaction costs results in an MNE.

A counter tendency is the ongoing practice of outsourcing functions, especially manufacturing functions, to companies in another country. Here, the decision to outsource, usually for reasons of minimising costs, has the opposite effect – the main company stays a single-country enterprise.

Another important reason for becoming an MNE is the impact of economies of scale. Some industries have very large 'minimum efficient plant sizes', especially in industries that have high research and development costs. In these cases, a single R and D operation and a spread of manufacturing plants close to markets makes the best economic sense.

Some foreign investment is the result of restrictions on trade – for example, overseas investment in the European Union is a direct result of companies wishing to sell but being at a disadvantage because of tariffs and non-tariff barriers to exporting. Similarly, companies may wish to avoid taxation and regulation by locating in another country.

Portfolio investment is defined as the acquisition of securities in quantities that do not give the purchasers control over the enterprise invested in.

For an indication of the scale of the flows of FDI, look at the global summary of FDI inflows in Table 1.2 below. As you study the table, consider these discussion points about the flow of FDI:

- Traditionally, about twice as much FDI flows to developed as to developing economies. How has this changed?
- The European Union used to have seven times the FDI inflow of China and over five times as much as the USA; how have these dynamics changed?
- The rate of growth of FDI in developed economies is faster than in developing economies, but developing countries too have suffered from a slowdown in global FDI. Why?

You should also note that FDI data can be distorted by a single large transaction. For example, the 2005 data for the UK are distorted by a single, large, investment by Royal Dutch Shell.

Table 1.2 Foreign direct investment inflows, top 20 host economies, 2017

Economy	Inflows Value (US$ bn)	Ratio to GDP (%)	Outflows Ratio to GDP (%)
USA	275	1.4	40
China	136	1.1	12
China, Hong Kong SAR	104	30.5	576
Brazil	63	3.0	38
Singapore	62	20.0	414
Netherlands	58	7.0	118
France	50	1.9	34
Australia	46	3.3	47
Switzerland, Liechtenstein	41	6.0	155
India	40	1.6	15
British Virgin Islands*	38	3,967.8	68,450
Cayman Islands	37	935.9	9,355
Germany	35	0.9	25
Mexico	30	2.6	42
Ireland	29	8.7	264
Russian Federation	25	1.6	29
Canada	24	1.5	66
Indonesia	23	2.3	24
Spain	19	1.5	49
Israel	19	5.4	37

*Financial centre in the Caribbean

Source: UNCTAD

Exercise 1.2

After you have studied the table, can you assess what the possible explanations for these trends?

Feedback

One explanation for the persistently large flows to the USA is the desire by companies to get over tariffs and other protectionist trade restrictions.

It is also likely that companies want to locate their production close to these markets, and the difference in labour costs between these and other locations is less important than those considerations. Clearly, if labour costs were the dominant criterion, there would be a higher proportion of FDI flowing to low-wage economies.

Reading 1.8

Read the following journal article by Awokuse and Reardon (2018) 'Agrifood foreign direct investment and waves of globalization of emerging markets: Lessons for U.S. firms'. The paper explores the evolution of the three waves of globalization, focusing on the roles and strategies of FDI and trade in emerging markets.

Reflect on the key points identified from the article and make notes.

Awokuse & Reardon (2018) 'Agrifood foreign direct investment and waves of globalization of emerging markets: Lessons for U.S. firms'. *Economic Review*, 103 (4), 75–96.

1.4 Conclusion

This unit has provided an introduction to international management. It has explored the term international management and what it means to businesses in today's global marketplace. Reasons for the increase in international trade were considered and approaches to business were examined, these being the *globalisation of markets* and the *globalisation of production.*

As you progressed through the unit you were then able to appraise the notion of cross-cultural management and the implications of national cultures on international business. Being aware of Hofstede and Hall's contextualisation of cultural contexts, particularly being able to critically assess the limits and actual remit of their conceptualisation and the consequences of cultural simplifications in business settings, enabled clearer understanding of differences in societies and of how to build relationship through being culturally literate, and thus gaining competitive advantage over others.

You have seen the fundamental principles relating to international investments and FDI.

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