Chapter 7: FDI

- **FDI** (Foreign Direct Investment): occurs when a company invests directly to make or market products/services in foreign countries. (**Any company do FDI is called multinational enterprise)**

- **FDI can be:**
  - **Greenfield Investment**: building new company in a foreign country
  - **Acquisitions & Mergers:** Merging or acquiring an existing company in a foreign country.

- **FDI Flow**: amount undertaken in a given time **period.**
- **FDI Stock**: total value of owned assets in foreign countries in a given **time.**
- **FDI Outflow**: FDI going out of a country.
- **FDI Inflow**: FDI going into a country.

Host-Country BENEFIT from FDI: (Country which takes FDI)

1. **Resource Transfer effects**: FDI Company will transfer resources to the host country, resources like capital, technology, and management.
2. **Employment effects:** FDI Company will bring jobs to the host country.
3. **Balance of Payments:** The host country balance of payments accounts will increase.
4. **Competition & Economic Growth effects:** Greenfield FDI can increase competition and help in lowering prices. Increased competition can also increase productivity.

(FDI can help a host country to achieve a current account surplus.)

Host-Country COST from FDI: (Country which takes FDI)

1. Competition caused by FDI can create problems in host country.
2. Outflow of FDI can disturb the balance of payments.
3. Host country will risk its nationalism by having foreign companies.

Chapter 8: Regional Economic Integration

1. **Regional Economic Integration**: Are the agreements between countries in a geographic location to reduce tariff and non-tariff barriers to the free flow of goods, services, and factors of production between each other.

(Regional trade agreements will promote free trade)

❖ Levels of Economic Integration:

1. **Free Trade Area:** removes trade barriers to the trade of goods and services between member countries, but **countries make their own trade policies for non-members**.
   - Example: **EFTA (**European Free Trade Association): Norway, Iceland, Switzerland…
   - Example: **NAFTA (**North American Free Trade Agreements): USA, Mexico and Canada.

2. **Customs Union:** removes trade barriers between member countries, and **members adopt a common trade policy**.
   - Example: **Andean Pact**: Bolivia, Columbia, Ecuador and Peru.

3. **Common Market**: like custom union + **free movement for factors of production**.
   - Example: **MERCOSUR**: Brazil, Argentina, Paraguay and Uruguay)

4. **Economic Union**: like Common market **+ common currency + common monetary and fiscal policy**.
   - Example: **EU** (European Union)

5. **Political Union**: EU is partial political union and USA too.

❖ **Regional economic integration is only beneficial if trade creation > trade diversion.**

- **Trade creation** occurs when low cost producers within the free trade area replace high cost domestic producers

- **Trade diversion** occurs when higher cost suppliers within the free trade area replace lower cost external suppliers

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Chapter 13: The Organization of International Business

- **Organizational architecture** refers to the totality of a firm's organization, including formal organization structure, control systems and incentives, processes, organizational culture, and people

1. **Organizational structure** : refers to the overall structure and shape of the organization.

2. **Control systems** are the metrics used to measure performance of subunits and make judgments about how well managers are running those subunits

3. **Incentives** are the devices used to reward appropriate managerial behavior

4. **Processes** are the manner in which decisions are made and work is performed within the organization

5. **Organizational culture** refers to the norms and value systems that are shared among the employees of an organization

6. **People** refers to not just the employees of the organization, but also the strategy used to recruit, compensate, and retain those individuals and the type of people they are in terms of their skills, values, and orientation

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Types of Control Systems:

- **Personal Controls**
- **Bureaucratic Control**: Rules & Procedures
- **Output Controls**
- **Cultural Controls:** employees fit with the norms and values of the company.

Performance Ambiguity: Occurs when the reason of poor performance is not clear.

Organizations Strategy:

1. **Localization Strategy:** Company focus on local factors.
2. **International Strategy:** Company transfer core competency to foreign countries.
3. **Global Standardization Strategy:** Adaptive strategy, and depends on each country of operation.
4. **Transnational Strategy:** A hybrid of all the previous strategies.

For Firms to Succeed:

1. The firm strategy must be consistent with the environment it operates in.
2. The firm organization architecture must be consistent with the firm strategy.

Chapter 14: Entry Strategy and Strategic Alliances

- **Entry Strategies:**
  1. Exporting
  2. Turnkey Projects
  3. Licensing
  4. Franchising
  5. Acquiring an established company or Joint Ventures
  6. Establishing a whole owned subsidiary

- **Choosing an Entry Strategy depends on several factors:**
  1. Transport Costs
  2. Trade Barriers
  3. Political Risks
  4. Economic Risks
  5. Costs
  6. Firm Strategy

If a company wants to enter a foreign market, it must ask itself the following:

1. Which market to enter? (Which is more favorable & First mover advantage)
2. When to enter? (timing of entry to make the most out of it)
3. How big should we enter? (To beat competition if any)

First Mover Advantage:

- The first to market in the country (creating demand)
- Build up high sales volume
- Ability to create switching costs

First Mover Disadvantage:

- Pioneering Costs (Failure cost, and high startup costs)
  Pioneering costs also refers to the time and effort spent learning the rules of a new market.

Strategic Alliance: are cooperative agreement between potential or actual competitors, and they range from joint ventures to short-term contracts.

A successful strategic alliance depends on:

- Partner selection
- Alliance Structure
- The way in which the alliance is managed.

Entry Mode	Advantages	Disadvantages
Exporting	Ability to realize location and experience curve economies	High transport costs Trade barriers Problems with local marketing agents
Turnkey contracts	Ability to earn returns from process technology skills in countries where FDI is restricted	Creating efficient competitors Lack of long-term market presence
Licensing	Low development costs and risks	Lack of control over technology Inability to realize location and experience curve economies Inability to engage in global strategic coordination
Franchising	Low development costs and risks	Lack of control over quality Inability to engage in global strategic coordination
Joint ventures	Access to local partner's knowledge Sharing development costs and risks Politically acceptable	Lack of control over technology Inability to engage in global strategic coordination Inability to realize location and experience economies
Wholly owned subsidiaries	Protection of technology Ability to engage in global strategic coordination Ability to realize location and experience economies	High costs and risks