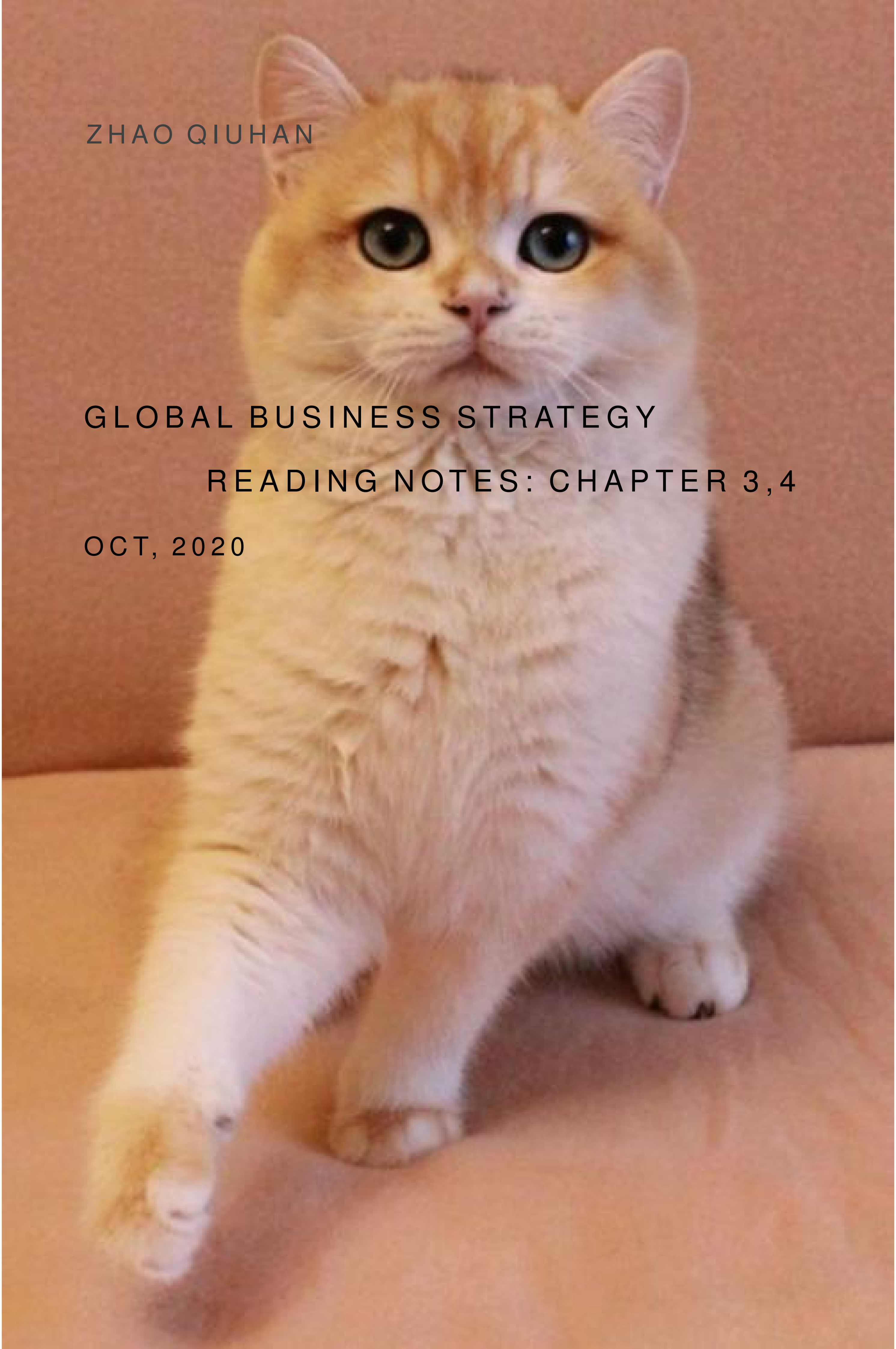

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GLOBAL BUSINESS STRATEGY

READING NOTES: CHAPTER 3,4

OCT, 2020

1
Chapter3: Changes in the Golobal Economic Enviro-ment

Topics to be covered:

- Philosophies of ***long-term economic growth*** based on economic growth theory.
- An ***economic forecast for 2030***.
- Concept of ***International Competitiviness & its indicator – IMD's World Competitiviness Index***.

1.1 Introduction

1.2 Long-Term Economic Growth by Country

Terms: ASEAN countries (Association of Southeast Asian Nations), New Industrial Economies (NIEs), Post-war era/ post-Cold war.

Economic growth theory. It consists of growth in population, accumulation of capital and improvements to technology [1]. As economic development –> automation of production processes –> increasing the capital stock per capita –> the marginal productivity of capital decrease and economic growth rate slows.

[1] Robert Solow, MIT.

Innovation on economic growth (endogenous economic growth). It focus on technological innovation, which was treated as exogenous in the Solow, and treats R&D as endogenous. Unlike capital stock, knowledge and technology [2] are intangible assets and thus can be shared with others. Through this characteristic of non-rivalry, investment in knowledge stock benefits not only the investors, but the whole of society (pp. 44) [3].

[2] ***Grossman and Helpman. (1993). Innovation and Growth in the Global Economy . Cambridge: MIT Press.*** Technology stock is fundamental to such innovations as new products and production process improvements.

[3] ***Grossman and Helpman. (1993). Innovation and Growth in the Global Economy . Cambridge: MIT Press.*** CASE study.

1.3 The Global Economic Forecast for 2030

"Dreaming with BRICs: The Path to 2050." Goldman Sachs.

Motohashi, K. (2014). The sun rises Again: Revitalization of Japan's industrial competitiveness (Hi ha mata takaku, Sangyo Kyosoryoku no Saisei). Tokyo: Nikkei Publishing Ltd. (in Japanese).

1.4 Competitiveness Rankings: IMD's World Competitiveness Yearbook

- *World Competitiveness Yearbook.* an International Management Development center and business school (IMD) [4]. It based on various tpyes of statistical data, like GDP, technology research and investment, worker's compensation levels and finacial market size. (pp. 51, Table 3.1)

[4] The method is influenced by ***Porter, M. (1990). Competitive advantage of nations . New York: Free Press.***

- *The Gobal Competitiveness Index*. the World Economic Forum (WEF).

End of Chapter 3

2
Chapter4: Comparision of Economic Institutions in China and India

2.1 Introduction

Topic covers: A more fundamental priciple of "***institutional theory***" in the context of differing business enviroments between nations, and examines its relationship to global strategy.

Countries not only have codified "formal" institutions (like laws), but also have as importantly and implicityly presented "informal" institutions [1] [2] (like the code of conduct and pratices.)

[1] Douglas North, 1993 Nobel laureate.

[2] ***North, C. D. (1990). Institutions, institutional change and economic performance . Oxford: Oxford University Press.***

2.2 Comparative Institutional Analysis of China and India

2.2.1 Overview

Figure 4.1 (Per capita GDP, pp. 60) shows the same level in 1990, but a huge gap as in 2010, which can be thought to be the difference in policies for attracting foreign capital.

Figure 4.2 (Inward foreign direct investment, pp. 61) shows an increasing trend since 1990s. However, India has no visible investment until about 2005, and begins to grow from 2006. By contrast, some direct policie allows foreign investments in China began in earnest, even under the situation that the financial crisis brought on by the Lehman Brother's bankruptcy in 2008, the cumulative total investment is still large in China. Moreover, another turning point for China came with WTO membership in 2001.

Example 2.1: World Trade Organization (WTO)

- WTO principles: *1* MFN (Most Favorable Nation) – Exception for regional integration (Free Trade Agreement, FTA; EPA??) *2* NT (National Treatment)
- WTO rules: *1* Tariffs in goods and services: ITA (Information Technology Agreement) *2* Trade Related Investment Measures (TRIMS) *3* Trade Related Intellectual Property Rights (TRIPS) *4* Goverment procurement, safety regulation, antidumping, safe guard rules etc.

2.2.2 *China: State-Led Strategic Foreign*

Refer to ***Table 4.1***.

2.2.3 *India: The Steady Progress of a Demo*

Refer to ***Table 4.1***.

2.2.4 *Comparison of Political Systems & Economic Systems*

China > India (From the perspective of political structure, it is more smoothly for foreign investment and economic development). The biggest difference is that companies in China are built through their various relationships with government, where governmental decision-making at the national and local levels impacts every aspect of business.

As a result, business owners do not take on all the risk themselves, rather the government shoulders a portion of that risk. In return, they should do business activities following the bureaucratic objectives.

India > China (From the perspective of economic systems, because some historical reasons happend in China). Until now, refering to ***Fig. 4.3***, a large portion of the Chinese economy is still essentially under the control of national or local governments. By contrast, India has an economy primarily driven by private companies.

2.3 *Global Strategy Implications*

2.3.1 *Institutional Voids*

Nonfunctioning market mechanisms -> institutional voids, which means economic institutions such as product, capital, or labor markets that have matured in developed nations, but have not reached a sufficient level of maturity in emerging markets, thus creating a void[3].

[3] ***Khanna, T., & Palpu K. G. (2010). Wining in emerging markets: A roadmap for strategy and execution. Boston: Harvard Business School Press.***

Example 2.2: Four classifications of Voids

- Voids in product markets.
- Voids in capital markets.
- Voids in labor markets.
- Macroenviroments related to institutions.

- Voids in product markets, which are determined by (***the extent products and services can be purchased by consumers***), and (***whether market thickness can be secured with sufficiently functioning competitive markets containing many buyers and sellers***).

- Voids in capital markets, where India is better than China, as a result of that China's publicly traded corporations have more than half are owned by government-related entities. But
- Voids in labor markets, which is determined by how efficiently labor demand is matched with supply. China is better according to this factor.
- Macroenviroments related to institutions, including foreign capital regulations, broadcasting regulations, and regulations on the activities of foreign firms. China's institutional voids is minimal due to it is mainly focus on the politically sensitive content.

2.3.2 *Importance of Informal Institutions*

- The necessity of strenthening understanding of institutions, including informal rules such as codes of conduct and pratices in corporate economic activities, additionally explicit rules such as economic laws that are part of economic institutions in target countries.
- The relationship with the government is particularly important for bussiness in emerging markets. China is quite unique because it has a economy in which political processes that determine national leadership take place in the Communist Party, and economic development objectives are achieved through a system of "elimination tournaments" at the local government level (pp. 75). A fact -> local government policies and decision-making have a significant impact on global business.

Example 2.3: Types of gloabal business risks

- Politics, Economics, Society, Technology (PEST).
- Global business: beyond PEST, risks inherited in institutional voids.

Mojor risks associated with China business: 1) Increasing production cost, like labor costs, worker protection policy etc. 2) Technology leakage, including ***high labor turnover*** and ***Intellectual Property Rights (IPR)***. 3) Lack of transparency with government policy, various regulations.

End of Chapter 2