

Mock test

1. GDP has been growing both in nominal and real terms for the past centuries:
 - Humanity in general benefited
 - Distribution? “Fortunes changed hands”
 - The rich get richer... but so do the poor!
 - Income distribution *between* and *within* countries
 - Real wages went up with higher productivity (welfare increased)
2. A zero-sum game implies that someone is getting something at the expense of other(s). But in reality, as long as there is free will (voluntary exchange) this cannot be so

Mock test

3. The statement of flatness remains in general rather naïve. Stats show that there is still “a lot of room” to achieve a fully globalized economy

4. Offshoring refers to relocating business activities abroad, regardless of their ownership status. Outsourcing refers to externalizing these activities to a 3rd party provider regardless of the location. FDI does not imply relocation/externalization (only investment). Offshoring effects can be:
 - On local employment (negative or positive?)
 - On local productivity levels (positive)
 - On local consumption and welfare (positive)

Mock test

5. Countries might engage in trade for several reasons (such as differences in productivity or in factor endowments), but in reality is a combination of all those reasons
6. The situation can be summarized as if we were dealing with two countries with different productivities, so the conclusions of Ricardo's model would still hold

Note: Questions in the oral examination will highlight the applicability of theories / hypotheses/ arguments by means of examples, real situations, data, etc.

International environment and managerial decision

Two main frameworks for global expansion decision-making (Ghemawat):

1. The CAGE framework
2. The AAA triangle

Global strategy:

Why things can sometimes go completely wrong?

Overconfidence of managers? Error of calculation?

Decision making in the direction of defining a firm's global strategy has many facets

The CAGE framework

- The types of distance influence different businesses in different ways:
 1. **C**ultural: languages, ethnicities, social networks, religions, social norms
 2. **A**dministrative: colonial ties, institutions, monetary or political association, government policies
 3. **G**eographic: physical remoteness, lack of common border, lack of sea or river access, size of country, climates
 4. **E**conomic: consumer incomes, costs, quality of resources

The CAGE framework

- Industries / products affected by distance:
 1. Cultural: high linguistic content (TV), product features (size, appliances, packaging), country quality associations
 2. Administrative: government involvement high in staples (electricity), large employers (farming) and other (drugs, oil, aerospace, mining)
 3. Geographic: products that have low value-to-weight ratio (cement), fragile or perishable (glass or fruit), also when communications are important (financial services), or high requirements of supervision (many services)
 4. Economic: demand varies with income (cars), economies of scale important (mobile phones), labor costs are salient (garments), firms need to be responsive (appliances)

The AAA triangle

- The “AAA triangle” (Ghemawat, 2007):
 - Adaptation
 - Aggregation
 - Arbitrage

Most border-crossing companies will draw from all three A's to some extent.

But → Tensions within and among approaches.

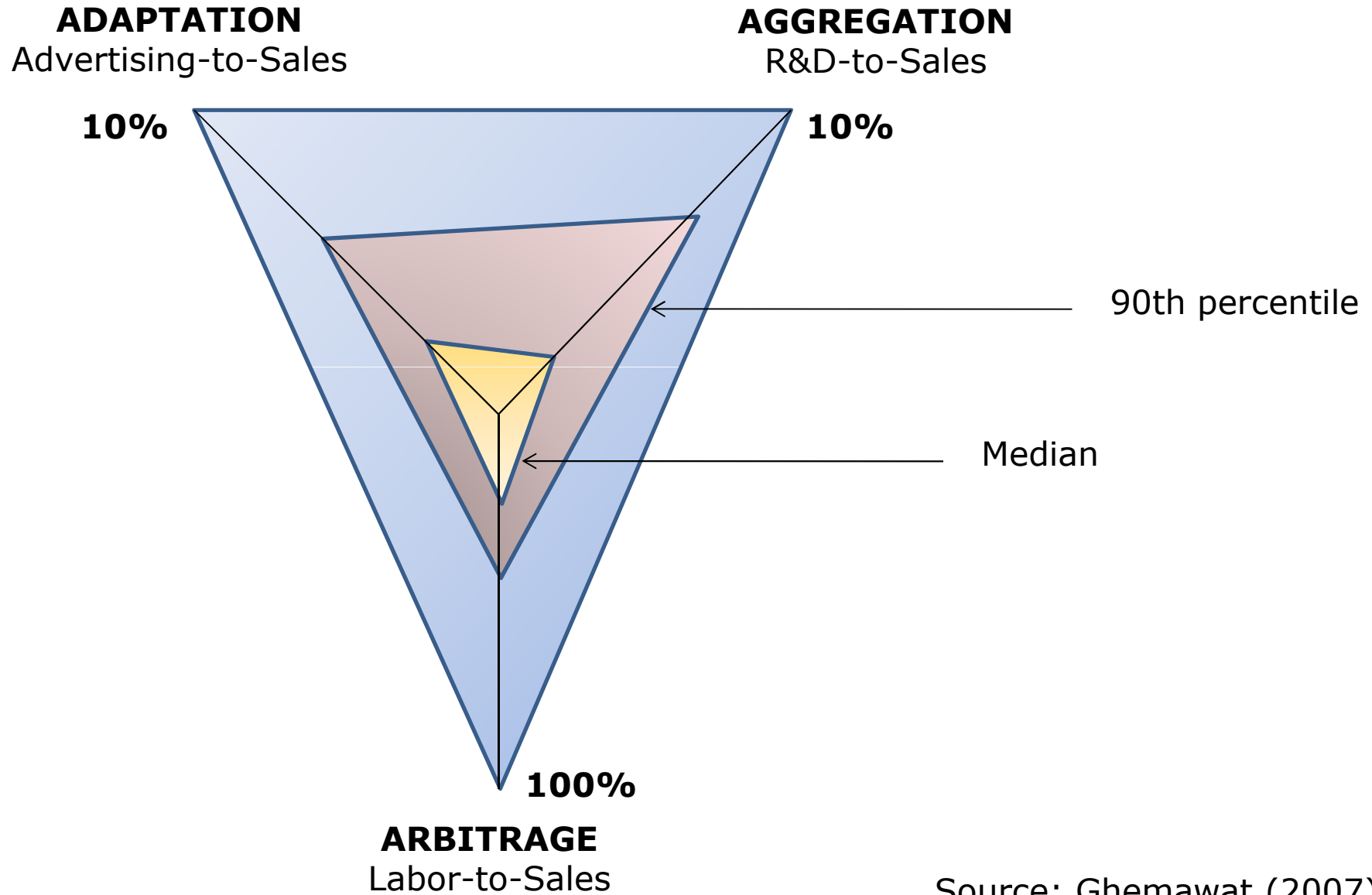
The AAA triangle

- Adaptation → country-centered
- Aggregation → regional structures
- Arbitrage → vertical structure

Most companies emphasize different A's at different stages (IBM)

Within the same industry firms can differ in their global strategic profiles (Tata vs. Cognizant)

The AAA triangle

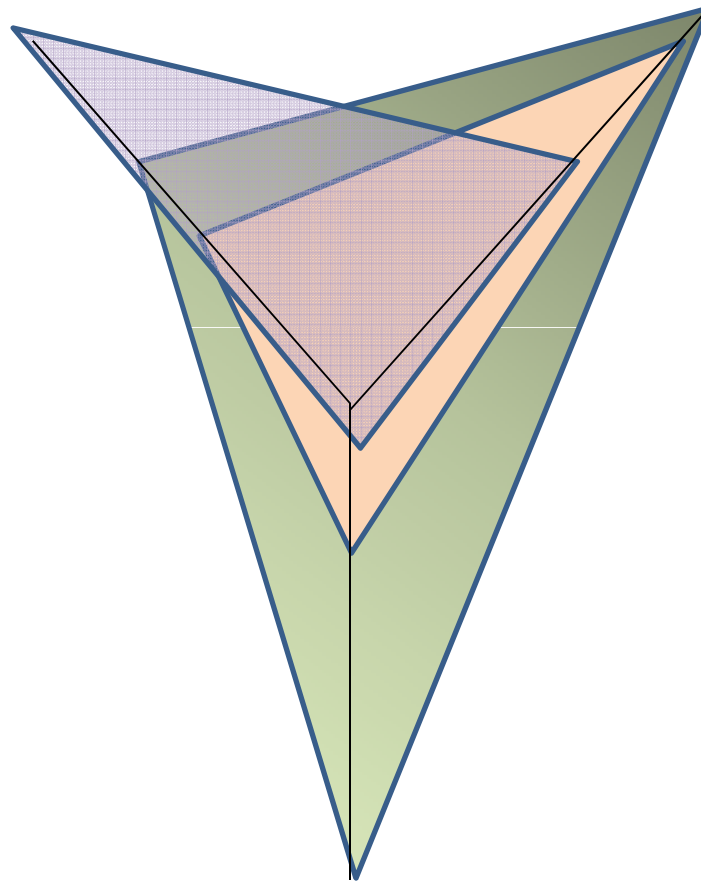


Source: Ghemawat (2007)

An example: The diagnostic-imaging industry

ADAPTATION

AGGREGATION



- Phillips Medical System
- GE Healthcare
- Siemens Medical Solutions

ARBITRAGE

Source: Ghemawat (2007)

The right strategy

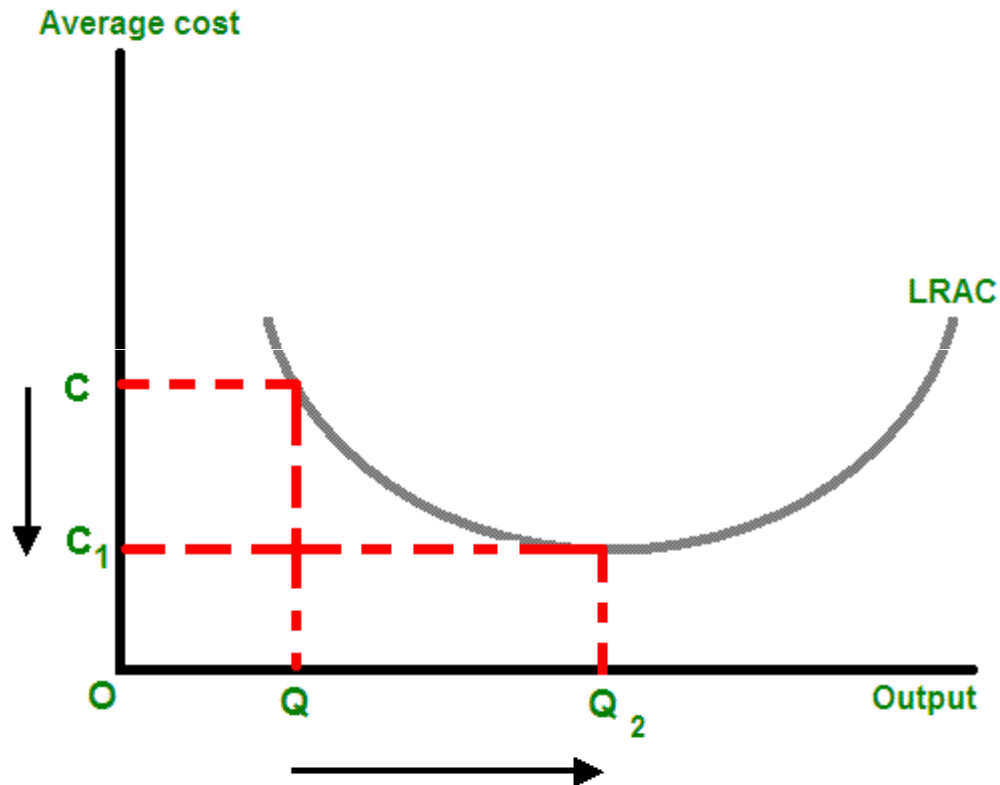
- Focus on one, or two (at most) of the A's.
- Make sure the new elements are a good fit.
- Be creative!
- Think about externalizing.

The AAA triangle: An example

Are economies of scale key to any corporate strategy to build a global competitive advantage? **Not necessarily!**

- **Economies of scale:** cost advantages that a business obtains when it expands.
- **Corporate strategy:** overall scope and direction of a corporation.
- **Global competitive advantage:** strategic advantage of one business over its rivals.

Economies of scale



Moving towards Q_2
implies $\partial C / \partial Q < 0$

Economics is one thing,
the manager's mindset is
yet another!

Misleading assumptions

1. Balance between economies of scale and responsiveness to local conditions.
 2. The more emphasis on economies of scale, the more global the strategies.
- **Goal** should be: to manage the differences that arise at borders (geographically or other).
 - **Adaptation and Arbitrage too.**

The AAA triangle: A proper framework

- The “AAA triangle” (Ghemawat, 2007):
 - Adaptation
 - Aggregation → **economies of scale**
 - Arbitrage

Most border-crossing companies will draw from all three A's to some extent.

But → Tensions within and among approaches.

Further reading

- Ghemawat, P., 2007, Managing differences: The central challenge of global strategy, Harvard Business Review, 59-68.
- Ghemawat, P., 2007, Redefining global strategy: Crossing borders in a world where differences still matter.
- Ghemawat, P., 2001, Distance still matters: The hard reality of global expansion, Harvard Business Review, 137-147.