



Simon Collinson   Rajneesh Narula   Alan M. Rugman

# INTERNATIONAL BUSINESS

Eighth Edition



# **INTERNATIONAL BUSINESS**



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Eighth Edition

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# PREFACE

## The eighth edition of *International Business*

We have continued to evolve the structure and content of this textbook in step with the rapidly changing world of international business. This includes completely revising several key chapters, including Chapter 6, on International Trade. This is entirely updated and includes new case studies covering both the trade-war between the US and China and the complex Brexit process. These and other real-world developments have made a wide range of stakeholders much more aware of the significance of global trade interdependencies than in the past. Chapter 16 on the European Union is also entirely updated to take account of Brexit and a range of new socio-political and economic events in Europe.

Chapter 11 ('MNEs as Responsible Stakeholders') has been removed, making this edition more consolidated, with 20 rather than 21 chapters. In place of Chapter 11 we have inserted new sections, frameworks and case studies on responsible business throughout the book as a fundamental dimension of international business theory and practice across all the other chapters. New case studies, such as 'Businesses and NGOs working together on climate change' in Chapter 4, provide additional material on this topic. Chapter 14, on 'Political Risk and Negotiation Strategy' also features new case studies 'From riches to rags: the decline of the Venezuelan oil industry' and 'Huawei accused of spying'.

There are 95 case studies and more new and revised case studies than in the last edition. Of these, 25 are completely new and 70 have been thoroughly updated. The brand-new case studies represent a more diverse set of stories and illustrations, facts and figures, from different industries and countries, from the fortunes of the Turkish Lira to M-Pesa in Kenya; the significance of tomato exports for Mexico to the Chinese government's international push via the 'Belt and Road Initiative'.

The Introduction outlines a number of guiding frameworks to help the reader navigate, providing an overview of our approach and the structure of the book as well as the standard sections of each chapter. Figure 3 provides an outline, linked to a description of how the book is organised. Within the chapters the structure should be

familiar to those who have used the book before. We have kept five case studies in each Chapter (except Chapter 1, which introduces the field of international business). Every Chapter has been thoroughly updated, with new data, trends, and references. A revised bibliography appears at the end of each chapter.

## Acknowledgements

Our lead contributor and researcher on this project was Dr Amir Qamar, a Lecturer (Assistant Professor) in Strategic Management in the Department of Strategy and International Business at Birmingham Business School, University of Birmingham (see below). He deserves a big thank you for coordinating the revision process and updating large parts of the book.

Amir provided 17 of the new case studies and helped shape the new emphasis described above. He was lead author on: 'US manufacturing: from China to Mexico' (Chapter 2); 'Worrying times for Singapore's SMEs' (Chapter 2); 'R&D at Hewlett-Packard' (Chapter 3); 'Greece: third (bailout) time lucky' (Chapter 4); 'Businesses and NGOs work together on climate change' (Chapter 4); 'Turkish Lira in crisis: record low in 2018' (Chapter 4); 'Konami is watching its employees' (Chapter 5); 'The collective culture of John Lewis & Partners' (Chapter 5); 'US and China trade-war: battle of the giants' (Chapter 6); 'China's rare earth minerals' (Chapter 6); 'Slowdown in China: Global financial markets and contagion effects' (Chapter 7); 'Social media: Serengetee' (Chapter 8); 'Baker Tilly Changes its name to RSM' (Chapter 9); 'The global beer industry: decline and growth at the same time' (Chapter 10); 'H&M learning from Zara' (Chapter 11); 'Adidas: promoting a global sports brand' (Chapter 12); 'The 2018 retail crisis catches up with Marks & Spencer' (Chapter 12); 'Primark: putting global stakeholders first' (Chapter 13); 'Huawei accused of spying' (Chapter 14); 'Intel effect' (Chapter 14); 'Financial transparency at Siemens' (Chapter 15); 'Carillion's collapse' (Chapter 15); 'Brexit troubles for Jaguar Land Rover' (Chapter 16); 'VW diesel dispute' (Chapter 16); 'Air Canada's bid for consolidation' (Chapter 18); 'Mexico's tomatoes' (Chapter 18); 'Airbus secures new deal with China' (Chapter 20);

‘Alibaba steps up to global competition’ (Chapter 20). He is also the author for the Instructor’s Manual and supplementary PowerPoint slides.

Dr Emma C. Gardner, a Lecturer (Assistant Professor) in the Department of Strategy and International Business at Birmingham Business School, University of Birmingham, also provided excellent new case studies for the book. Emma was lead author for: ‘The Big Four’ (Chapter 7); ‘Tesco at home and abroad’ (Chapter 8); ‘The glass ceiling’ (Chapter 13); ‘India’s role in the global offshoring economy’ (Chapter 13); ‘Sony diversifying into the automobile industry?’ (Chapter 17); ‘China’s One Belt One Road’ (Chapter 20).

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Amir's published papers appear in journals such as *Supply Chain Management: An International Journal* and the *International Journal of Production*

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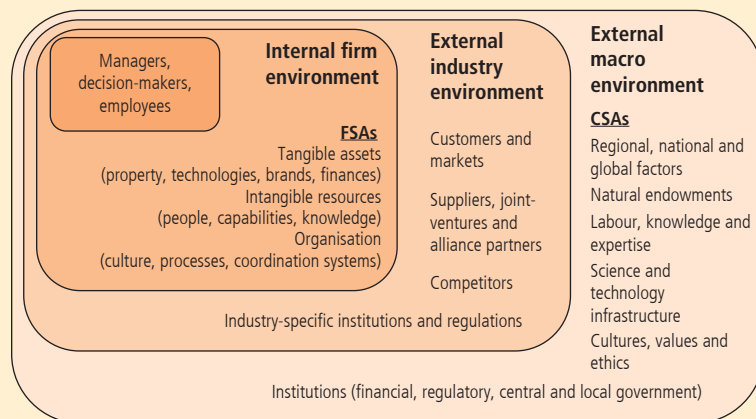
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# FRAMEWORKS FOR THIS BOOK

## Our Approach to the Study of International Business

Figure 1 sets the scene for this entire book. Our approach to understanding international business focuses on the interrelationships between the firm and its environment, at several connected levels. Multinational enterprises (MNEs) are firms (small and large) that have expanded to source inputs or sell outputs internationally. They are at the centre of our framework.



**Figure 1** The multiple, interacting levels and lenses of international business studies

International managers in MNEs make decisions based on their understanding of this environment and the (tangible and intangible) assets, resources and capabilities they can coordinate internally to help their firms succeed. In this evolutionary sense, managers and their firms need to adapt in response to an ever-changing competitive environment in order to survive. There are opportunities to create alliances with partner firms, or benefit from new technologies, improve productivity, innovate, and develop new products and services to attract more customers. But there are also threats from competitors that can exploit these same opportunities faster or more effectively.

Overall then, we look at how well ‘firm-specific’ assets (FSAs), resources and capabilities are aligned with the host country environments (country-specific assets, or CSAs) in which MNEs operate. The ‘dynamic capability’ of firms depends on the ability of decision-makers to maintain this alignment in a changing world, evolving FSAs to exploit external opportunities and cope with new threats. We make a distinction between the external industry environment and the external macro environment. The former is comprised of the specific threats and opportunities influencing the behaviour of firms that collaborate or compete directly with each other in a particular industry sector (automotive manufacturing, insurance services, container shipping, etc.). The latter represents the broader, global context comprised of a complex range of different country markets, institutions and cultures around



the world. Country markets present opportunities (or ‘location advantages’) such as access to inputs like lower-cost labour, cheaper resources, new technology or expertise, or access to new customers. But this access may be constrained by local competitors, institutions, and regulations or different ways of doing business. One core aim of international business studies is to better understand these differences and how MNE decision-makers can cope with them.

At the macro environment level, it is important to understand how the interrelationships and interdependencies between countries are changing over time. The opening up of emerging markets, the growing dependence on China as a market and a source of manufacturing products, and the shifting nature of regional blocs (such as the EU) are the kinds of key changes that have implications for whole industries, each MNE, and individual decision-makers. Trade and FDI data help map these macro-level changes. As places (countries, regions, cities) compete to be net exporters and net recipients of inward investment, these empirical data show who are the winners and losers.

At the industry environment level, global value chains, buyer–supplier relationships, joint ventures, and alliances between co-dependent firms that specialise in different products and services all connect competing locations. MNEs derive competitive advantage by linking different places via these kinds of mechanisms. They leverage the benefits that come, for example, from buying or making products in one place (where cheap labour and other location advantages exist) and selling them in another, where disposable income and prices are high. They also benefit by integrating the knowledge and capabilities that exist in different locations to add value to products and services sold in other locations. All firms are brokers, but by definition MNEs are brokers that trade globally.

A full insight into the shifting complexities of international business requires a combination of theories, frameworks, concepts, tools and examples from across the social sciences, including economics, political science, sociology and human geography. Each of these disciplines explains a different set of factors operating at each of our levels of analysis, micro to macro. They also bring different ‘tool kits’ to answer our questions. Put them together and we have more powerful and convincing explanations of how the world works. So, our approach is explicitly multidisciplinary.

## PRACTICAL THEORY

Kurt Lewin (one of the founders of social psychology) famously said, ‘There is nothing so practical as good theory.’ Good theory is useful as well as being evidence-based and broadly applicable to different contexts. Good theory, alongside key frameworks and concepts which simplify and explain the way the world works, can guide effective decision making by turning information into knowledge and knowledge into real-world wisdom.

This book takes a number of different perspectives to improve our understanding of international business. We take on the role of objective observers, compiling data and evidence to map trends and make predictions. Data on trade, foreign direct investment, global mergers and acquisitions (M&As), regulatory changes, the largest MNEs, and the fastest-growing SMEs (small and medium-sized enterprises) all help us understand what is going on in the world.

We also take on the role of decision-makers, putting ourselves in the shoes of government policy developers and (more often) practicing managers. A key question that runs through the book is: what are the main challenges facing an MNE manager, trying to enter new country markets and coping with very different country contexts?

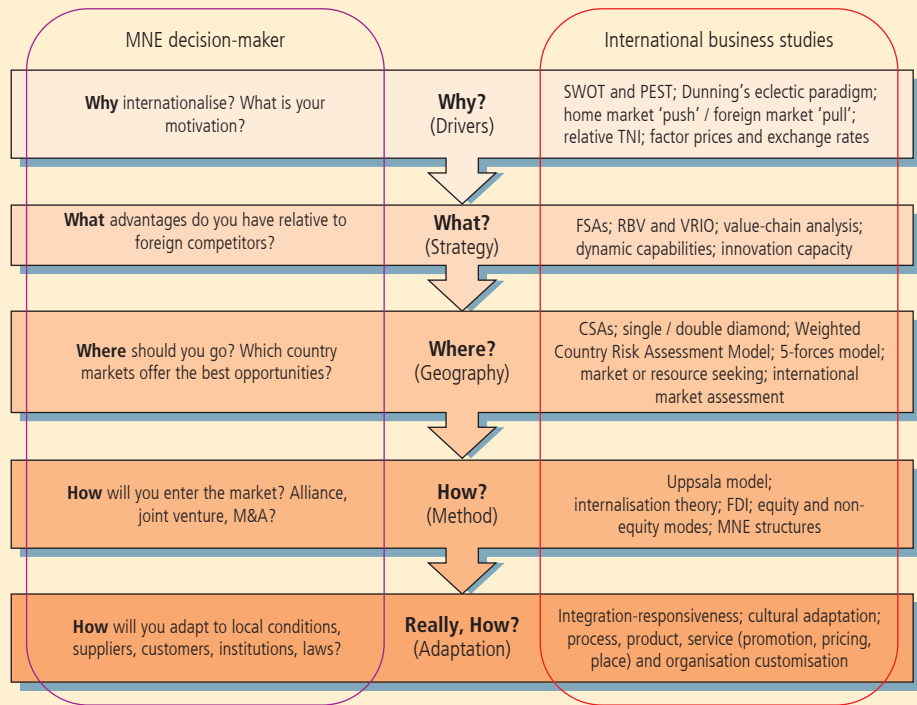
Figure 2 outlines a series of decision stages for managers involved in the process of international expansion. The why, what, where and hows (and really, how?) of

internationalisation are mapped on to some of the core concepts and frameworks featured in the book. Decision-makers have a wide range of strategic choices, which they make in the face of ever-changing opportunities and threats. The success of a firm, in fact its very survival, depends on its decision-makers making more right decisions than wrong ones. Firm sales revenues, profits and other measures of performance allow us to judge whether the right decisions have been made, both over time (looking at data trends over the years) and relative to competitors (comparative benchmarking). The list in the right-hand column shows some of the main analytical concepts and frameworks we use to address the key questions for decision-makers that are guiding the international expansion of their firms.

One of the measures we use is the ‘Transnational Index’ or TNI. This indicates how multinational a firm is by adding up three ratios: foreign sales as a percentage of total sales, foreign assets as a percentage of total assets, and foreign employment as a percentage of total employment. A low TNI (below 20 per cent) shows that a firm is domestic market-oriented and not very multinational. Researchers have explored the relationship between multinationality and performance and found that there is no simple correlation.

Both quantitative and qualitative approaches are necessary to get more complete explanations of the internationalisation journey. Each of the chapters in our book (with the exception of Chapter 1) features five case studies of different kinds and these provide real-world stories about how specific firms (or, in some cases, industries or countries) have coped with particular international business challenges.

But our interest in this book goes beyond an understanding of what makes managers and firms successful – whether success is measured in profitability, providing employment, or just expanding in scale and becoming more powerful. We are interested in how MNEs and their activities affect the ‘rest of us’. In responding to external change MNEs have a significant impact on our world. They provide most of our products and services and employ



**Figure 2** The internationalisation roadmap: decision stages for global expansion

millions of people. *How* they do this and *where* they do this affects not just international trade and investment, but local communities, our shared environment, and most people's employment opportunities. One of our key aims is to help you, the reader, to *critically appraise* the effects of their actions. In what ways are they a positive or a negative force in our world? A substantial part of the book also discusses how government policies and the activities of non-government organisations (NGOs) influence the behaviour of MNEs.

So, our textbook uses multidisciplinary approaches, quantitative and qualitative methods, empirical data and real-world case studies to examine and understand the motivations, actions and effects of multinational firms, large and small, at multiple levels of analysis. In the final introductory section, we provide an overview of how all of this material is structured through the book.

## THE STRUCTURE OF THIS BOOK

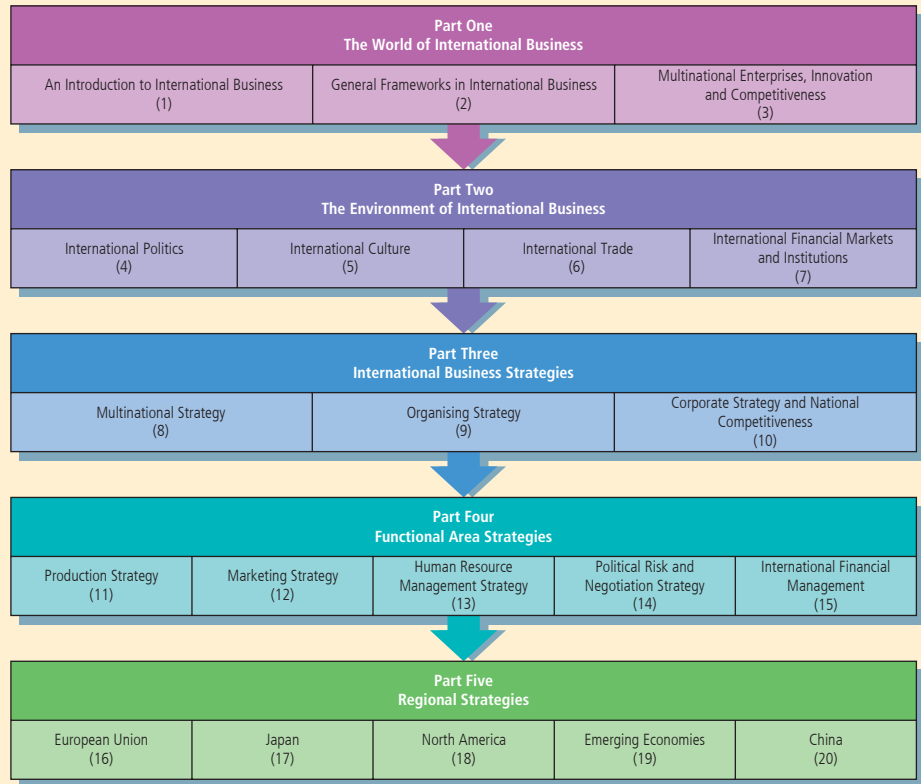
Chapter 1 is slightly different in structure from the other 19 chapters in this book as it introduces the field of international business and contains no case studies. Each of the remaining chapters opens with a set of contents and key objectives and an 'Active Learning Case', with learning checks throughout the chapter which ask (and answer) a series of questions relating the issues covered in the text to this opening case study. Two 'International Business Strategy in Action' case studies and two 'Real Cases' also feature, the latter coming at the end of each chapter. Key learning points and key terms as well as review and discussion questions also appear at the end of each chapter alongside a bibliography presenting references and further reading.

Figure 3 shows how the book is structured to cover the different aspects of international business across the levels of analysis outlined in Figure 1. There are five major parts. Part One contains the introduction and Chapters 2 and 3. We introduce some key frameworks and explore why and how firms become MNEs. Part Two covers the macro environment and discusses how political, cultural, and institutional contexts vary by region and require MNEs to adapt. Financial transactions and institutions and trade are given particular attention. This part looks at how places vary and how they interact, compete, and develop particular interdependencies.

Part Three shifts the emphasis toward the MNE and the decision-maker to examine how different international business strategies are appropriate in different global contexts. The interplay between strategy and structure (or 'organising strategy'; Chapter 9) is a central theme. As Alfred Chandler observed, these evolve in tandem. A firm's structure and organisation enable some strategic options and limit or exclude others. So MNE structure shapes strategy. Strategic choices in turn require structural changes as the firm must reorganise its divisions, resources, and people to implement new initiatives, like entering a new overseas market. So, strategy shapes structure. Chapter 10 focuses on the diamond models of advantage and the integration-responsiveness framework.

Part Four takes a more detailed look at some specific functions within MNEs: production, marketing, HRM (human resource management) and finance. These are specialist areas of business and management studies in their own right and we focus on the international dimensions of these functions and the ways in which they can facilitate effective international strategies. Chapter 14 presents the 'Weighted Country Risk Assessment Model' as a framework for guiding the 'where' and 'how' decision steps outlined in Figure 2. It allows decision-makers to compare country markets and different modes of market entry as a precursor to investment.

Finally, Part Five presents five regional (macro) environments and discusses some specific international business strategies for 'coping' with them. We provide an overview of



**Figure 3** The structure of this book

the political, socio-cultural, economic and institutional characteristics of these key countries and regions, alongside case studies of both foreign MNEs and local firms. MNEs are distinctive because they have successfully leveraged their FSAs to establish themselves in these markets, learning about the differences and adapting accordingly. Local firms have evolved and stayed in these environments and reflect particular strengths, weaknesses, and characteristics that will underpin their ability (or inability) to eventually expand internationally and become MNEs.





## Part One

# THE WORLD OF INTERNATIONAL BUSINESS

**Chapter 1** An Introduction to International Business

**Chapter 2** General Frameworks in International Business

**Chapter 3** Multinational Enterprises, Innovation and  
Competitiveness





# Chapter 1

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# AN INTRODUCTION TO INTERNATIONAL BUSINESS

## Objectives of the chapter

In this chapter we are going to define the boundaries of the field of international business in an introductory overview of the main themes of this book. We will examine trends in international business, keeping in mind how globalisation has evolved over the last century. We will examine some of the worldwide economic and political changes that are taking place and look at how globalisation (and its constituent elements) is altering the way international business is conducted.

We will then focus on innovation and technology, and discuss how they lie at the core of greater interdependence, which is one of the defining features of globalisation. After this, we look at social political developments and institutions, which effectively define how businesses conduct their operations. Understanding institutions, both formal and informal, is important for both firms and employees, so they can adjust their behaviours accordingly. We then discuss how supranational agreements try to harmonise some of these institutions, such as the World Trade Organization, which has led to the liberalising of markets between member states and has been used to solve disputes. The next section looks at multinational enterprises (MNEs), which are at the core of spreading globalisation, and we examine their controlling investments abroad, otherwise known as foreign direct investment, which will be a key feature throughout this book. We also trace the rise of MNEs to the present day. MNEs are not the only important actor in international business; so are small and medium-sized enterprises (SMEs), which will also be examined in this chapter. Finally, we discuss global value chains and networks, and show how products are assembled through firms that are based in several countries.

### The specific objectives of this chapter are to:

- 1 *Define* the boundaries of the field of international business in an introductory overview of the main themes of this book.
- 2 *Examine* how worldwide economic and political changes have driven globalisation and shape the way international business is conducted.



- 3 *Highlight* innovation and technology as major factors underlying global economic growth and greater interdependence between firms and countries.
- 4 *Introduce* some of the main actors that feature throughout this book: multinational enterprises and small and medium-sized enterprises, which are at the core of spreading globalisation; value chains and networks, which connect firms globally; and institutions (national and global), which shape how these other actors evolve.

## INTRODUCTION

Chapter 1 provides an introduction to the field of international business (IB). We begin by drawing the boundaries of the field of IB, its main definitions and concepts, and then introduce the main activities and stakeholders in IB and discuss their roles and inter-relations. We provide an overview of worldwide economic and political changes as a background to understanding the process of globalisation and its main driver, the multinational enterprise. The section concludes with a discussion of new developments in international business. Specifically, we discuss both the emergence of emerging economies and the growth of non-equity mechanisms, paying particular interest to the growth of global value chains.

## WHAT IS INTERNATIONAL BUSINESS?

### International business

The study of transactions taking place across national borders for the purpose of satisfying the needs of individuals and organisations

### Exports

Goods and services produced by a firm in one country and then sent to another country

### Imports

Goods and services produced in one country and bought in by another country

### International trade

The exchange of goods and services across international borders

### Multinational enterprise (MNE)

A multi-plant firm that controls and coordinates operations in at least two countries; or a firm that engages in value-added international business activities, that has affiliates in more than one country, and whose operations and activities in different locations are actively coordinated by one or more headquarters organisations

The world of **international business** is a wonderful and exciting field of study. The ‘international’ in ‘international business’ is superfluous because globalisation has meant that all business is to some degree international. Today it is almost impossible to find a product or service that does not have an international aspect to its customer base, as well as at least one element of its supply chain. By supply chain, we refer to the chain inputs that come from other sources, including the raw materials, components and equipment used to produce, store and package the product or service. Therefore, in this book we approach IB as a study of business.

We define international business as the study of transactions taking place across national borders for the purpose of satisfying the needs of individuals and organisations. There are many forms of international business transactions. The ‘classical’ view of international business has been international trade, in the form of **exporting** and **importing**. Trade is about transactions between actors that are physically located in different places. These actors may be in the same country, but located in different cities, states or provinces, for instance. They may also be in different countries, in which case the activity is known as **international trade**. International trade continues to grow, and remains core to the world economy. According to the United Nations Conference on Trade and Development (UNCTAD) the exports of goods and services in 2017 was worth US\$22,7 trillion, an almost six-fold increase from US\$4 trillion in 1990. (By definition, the total world exports will be equal to the total world imports, so it is axiomatic that exports have grown as fast as imports.) In this book, when we refer to trade, we implicitly assume that this refers to international trade. Trade is not new, as human beings have been engaged in bartering goods since the dawn of civilisation. International trade is also not new – we know that early Egyptians, Assyrians, Indians and Chinese all systematically traded with each other. Indeed, as we shall discuss later, trade has been the driving force of economic growth and has been a driving force for globalisation.

Since the beginning of the twentieth century, the key change has been the growth of the international firm, with operations and activities that are directly (and actively) controlled in overseas locations. Such operations are known as *affiliates* or *subsidiaries*. These international firms are known as **multinational enterprises (MNEs)**, and although the casual observer may think of them as large behemoths like Google, Huawei, IBM, Iberia, Hon Hai, Reliance, etc., a majority of MNEs are small and medium-sized (e.g., Codex, Acro Aircraft Seating, SafeGuard World International and Mind Gym). While you may not have heard of these companies, they are important partners and suppliers to their larger, more famous counterparts. For example, Walt Disney Studio’s *Star Wars: The Last Jedi* relied on video recording equipment supplied by UK-based SME Codex.<sup>1</sup> Moreover, small and medium-sized firms also dominate the landscape of almost every country. For instance, firms with fewer than 200 employees accounted for 98 per cent of all firms in Taiwan in 2017 and employed 80 per cent of the workforce!<sup>2</sup>

International firms are responsible for about one-third of global trade, much of which moves between affiliates: that is, these goods and services are being exchanged across borders but within the same MNE. Large MNEs – through various linkages – have considerable influence on other non-affiliated firms as well, because they depend upon a vast array of other firms to supply them with various inputs, intermediate goods and supplies. Smaller firms are dependent upon a variety of larger MNEs as customers. Indeed, the total effect – which is hard to estimate accurately – is that possibly *half* of the global economic activity is in one way or another dependent upon international business and MNEs of all sizes.

The principles of trade are well known, having been a subject of study at least since the 1700s, and the principles and processes by which trade is undertaken are very unambiguous. Chapter 6 deals with international trade in considerable detail. Our interest in this opening chapter is to place the global economy and international business into context, and the novelty here is the role of the international firm, and how it undertakes international business.

The reader will have noted that we have not used the term ‘global firm’, but instead we refer to ‘international firms’ or ‘multinational enterprises’. There are few firms that are truly global, and it is a common error to use the word ‘global’ as a synonym for ‘international’. This error lies in the failure to understand globalisation, and therefore we begin this chapter by clearly defining globalisation. We will then go on to explain how the MNE and international business have evolved, and how the intertwining of so many disparate factors has created the complex tapestry that is today’s global economy.

## GLOBALISATION

There is little doubt that we live in a world defined by globalisation. Globalisation, however, remains a vague concept, used by different people in different ways. It is also a divisive subject because many of the social, political and economic problems in the world today are attributed to the negative effects of globalisation, while others regard it as a force for positive change. In this book we do not seek to take sides in the debate about the pros and cons of globalisation, or to engage in a discussion of ‘making globalisation good’. It is simply a fact of the twenty-first century, and it is an ongoing *process*, rather than an *event*. In this book, we focus on **economic globalisation**. We define economic globalisation as *the growing interdependence of locations and economic actors across countries and regions*.<sup>3</sup>

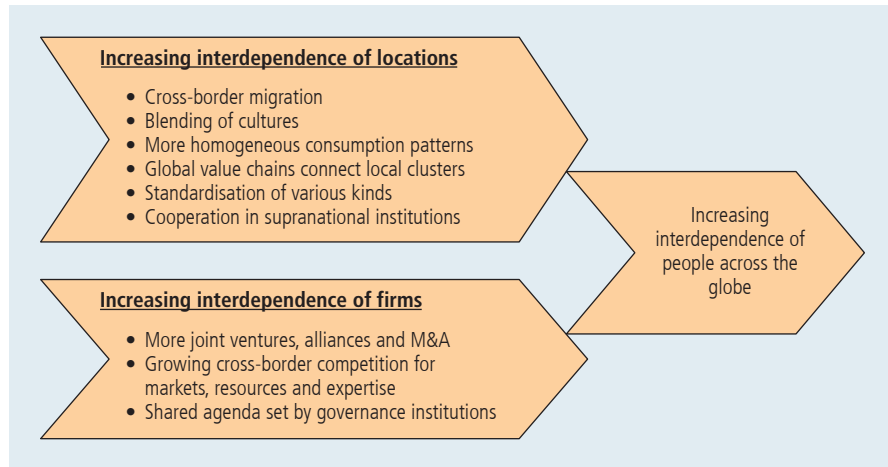
By referring to economic actors we are able to include very small actors (such as individual entrepreneurs), or very large ones (such as a nation-state, which itself consists of individuals), as well as firms of all sizes. We use the term ‘economic actor’ deliberately to include not only MNEs, but all formally and systematically organised entities (such as non-governmental organisations, clubs, associations, charities, governmental organisations, state-owned firms, hospitals, research centres and universities), each functioning (however imperfectly) as a clearly delineated single organisation for the generation of a specific set of outcomes or goals defined by their stakeholders. These may be the generation of profits, the provision of jobs, reducing poverty, or some other goal, and they seek to act as a single cohesive unit towards the achievement of this goal. The logic of how each economic actor interacts internally follows similar principles, and they are seen by other actors as a cohesive single unit, regardless of the nature of its intended goal, or its size.

### The outcomes of globalisation

As summarised in Figure 1.1, globalisation has manifested itself through certain very clear outcomes. Most obviously for the study of IB, there has been a greater interdependence of locations (whether countries, regions or cities) and an interdependence of firms.

#### Economic globalisation

The growing interdependence of locations and economic actors across countries and regions



**Figure 1.1** The consequences of globalisation

The *interdependence of locations* is an especially complex issue, and is associated with the growth of the international firm. At the most basic level, the growth of trade has reduced distances, and the concurrent growth of MNEs has accentuated this trend. The borders of countries (and cities and regions) have become increasingly blurred, because the economic actors located within that location also have operations in multiple other locations. At the country level, it affects the identity of the nation-state. On the one hand, countries remain sovereign and independent, while on the other hand, they are increasingly swayed by developments outside their borders. Currencies are floating, and their values are determined by the vagaries of currency traders the world over, and by political and economic developments not just in neighbouring countries. Should a government decide to raise corporation taxes for companies located within its borders, this does not mean that there will be greater tax revenues. Higher tax rates in one country can motivate firms to relocate their operations to a lower-tax country. The declining sovereignty of countries reflects itself in the fact that home country governments can intervene directly to influence the investment decisions of their MNEs, and few countries can afford to make policy decisions without considering what other countries are doing. Government policies have to tread a thin line between responding to international developments and to domestic priorities. Countries in the EU cannot make laws that contravene EU laws; members of the World Trade Organization (WTO) must adhere to the rules of the WTO.

At the same time, this does not mean countries have no distinct identity: there are clearly defined characteristics and patterns that are history-dependent and idiosyncratic, such as areas of specialisation, technological competences, structure of markets, consumption patterns and culture. Although at a policy and international business level, countries have less independence, at a sociological, cultural and political level they remain distinct. These differences continue to matter, and despite the rhetoric, there is little evidence that there is significant convergence at these levels.

The *interdependence of firms* has taken place through alliances, joint ventures and outsourcing activities and is a distinctive feature of globalisation. Collaboration by economic actors is happening in ever-greater numbers with every passing year. This is a phenomenon that has sparked the attention of managers, policy-makers and academics alike. Some believe that this phenomenon is the death knell of the traditional firm, that firms will become increasingly ‘virtual’, although we think this idea is somewhat exaggerated. Although collaborative activity is not a new practice, it is undeniable that there has clearly been a process of evolution whereby there is an increasing use of alliances explicitly for strategic purposes. Its novelty is not an organisational form – economic units have collaborated for millennia.

Intricate linkages between economic entities that create informal and formal networks to undertake value-added activities date back to before the seventeenth century. Rapid Japanese industrial growth over the last century has been partly attributed to the cooperation between interlinked firms with limited equity cross-holdings within industrial groups referred to in the post-World War II era as *keiretsu*. What is unique about today's collaboration between firms is its widespread use by firms of all sizes and nationalities, and its use in a growing variety of activities such as R&D, manufacturing, sales, distribution and logistics. Furthermore, cooperative activity has a growing international element, and it is not just limited to related firms but is often undertaken with international competitors.

It is important to point out that just because it seems that globalisation is leading towards a convergence of consumption patterns and the global presence of certain firms, products and services, convergence does not imply uniformity. Just because consumer preferences have become similar, this does not mean they are the same. Markets are simultaneously local as well as global, and in some instances they may remain local. Coca-Cola is an example of a firm that advertises and sells the same product on a global basis. This seems to work most of the time for Coca-Cola, but homogeneity in consumption patterns in the food and drinks industry is rarely achieved. A good example of this is the soft drinks market in Indonesia, which, despite Coca-Cola's considerable marketing efforts, continues to be dominated by unsweetened and non-fizzy tea. A local firm, Sinar Sosro PT, continues to dominate this market, with a 58 per cent share in 2014. A similar example is the coffee market in Italy. Despite priding itself on its Italian inspiration, Starbucks only entered the market in 2018 with its Starbucks Reserve Roastery in Milan. With operations in over 78 countries, it took Starbucks 47 years to target the local Italian market, which is highly distinct in terms of taste and preferences due to the 'Italian coffee culture'.

Large companies like Nestlé and Unilever have carefully plotted a course that allows them to differentiate between those product lines that can be marketed and produced regionally, locally or globally (we will discuss the integration-responsiveness framework throughout this book, particularly in Chapters 8, 9 and 10). Other markets, such as banking services and mobile telephones, have shown considerable market convergence. Even in such sectors, there are limits to how far and how fast convergence has occurred. Despite HSBC's huge investment in announcing itself as a 'global' bank operating under one brand since the 1990s, and with global technological platforms to allow seamless activity across borders, in 2015 HSBC announced its intention to disinvest from a number of key markets, such as Brazil and Turkey, and return to being a regional, Asia-based player.<sup>4</sup>

## Understanding interdependence in globalisation

There is a tendency to mistake internationalisation for globalisation, and the key to differentiating the two is the issue of **interdependence**. Interdependence is the essence of globalisation, and as usual, it is a continuum, with firms, individuals and countries demonstrating different degrees of interdependence. Understanding globalisation requires us to appreciate the increasing degree of interdependence between economic units, whether firms, individuals or countries.

The term 'interdependence' has a very specific meaning. It refers to a mutual reliance between groups of actors, and the degree of this mutual reliance can vary considerably. Members of a soccer team are typically deeply interconnected, with a high degree of interdependence. The sudden departure of a key player in a team can severely affect the efficiency of the team as a whole, and can endanger its very survival. The decision of the United Kingdom to withdraw from the European Union in June 2016 ('Brexit') will prove to be very difficult to implement because both the EU and the UK are highly interdependent, and are bound very tightly together. There are at least 759 agreements to be renegotiated,<sup>5</sup> including agreements with non-EU partners.

### Interdependence

Mutual reliance between groups of actors; individuals, firms, countries or regions

The key issues are the degree of *centrality* and *reciprocity*. Reciprocity refers to the degree to which the reliance is two-way. Take the case of the USA and India. Their economies are obviously interdependent. However, the relationship is unequal. As an economic, political and military superpower, the US has greater economic and political clout, and has greater influence in shaping the rules that define their interaction, while India remains peripheral in international affairs outside South Asia. Likewise, when it comes to economic activity, there is a strong imbalance. Over a third of India's exports go to the US, but for the US, India is only its thirteenth largest destination for exports, just after Taiwan, a country many times smaller. The United States enjoys a much more 'central' status within the global economy, while India is less central and more towards the 'periphery'. On the other hand, India has a higher centrality than Vietnam or Kenya, given its larger economic size and its geopolitical position.

The last two decades have seen China, and some East Asian economies (such as Taiwan, Korea, Singapore and Malaysia) become increasingly central compared with Laos, Vietnam or Bangladesh. Much of Africa is firmly within the periphery. It is not only about physical size, or the lack of natural resources or markets. The Netherlands and Belgium are small in these terms, but have high centrality, whereas Norway, Finland and New Zealand are on the periphery, but are less integrated into the world economy.

A more central economy is one which plays a significant role as either host or home to MNEs; engages in considerable trade in intermediate and manufactured goods; contributes greatly to innovation and scientific progress; is strongly linked or accessible physically to other central countries, through strong infrastructure, transport, and communication links; and plays a significant role in decision making within supranational organisations.<sup>6</sup>

It has become increasingly obvious that many more peripheral countries are unable to make and implement economic decisions unilaterally because in these economies MNEs from more central economies that are major players in international markets determine prices, and the central economies' banks determine lending, and therefore exchange rates, and the value and use of resources. Peripheral countries have to consider external and foreign conditions and actors in making economic decisions, and are thus more or less obliged to consider external (non-domestic) dimensions. They are *dependent* rather than interdependent on other more central countries, through supranational institutions as well as firms.

Interdependence is not just a country-level phenomenon. Economic actors come in all sizes. Large MNEs matter more than others because they are often large and powerful: the largest MNEs have revenues greater than the GDP of many countries. MNE-based industrial development policies are now commonplace among most countries.<sup>7</sup> There is also increased competition for MNE investment, particularly investments that provide opportunities for technology transfer, employment, and capital. Firms of all sizes are increasingly integrated with firms, customers, suppliers, governments and organisations in other countries.

## Regional integration

One of the most visible outcomes of globalisation is economic integration, and this is happening naturally as a result of growing interdependence. However, at the same time as 'natural' integration takes place because of growing MNE and trading activities, and the greater interdependence due to supranational organisations, common institutions, etc., there is also a process of *formal regional integration*. Most often, countries that are geographically proximate set up formal agreements to create 'groups' that seek in large part to increase **foreign direct investment (FDI)** and trade within their region, consequent from increased opportunities to exploit economies of scale. Smaller and more peripheral countries also hope that it will increase their bargaining power with larger and powerful 'central' economies. Interdependence caused by globalisation is more a consequence of increased cross-border activity, while regional integration is intended to *cause* it.

### Foreign direct investment (FDI)

Equity investments by private firms in firms located in other nations. It is different from portfolio (financial) investment in that FDI is undertaken by MNEs which exercise control of their foreign affiliates