TT TEXTBOOK TESTBANKS

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CORRECT ANSWERS ARE LOCATED IN THE 2ND HALF OF THIS DOC.

TRUE/FALSE - Write 'T' if the statement is true and 'F' if the statement is false.

1) International trade includes exports, imports, and foreign direct investment.
   - ⊙ true
   - ⊙ false

2) Nearly 60 percent of global output is now destined for international trade.
   - ⊙ true
   - ⊙ false

3) The proportion of world trade coming from North America, Latin America, Africa, and the Middle East has decreased since 2003.
   - ⊙ true
   - ⊙ false

4) Currently, the United States is the largest exporter in the world.
   - ⊙ true
   - ⊙ false

5) Thanks in part to communication advancements, international trade has stabilized and become fairly evenly distributed across all countries of the world.
   - ⊙ true
   - ⊙ false

6) The development of expanded regional trade agreements, such as the Association of Southeast Asian Nations, Mercosur, and the EU, can substantially alter the level and proportion of trade flows within and across regions.
   - ⊙ true
   - ⊙ false

7) The first formulation of international trade theory by Adam Smith was motivated by political considerations.
   - ⊙ true
   - ⊙ false

8) The central idea of mercantilism is based on the specialization of goods and services as a way for a company to distinguish itself from others.
   - ⊙ true
   - ⊙ false

9) The theory of absolute advantage suggests that under free, unregulated trade, each nation should specialize in producing those goods it can produce most efficiently, based on naturally occurring endowments such as minerals.
   - ⊙ true
   - ⊙ false

10) According to the theory of comparative advantage, international trade can still be a positive-sum game that benefits both countries having an absolute advantage over one another.
   - ⊙ true
   - ⊙ false

11) Currency devaluation helps a nation avoid losing markets and regain competitiveness in world markets.
   - ⊙ true
   - ⊙ false

12) The international product life cycle theory may have its greatest usefulness in explaining trade and investment behavior when international firms introduce their new products in home markets first.
   - ⊙ true
   - ⊙ false

13) The predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases is known as the experience curve.
   - ⊙ true
   - ⊙ false

14) Michael Porter claims that at least 10 types of variables can influence a firm’s ability to gain competitive advantage.
   - ⊙ true
   - ⊙ false

15) Portfolio investment is the purchase of sufficient stock in a firm to obtain significant management control.
   - ⊙ true
   - ⊙ false

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16) Historically, foreign direct investment has followed foreign trade. One reason for this is that foreign trade can be undertaken for less investment than making a direct investment into a foreign market.
    - ⊚ true
    - ⊚ false

17) The vast proportion of outward FDI, about two-thirds, originates from the developed countries.
    - ⊚ true
    - ⊚ false

18) The majority of the world's outward FDI has been in the form of imports and exports.
    - ⊚ true
    - ⊚ false

19) Internalization theory suggests that when an organization has superior knowledge, it may obtain a better price by selling it to the open market.
    - ⊚ true
    - ⊚ false

20) The dynamic capability theory states that for a firm to invest overseas, it must have three kinds of advantages: ownership specific, internalization, and location specific.
    - ⊚ true
    - ⊚ false

MULTIPLE CHOICE - Choose the one alternative that best completes the statement or answers the question.

21) What event in 2020 caused a temporary decline in exports globally?
    - A) COVID-19 pandemic
    - B) oil shortage that resulted in increased petroleum prices
    - C) hurricanes and draughts caused by climate change
    - D) government policy against exporting

22) When examining the volume of international trade, how are goods and services currently represented?
    - A) Exports of goods and services quadrupled between 1990 and 2013.
    - B) Exports of services grew faster than trade in merchandise for the last 20 years.
    - C) There are fewer goods traded than services.
    - D) Goods and services have reached equal levels of trading volumes.

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23) Since 2003, the proportion of world trade coming from North America has
    A) increased by 20 percent.
    B) tripled.
    C) decreased overall.
    D) not changed.

24) The proportion of merchandise exports from Asia has _________ since 2003.
    A) increased by 30 percent
    B) tripled
    C) seen an overall decline
    D) almost doubled

25) Overall, what has occurred with the dollar volume of service exports worldwide?
    A) The dollar volume of exports has maintained a low, but consistent, rate.
    B) Service exports have decreased with the advent of competition.
    C) There has been an absolute increase.
    D) There has been no change.

26) The rapid expansion of world exports in the last 40 years demonstrates that
    A) businesspeople can expect to meet lower levels of competition in their domestic markets.
    B) domestic business cannot compete with cheap imports.
    C) the opportunity to increase sales by exporting is a viable growth strategy.
    D) jobs will inevitably decline in developed countries due to import competition.

27) In examining the volume of international trade, the proportion of world exports and imports accounted for by the 10 largest exporting and importing nations in 2016
    A) was less than 10 percent.
    B) was approximately 25 percent.
    C) exceeded 50 percent.
    D) was approximately one-third.

28) A major portion of the exports from developing countries go to _________ countries; this proportion has been _________.
    A) developed; increasing
    B) developing; increasing
    C) developed; decreasing
    D) developing; decreasing

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29) World trade is dominated with exchanges __________
  A) among nonbordering countries.
  B) between geographic regions.
  C) between state-owned enterprises.
  D) within geographic regions.

30) USMCA and other treaties are the main reasons that most of Canada's exports go to
  A) the EU.
  B) South America.
  C) Asia.
  D) the United States and Mexico.

31) When considering where to export, advantages to managers of focusing on a nation that is already a sizable purchaser of goods coming from the home country include the fact that
  A) the cultures of the two countries should be relatively similar and compatible.
  B) the climate for foreign direct investment in the importing nation is relatively favorable.
  C) export and import regulations are not insurmountable.
  D) the two countries are part of the same regional trade agreement.

32) Mexico and Canada are major U.S. trading partners because they have the benefit of lower freight charges and shorter delivery times. Why do these benefits exist for these two nations?
  A) They established these parameters in the USMCA agreement.
  B) They share a border with the United States.
  C) They source production materials from China.
  D) They have established economies of scale for goods and services.

33) Which country currently exports the most to the United States?
  A) Indonesia
  B) Canada
  C) Mexico
  D) China

34) The three nations that exported the largest amount of goods to the United States in 2017 were
  A) China, Canada, and Mexico.
  B) China, Mexico, and the United Kingdom.
  C) China, Japan, and Saudi Arabia.
  D) Canada, Mexico, and Japan.

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35) Which countries have become increasingly important trading partners to the United States as suppliers of electronic products?
   A) Canada and Mexico
   B) China, Canada, and Mexico
   C) Germany and the United Kingdom
   D) China, Vietnam, and Malaysia

36) When the value of imports into a nation exceeds the value of its exports, that nation is experiencing a(n)
   A) economy of scale.
   B) fixed market.
   C) competitive advantage.
   D) trade deficit.

37) Government administrations get concerned when the number and value of imports into the country are greater than the value of the country's exports. In other words, the administration is concerned about
   A) product differentiation.
   B) a trade deficit.
   C) absolute advantage.
   D) economies of scale.

38) Some countries send out buying missions to other countries in order to find products to import because their exports are exceeding the value of their imports. In other words, the nations are experiencing a(n)
   A) economy of scale.
   B) absolute advantage.
   C) trade surplus.
   D) product differentiation.

39) Nations encounter a trade surplus when the value of
   A) exports exceeds the value of imports.
   B) imports and exports doesn't change.
   C) imports exceeds the value of exports.
   D) imports and exports is balanced.

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40) In 2019, what product was included in the five largest categories of U.S. goods exported to China?
    A) furniture
    B) soybeans
    C) toys
    D) soft goods

41) In 2019, what was the included in the five largest categories of U.S. goods imported from China?
    A) aircraft
    B) grains
    C) automobiles
    D) apparel

42) Supporters of mercantilism would agree that
    A) accumulation of precious metals is an activity essential to a nation's welfare.
    B) industrial development is the primary source of a nation's wealth.
    C) trade policies that generally benefited consumers and emerging industrialists should be promoted.
    D) more than one nation can maintain a comparative advantage.

43) In England, mercantilists believed that
    A) merchants should import goods to raise the level of living.
    B) governments should lower import duties.
    C) a nation should have an export surplus in order to accumulate precious metals.
    D) a nation should produce goods for which there is a comparative advantage.

44) Who advocated the early attempt to develop an international trade theory in response to the practice of mercantilism?
    A) David Ricardo
    B) Raymond Vernon
    C) Stefan Linder
    D) Adam Smith

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45) Adam Smith argued against mercantilism by claiming that
   A) governments, not market forces, should determine the directions, volume, and composition of international trade.
   B) a nation could trade advantageously if it had a comparative advantage.
   C) market forces, not government controls, should determine direction, volume, and the composition of international trade.
   D) absolute advantage was a myth.

46) The capability of one nation to produce more of a good or service than another country for the same or lower cost of inputs is a(n)
   A) comparative advantage.
   B) absolute advantage.
   C) mercantilist advantage.
   D) trade surplus.

47) The United States can produce more wheat for the same or lower costs than many other countries. This is an example of
   A) a trade surplus.
   B) economies of scale.
   C) absolute advantage.
   D) mercantilism.

48) If Ecuador has an absolute advantage in coffee and Argentina in wheat, then, according to trade theory
   A) Ecuador should focus production on coffee and trade for other goods.
   B) Ecuador would do well to produce its own wheat rather than import it from Bolivia.
   C) Argentina should focus on producing coffee and trade for wheat.
   D) there will be a perfect trade balance between the two countries.

49) A market situation in which there is a sufficiently large number of well-informed buyers and sellers of a homogeneous product such that no individual participant has enough power to determine the price of the product, resulting in a marketplace that is efficient in production and allocation of products is known as
   A) absolute advantage.
   B) mercantilism.
   C) trade deficit.
   D) perfect competition.

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50) A country __________ when it decides to use its resources to produce only the product in which it has an absolute advantage.

A) monopolizes
B) specializes
C) rejects trade
D) globalizes

51) A nation having absolute disadvantages in the production of two goods with respect to another nation has a(n) __________ in the production of the good in which its absolute disadvantage is less.

A) comparative advantage
B) absolute advantage
C) mercantilist advantage
D) competitive advantage

52) According to the theory of comparative advantage, trade can benefit

A) the exporting country involved in a trade.
B) neither country involved in a trade.
C) both countries involved in a trade.
D) the importing country involved in a trade.

53) According to the theory of comparative advantage, a nation

A) should produce the goods for which its absolute disadvantage is less.
B) can gain from trade if it is equally inefficient in producing at least two goods.
C) must have an absolute advantage in at least one good to gain from trade.
D) should strive to produce trade surpluses to acquire supplies of precious metals.

54) A nation that is struggling to remain competitive in the world market may decide to reduce the value of the country's currency relative to other currencies. This process is called currency

A) surplus.
B) deficit.
C) customization.
D) devaluation.

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55) How are exchange rates used in international trade?
   - A) Exchange rates are used to convert from foreign to domestic currency.
   - B) Exchange rates indicate which products create an absolute advantage for trading partners.
   - C) Exchange rates are used to devalue property in exchange for goods.
   - D) Exchange rates set the costs of labor.

56) Theory based on _________ states that international and interregional differences in production costs occur because of differences in the supply of production factors.
   - A) comparative advantage
   - B) absolute advantage
   - C) mercantilist advantage
   - D) resource endowments

57) What is an example of a resource endowment that a nation possesses?
   - A) government
   - B) land
   - C) religion
   - D) universities

58) The theory of resource endowment explains

   - A) why France sends cosmetics, wine, and clothing to Chile.
   - B) that a nation will export goods that can be produced with the production factor that is most abundant.
   - C) why an automobile can be made either by hand or by a capital-intensive process.
   - D) that a nation less efficient in producing a good has a comparative advantage.

59) The theory of overlapping demand explains
   - A) how international trade in manufactured goods will be linked to gross national income.
   - B) why companies will add excess capacity to their production systems.
   - C) that a nation's per capita income determines the kinds of goods it will need.
   - D) where competitive clusters will occur.

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60) The theory of overlapping demand suggests that
   A) international trade in services will be more common between countries with high and low relative levels of labor costs.
   B) countries with similar geography will have similar demand traits.
   C) trade wars will usually occur between countries that have similar levels of income.
   D) international trade in manufactured goods will be more common between countries with similar levels of income.

61) Giuliana purchases Open Source bottled water from France because it is derived from natural springs and the store brand doesn't say where it comes from. What is influencing Giuliana's purchase decision?
   A) a trade surplus
   B) product differentiation
   C) overlapping demand
   D) economies of scale

62) Product differentiation refers to the
   A) availability of a variety of goods in a single product category.
   B) ability of one country to produce a product that another country cannot produce.
   C) existence and demand for similar products among nations with similar per capita incomes.
   D) way companies create demand by building unique differences into their products.

63) The international product life cycle addresses
   A) how international trade in manufactured goods will be linked to gross national income.
   B) that a nation will trade goods that can be produced with the production factor that is most abundant.
   C) the role of innovation in trade patterns.
   D) why mercantilism failed.

64) According to the international product life cycle, which country has the largest population of high-income consumers and as a result, intense competition for their patronage?
   A) Canada
   B) China
   C) Japan
   D) the United States

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65) What is the second stage in the international product life cycle theory?
   A) The United States innovates and exports.
   B) Foreign competition appears in export markets.
   C) Import competition appears in the United States.
   D) Foreign production begins.

66) U.S.-based Good For You Coffee Company introduced its line of herbal coffees to the international market two years ago. They were well received, and now foreign competitors are starting to export similar products. Which stage of the product life cycle is the product currently in?
   A) Stage 1
   B) Stage 2
   C) Stage 3
   D) Stage 4

67) U.S.-based Play-On has been selling audio and video equipment to the international market for six years. Recently, the company decided to stop producing its line of televisions because the United States is importing televisions at a lower cost than the company can make its television. Which stage of the product life cycle is the product currently in?
   A) Stage 1
   B) Stage 2
   C) Stage 3
   D) Stage 4

68) What are economies of scale?
   A) They refer to the rising scale on which efficiency improves as a result of cumulative experience and learning.
   B) They are the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.
   C) They are only relevant to manufacturing industries.
   D) They occur due to the presence of abundant resource endowments within a nation.

69) Five years ago it cost Bernie's Bikes Inc. about $52 dollars to build a single bike. Today, it only costs the company about $31 because they have automated the process and are able to purchase component parts in larger quantities. What allowed the company to reduce the price to build a bike?
   A) product differentiation
   B) trade surplus
   C) economies of scale
   D) trade deficit

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70) The experience curve refers to
   - A) the rising scale on which efficiency improves as a result of cumulative experience and learning.
   - B) the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.
   - C) the plateau stage in the product life cycle where companies export products for the first time.
   - D) the sloping curve that designates the end of the product life cycle.

71) What is one of the reasons suggested by economist Alfred Marshall for why firms tend to cluster together on a geographic basis?
   - A) Production costs decline as facilities get larger.
   - B) Efficiency improves as the result of cumulative experience.
   - C) Competition will not enter the market.
   - D) Technological information can be readily shared.

72) Which element is included in Porter's diamond model of national advantage?
   - A) Demand conditions
   - B) Export conditions
   - C) Social conditions
   - D) Supply conditions

73) Which element in Porter's diamond model of national advantage distinguishes between the land a company owns and the transportation systems available for it to use?
   - A) Competitive conditions
   - B) Export conditions
   - C) Factor conditions
   - D) Supply conditions

74) Which of the elements in Porter's diamond model of national advantage takes into consideration the sophistication of a company's customers?
   - A) Export conditions
   - B) Factor conditions
   - C) Demand conditions
   - D) Government

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75) Which of the elements in Porter's diamond model of national advantage takes into consideration companies that locate near the suppliers they need to produce their product?
   A) Related and supporting industries
   B) Demand conditions
   C) Firm strategy, structure, and rivalry
   D) Factor conditions

76) According to Porter, the four variables he believes influence a firm's ability to gain a competitive advantage create a _________ of resource generation and application.
   A) virtuous circle
   B) consistent triangle
   C) reliable square
   D) redundant cone

77) The two components of foreign investment include portfolio investment and
   A) exporting.
   B) importing.
   C) government tariffs.
   D) direct investment.

78) Deals that do not result in a foreign investor obtaining at least _________ of the shareholdings are classified as portfolio investments.
   A) 25 percent
   B) 100 percent
   C) 50 percent
   D) 10 percent

79) Firms from _________ had the largest total outstanding stock of direct overseas investment at the beginning of 2020.
   A) Germany
   B) the United States
   C) the United Kingdom
   D) Japan

80) Many firms are choosing to locate production close to available resources as a way to
   A) take advantage of factor endowments in overseas locations.
   B) increase transportation options.
   C) motivate employees.
   D) improve efficiency.

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81) Industrialized nations invest primarily in_________, and they trade more with _________.
   - A) developing nations; neighboring nations
   - B) neighboring nations; developing nations
   - C) one another; one another
   - D) their own nation; other nations

82) Which regions accounted for an average of 49 percent of all inward FDI for 2015–2019?
   - A) United States and the European Union
   - B) China and Canada
   - C) African nations and South America
   - D) the Middle East and Africa

83) The establishment of new facilities from the ground up is known as
   - A) cross-border acquisition.
   - B) exporting.
   - C) greenfield investment.
   - D) gray market trade.

84) General Motors built a facility in Coahuila, Mexico to produce propulsion systems in 1981. What type of investment does this represent?
   - A) cross-border acquisition
   - B) greenfield investment
   - C) exporting
   - D) internal investment

85) The purchase of an existing business in another nation is known as a
   - A) cross-border acquisition.
   - B) strategic alliance.
   - C) greenfield investment.
   - D) home country expansion.

86) American Canine wanted to expand its market into Europe, so it purchased a dog supply company in France and merged it with American Canine. What type of federal direct investment did American Canine choose?
   - A) cross-border acquisition
   - B) strategic alliance
   - C) greenfield investment
   - D) home country expansion

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87) The monopolistic advantage theory suggests that firms in oligopolistic industries are likely to __________ foreign direct investment when they have technical and other advantages over indigenous firms.

A) increase
B) reduce
C) ignore
D) not change

88) The monopolistic advantage theory states that

A) a firm that has a monopoly has a major advantage in overseas investment.
B) FDI is made by firms in oligopolistic industries possessing technical advantages over local companies.
C) a firm that has a monopoly domestically will have no competition making overseas investments.
D) the firm making the overseas investment first has a monopolistic advantage.

89) An industry that has a limited number of competing firms, such as the U.S. wireless telecom market in which three firms controlled over 80 percent of the market in 2020, is known as

A) perfect competition.
B) a monopoly.
C) an oligopolistic industry.

D) deregulated.

90) The theory suggesting that rivalry between firms in an oligopolistic industry will result in firms closely following and imitating each other's international investments in order to keep a competitor from gaining an advantage is known as

A) internalization theory.
B) internationalization theory.
C) strategic behavior theory.
D) competitive imitation theory.

91) The theory that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market is known as

A) internalization theory.
B) internationalization theory.
C) strategic behavior theory.
D) dynamic capabilities theory.

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92) The theory that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time, is known as
A) internalization theory.
B) internationalization theory.
C) strategic behavior theory.
D) dynamic capabilities theory.

93) Dunning's eclectic theory of international production states that if a firm is going to invest in production facilities abroad, it must have one of 3 kinds of advantages. Which one relates to firms having various alternatives to entering foreign markets, ranging from making arm's-length market transactions to operating wholly owned subsidiaries?
A) ownership-specific
B) strategic
C) location-specific
D) internalization

94) Chow Down makes oven-ready meals that are sold in grocery stores. The company is thinking about expanding overseas by investing in a facility to make the product rather than exporting so it can avoid tariffs and transport costs. Which of Dunning's three advantages of investing overseas most relates to this decision?

A) ownership-specific
B) strategic
C) location-specific
D) internalization

95) All motives for FDI are linked in some way to the desire to increase or protect not only profits but also
A) sales and markets.
B) proprietary knowledge.
C) human resources.
D) production quality.

FILL IN THE BLANK. Write the word or phrase that best completes each statement or answers the question.

96) The amount by which the value of imports into a nation exceeds the value of its exports is known as the country's __________.

97) The amount by which the value of a nation's exports exceeds the value of its imports is known as the country's __________.

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98) __________ refers to a nation's ability to produce more of a good or service than another country for the same or lower cost of inputs.

99) The economic theory known as __________ viewed precious metals like gold and silver as the only source of wealth, and the accumulation of these metals was an essential part of a nation's welfare.

100) When one nation is less efficient than another nation in the production of each of two goods, the less efficient nation has a __________ in the production of that good for which its absolute disadvantage is less.

101) Currency __________ refers to a reduction in the value of a country's currency relative to other currencies.

102) Economist Stefan Linder proposed his theory of __________, which argues for the existence of similar preferences and demand for products and services among nations with similar levels of per capita income.

103) __________ refers to the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

104) The rising scale on which efficiency improves as a result of cumulative experience and learning is known as the __________.

105) The purchase of stocks and bonds to obtain a return on the funds invested is known as __________.

106) The purchase of sufficient stock in a firm to obtain significant management control is known as __________.

107) The vast proportion of outward FDI, about two-thirds, still originates from the __________ countries.

108) __________ refers to the establishment of new facilities from the ground up.

109) The purchase of an existing business in another nation is __________.

110) A(n) __________ is an industry with a limited number of competing firms.

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111) The __________ theory suggests that competitive rivalry between firms in an oligopolistic industry will result in firms closely following and imitating each other's international investments to keep other firms from gaining an advantage.

112) __________ theory states that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market.

113) __________ theory states that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time.

114) The __________ theory of international production proposes that for a firm to invest in facilities overseas, it must have three kinds of advantages: ownership specific, location specific, and internalization.

115) Dunning's theory of international production proposed that for a firm to invest in facilities overseas, it must have three kinds of advantages: ownership specific, location specific, and __________.

ESSAY. Write your answer in the space provided or on a separate sheet of paper.

116) Discuss the advantages of focusing attention on a nation that is already a sizable purchaser of goods coming from the exporter's home country.

117) Explain the logic of mercantilism and why it is generally viewed as a deficient theory.

118) Discuss the theory of absolute advantage and how it explains the basis for trade between nations.

119) Discuss the keystone of international trade, the theory of comparative advantage.

120) Discuss the international product life cycle theory.

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Answer Key

Test name: Module 02

1) FALSE
International trade includes exports and imports, but not foreign direct investment.

2) TRUE
Nearly 60 percent of global output is now destined for international trade—another indication of the extent to which international trade has become a critical factor in the economic activity of many, if not most, of the countries of the world.

3) TRUE
Although the absolute value of their merchandise exports increased, the proportion of world trade coming from North America, Latin America, Africa, and the Middle East *decreased* since 2003, reflecting the greater level of export growth in other regions.

4) FALSE
Not only has China become the largest exporter in the world, but also 500 million Chinese have been lifted out of poverty by the country's trade-driven policies.

5) FALSE
The 10 largest exporters and importers collectively account for over half the world's exports and imports, which highlights the fact that international trade continues to be unevenly distributed across countries and around the world.

6) TRUE
World trade continues to be dominated by exchanges within—not between—geographic regions. This regionalization of trade is being reinforced by the development of expanded regional trade associations and agreements, such as the Association of Southeast Asian Nations (ASEAN, which includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam), Mercosur in South America (comprised of Argentina, Bolivia, Brazil, Paraguay, Uruguay, and Venezuela), and the 27-nation European Union.

7) TRUE
A profoundly influential early attempt to develop an international trade theory was actually politically motivated. Adam Smith, a Scottish philosopher and economist, was incensed by British government intervention and control over both domestic and foreign trade. In 1776, he published *An Inquiry into the Nature and Causes of the Wealth of Nations,* in which he attacked the mercantilist philosophy that prevailed at that time.

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8) FALSE
Mercantilism is an economic philosophy based on the belief that (1) a nation’s wealth depends on accumulated treasure, usually precious metals such as gold and silver; and (2) to increase wealth, government policies should promote exports and discourage imports.

9) FALSE
Absolute advantage is a nation’s ability to produce more of a good or service than another country for the same or lower cost of inputs.

10) TRUE
British economist David Ricardo demonstrated in 1817 that even though one nation held an absolute advantage over another in the production of each of two different goods, international trade could still be a positive-sum game in which both countries benefit. The only limitation to such benefit-creating trade is that the less-efficient nation cannot be *equally* less efficient in the production of both goods.

11) TRUE
A nation can attempt to regain competitiveness in world markets through currency devaluation, which lowers the value of a nation's currency relative to other currencies and therefore effectively lowers the prices of its exports.

12) TRUE
The international product life cycle theory may have its greatest usefulness in explaining trade and investment behavior when international firms introduce their new products in home markets first. For example, personal computers were initially introduced in the United States, then exported to other countries. Over time, production moved to lower-cost locations such as Taiwan and China, and now almost all computers sold in the United States are imported from abroad.

13) FALSE
The predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases is known as an economy of scale. An experience curve refers to the rising scale on which efficiency improves as a result of cumulative experience and learning.

14) FALSE
Porter’s diamond model of national advantage identified four kinds of variables that can influence a firm’s ability to gain competitive advantage: demand conditions, factor conditions, related and supporting industries, and firm strategy.

15) FALSE

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Portfolio investment is the purchase of stocks and bonds to obtain a return on the funds invested. Direct investment is the purchase of sufficient stock in a firm to obtain significant management control.

16) FALSE
Historically, foreign direct investment has followed foreign trade. One reason is that engaging in foreign trade is typically less costly and less risky than making a direct investment into foreign markets. Also, management can expand the business in small increments rather than making the considerably greater investments and finding the larger markets that a foreign production facility requires.

17) TRUE
The vast proportion of outward FDI, about two-thirds, originates from the developed countries.

18) FALSE
Much of the world's outward FDI has been associated with mergers and acquisitions. Historically, approximately two-thirds of the value of corporate investments made in the United States from abroad have been spent to acquire existing companies rather than to establish new ones

19) FALSE

This is internalization theory. Internalization theory suggests that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market.

20) FALSE
Ownership-specific, internalization, and location-specific advantages are part of Dunning's Eclectic Theory of International Production. The dynamic capability theory suggests that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time.

21) A
Exporting took a brief decline in 2020 during the pandemic when many companies had to shut down or rethink how they conducted their business, particularly in the service sector—travel, movies, and restaurants for instance.

22) B

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Physical goods, such as automobiles, food, and clothing, accounted for $19.1 trillion of the $25 trillion in international trade in 2019. Services, including such activities as insurance, travel, consulting, movies, and music, made up the remaining $5.9 trillion of international trade. Trade in services has been growing faster than trade in merchandise for the last 20 years.

23) C
Although the absolute value of their merchandise exports increased, the proportion of world trade coming from North America, Latin America, Africa, and the Middle East *decreased* since 1983, reflecting the greater level of export growth in other regions.

24) A
The proportion of merchandise exports from Asia has increased by 30 percent since 2003, with China accounting for over 84 percent of the increase.

25) C
All regions and essentially all the primary-world nations experienced an absolute increase in the dollar volume of their service exports.

26) C
The rapid expansion of world exports since 1980 demonstrates that the opportunity to increase sales by exporting is a viable growth strategy and one that can benefit the exporting nations by creating jobs for their citizens. At the same time, however, the growth of exports from individual nations should be a warning to managers that they must be prepared to meet increased competition from these exports in their own domestic markets.

27) C
Table 2.1 presents the world's 10 largest nations in terms of exports and imports of merchandise and of services. The 10 largest exporters and importers collectively account for over half the world's exports and imports.

28) C
A major portion of the exports from developing nations do go to developed countries, but this proportion has declined from 72 percent in 1970 to about 43 percent by 2015 as developing nations participate more extensively in trade with other developing nations.

29) D
World trade continues to be dominated by exchanges within—not between—geographic regions.

30) D
Nearly 80 percent of Canada's exports go to the United States and Mexico.

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31) C
Why should we know which countries are our own nation's major trade partners? One reason is we know that export and import regulations are not insurmountable.

32) B
Mexico and Canada are major U.S. trading partners in great part because they are part of USMCA. They also each share a common border with the United States, which means lower freight charges, shorter delivery times, and easier and less expensive contacts between buyers and sellers than would otherwise be the case.

33) D
From 1991 to 2019, China rose from sixth to first place in exports to the United States.

34) A
Figure 2.2 shows the major trading partners of the United States. China, Canada, and Mexico were the largest sources for U.S. imports of goods.

35) D
Besides the long-term trade partner, Japan, nations from Asia have become increasingly important trade partners in recent years. China, South Korea, India, Vietnam, Taiwan, and Malaysia supply the United States with huge quantities of electronic products and components.

36) D
This difference is a trade deficit—the amount by which the value of imports into the nation exceeds the value of its exports.

37) B
This difference is a trade deficit—the amount by which the value of imports into the nation exceeds the value of its exports. Trade deficits can be the source of economic, political, and other concerns, as suggested by the Trump administration’s recent efforts to renegotiate trade treaties, impose tariffs, or engage in other actions to reduce the deficit between the United States and many of its trading partners, including China.

38) C
When the value of a country’s exports exceeds the value of the imports, the country is experiencing a trade surplus.

39) A

Trade surplus—the amount by which the value of a nation's exports exceeds the value of its imports.

40) B
In 2019 the five largest categories of U.S. goods exported to China were transportation equipment (e.g., cars, aircraft), computer and electronic products, chemicals, machinery, and agricultural products (e.g., soybeans).

41) D
The largest categories of goods imported from China by the U.S. included computer and electronic products, machinery, apparel, electrical equipment and appliances, and miscellaneous manufactured goods.

42) A
Supporters of mercantilism viewed precious metals such as gold and silver as the only source of wealth, and their accumulation as essential to a nation's welfare.

43) C
Because England had no gold or silver mines, mercantilists looked to exploration and international trade to supply these metals. The government established restrictions such as import duties to reduce imports, and subsidies to exporters to increase exports. In addition to protecting jobs within the mercantilist nation, those acts created a trade surplus meant to generate increased holdings of gold and silver.

44) D
Adam Smith, a Scottish philosopher and economist, was incensed by British government intervention and control over both domestic and foreign trade. In 1776, he published *An Inquiry into the Nature and Causes of the Wealth of Nations*, in which he attacked the mercantilist philosophy that prevailed at that time.

45) C
Adam Smith argued against mercantilism by claiming that market forces, not government controls, should determine the direction, volume, and composition of international trade. He advocated free, unregulated trade, in which each nation should specialize in making those goods it could produce most efficiently—goods for which it had an absolute advantage, either natural or acquired.

46) B
Absolute advantage exists when a nation can produce more of a good or service than another country for the same or lower cost of inputs.

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47) C
Absolute advantage exists when a nation can produce more of a good or service than another country for the same or lower cost of inputs.

48) A
Absolute advantage exists when a nation can produce more of a good or service than another country for the same or lower cost of inputs. Nations would then export some goods to pay for imports that have been produced more efficiently elsewhere.

49) D
Perfect competition is a market situation in which there is a sufficiently large number of well-informed buyers and sellers of a homogeneous product such that no individual participant has enough power to determine the price of the product, resulting in a marketplace that is efficient in production and allocation of products.

50) B
Specialization is a situation in which each nation decides to use its resources to produce only the product in which it has an absolute advantage.

51) A
When one nation is less efficient than another nation in the production of each of two goods, the less efficient nation has a comparative advantage in the production of the good for which its absolute disadvantage is less.

52) C
British economist David Ricardo demonstrated in 1817 that even though one nation held an absolute advantage over another in the production of each of two different goods, international trade could still be a positive-sum game in which both countries benefit.

53) A
The theory of comparative advantage proposes that when one nation is less efficient than another nation in the production of each of two goods, the less efficient nation has a comparative advantage in the production of the good for which its absolute disadvantage is less.

54) D
This example suggests that a nation can attempt to regain competitiveness in world markets through currency devaluation, which lowers the value of a nation’s currency relative to other currencies and therefore effectively lowers the prices of its exports.

55) A

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To determine whether it is more advantageous to buy locally or to import, the traders need to know the prices in their own currencies. To convert from foreign to domestic currency, they use the *exchange rate*.

56) D
A theory developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics suggests that differences in resource endowments will make developed countries more likely to trade with developing countries whose resource endowments are likely to be very dissimilar, than with other developed countries whose endowments are similar. According to this theory, countries would export products requiring large amounts of their abundant production factors and import products requiring large amounts of their scarce production factors.

57) B
Some countries have abundant resource endowments, or the land, labor, capital, and related production factors a nation possesses.

58) B
A theory developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics suggests that differences in resource endowments will make developed countries more likely to trade with developing countries whose resource endowments are likely to be very dissimilar, than with other developed countries whose endowments are similar. According to this theory, countries would export products requiring large amounts of their abundant production factors and import products requiring large amounts of their scarce production factors.

59) C
The theory of overlapping demand posits that customers′ tastes are strongly affected by their income levels, and therefore a nation′s level of income per capita determines the kinds of goods its people will demand.

60) D
The theory of overlapping demand argues for the existence of similar preferences and demand for products and services among nations with similar levels of per capita income.

61) B
The intra-industry trade sparked by overlapping demand occurs because of product differentiation, the unique differences producers build into their products with the intention of influencing demand.

62) D

The intra-industry trade sparked by overlapping demand occurs because of product differentiation, the unique differences producers build into their products with the intention of influencing demand.

63) C
This theory addresses the role of innovation in trade patterns by explaining why a product that begins as a nation's export eventually becomes its import, thus viewing a product as going through a full life cycle.

64) D
Because the United States has the largest population of high-income consumers of any nation in the world, competition for their patronage is intense.

65) D
The four stages of the international product life cycle theory include: The United States innovates and exports; foreign production begins; foreign competition appears in export markets; and import competition appears in the United States.

66) C
In the third stage of the product life cycle foreign competition appears in export markets.

67) D
In the fourth stage of the product life cycle, import competition appears in the United States

68) B
Economies of scale are the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

69) C
Economies of scale are the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

70) A
Experience curve refers to the rising scale on which efficiency improves as a result of cumulative experience and learning.

71) D

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He suggested three reasons: (1) the pooling of a common labor force means staffing requirements can be met quickly, even with unexpected fluctuations in demand; (2) specialized local suppliers can coordinate their operations and skills with the needs of the buyers; and (3) technological information can be readily shared, enhancing the rate of innovation.

72) A
Porter's diamond model of national advantage includes demand conditions as one of its four primary kinds of variables that influence a firm's ability to use its country's resources to gain a competitive advantage.

73) C
Porter's diamond model of national advantage includes factor conditions as one of its four primary kinds of variables that influence a firm's ability to use its country's resources to gain a competitive advantage. Porter distinguishes between basic factors (inherited factors, such as land, location, or natural resources) and advanced factors (those created from investments made by individuals, companies, or governments, such as a nation's transportation systems, or university research institutes).

74) C
Demand conditions refer to the nature of domestic demand matters, rather than merely the size. If a firm's customers are sophisticated and demanding, the firm will strive to produce high-quality and innovative products and, in doing so, will obtain a global competitive advantage over companies located where domestic pressure is less.

75) A
Related and supporting industries: Firms in an industry, with their suppliers, their suppliers' suppliers, and so forth, tend to form a cluster in a given location, providing a network of suppliers and subcontractors and a commercial infrastructure.

76) A
Porter argues that these factors are fundamentally interrelated, creating a "virtuous circle" of resource generation and application, as well as responsiveness in meeting the demands of customers.

77) D
The distinction between portfolio investments and direct investments has begun to blur, particularly with the growing size and number of international mergers, acquisitions, and alliances in recent years.

78) D

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Deals that do not result in the foreign investor's obtaining at least 10 percent of the shareholdings are classified as portfolio investments.

79) B
Although the proportion of FDI accounted for by the United States has declined by 44 percent in the past 20 years, U.S. individuals and corporations still had $7.7 trillion invested abroad in 2020. This total was more than three times the FDI of the next-largest investor, the Netherlands.

80) D
The new business environment, with fewer government barriers to trade, increased competition from globalizing firms, and new production and communications technology, is causing many international firms to locate production close to available resources in order to improve efficiency.

81) C
Industrialized nations invest primarily in one another, just as they trade more with one another.

82) A
The United States and the European Union accounted for an average of more than 60 percent of all inward FDI from 1985 to 2004, before declining to 49 percent for 2015–2019. Much of this inward investment has gone to mergers and acquisitions made by companies whose businesses are confronting competition and consolidation globally.

83) C
The establishment of new facilities from the ground up is known as greenfield investment.

84) B
This is a greenfield investment since it was built by GM.

85) A
The purchase of an existing business in another nation is known as a cross-border acquisition.

86) A
The purchase of an existing business in another nation is known as a cross-border acquisition.

87) A
The monopolistic advantage theory suggests that foreign direct investment is made by firms in industries with relatively few competitors, due to their possession of technical and other advantages over indigenous firms. Therefore, developing these advantages makes such firms likely to increase their FDI to exploit these advantages.

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88) B
The monopolistic advantage theory suggests that foreign direct investment is made by firms in industries with relatively few competitors, also known as oligopolistic industries, due to their possession of technical and other advantages over indigenous firms.

89) C
An industry that has a limited number of competing firms, such as the U.S. wireless telecom market in which three firms controlled over 80 percent of the market in 2020, is known as an oligopolistic industry.

90) C
The theory suggesting that rivalry between firms in an oligopolistic industry will result in firms closely following and imitating each other's international investments in order to keep a competitor from gaining an advantage is known as strategic behavior theory.

91) A
The theory that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market is known as internalization theory.

92) D

The theory that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time, is known as dynamic capabilities theory.

93) D
With the internalization advantage, firms have various alternatives to entering foreign markets, ranging from making arm's-length market transactions to operating wholly owned subsidiaries.

94) C
To have location-specific advantage, a foreign market must have specific economic, social, or political characteristics, like market size, tariff or non-tariff barriers, or transport costs that will permit the firm to profitably exploit its firm-specific advantages by locating to that market rather than exporting to it.

95) A
The theories discussed offer various reasons companies find it profitable to invest overseas. However, all motives for FDI are linked in some way to the desire to increase or protect not only profits but also sales and markets.

96) trade deficit

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The amount by which the value of imports into a nation exceeds the value of its exports is known as the country's trade deficit.

97) trade surplus
The amount by which the value of a nation's exports exceeds the value of its imports is known as the country's trade surplus.

98) Absolute advantage
Absolute advantage refers to a nation's ability to produce more of a good or service than another country for the same or lower cost of inputs.

99) mercantilism
A complex political and economic theory, mercantilism viewed precious metals like gold and silver as the only source of wealth, and their accumulation as essential to a nation's welfare.

100) comparative advantage
When one nation is less efficient than another nation in the production of each of two goods, the less efficient nation has a comparative advantage in the production of that good for which its absolute disadvantage is less.

101) devaluation TBEXAM.COM
Currency devaluation refers to a reduction in the value of a country's currency relative to other currencies.

102) overlapping demand
Economist Stefan Linder proposed his theory of overlapping demand, which argues for the existence of similar preferences and demand for products and services among nations with similar levels of per capita income.

103) Economy of scale
Economy of scale refers to the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

104) experience curve
The rising scale on which efficiency improves as a result of cumulative experience and learning is known as the experience curve.

105) portfolio investment
The purchase of stocks and bonds to obtain a return on the funds invested is known as portfolio investment.

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106) direct investment
The purchase of sufficient stock in a firm to obtain significant management control is known as direct investment.

107) developed
The overall volume of outward FDI from developing nations in 2019 was 29 times the level in 1990, and the proportion of worldwide outward FDI that came from developing nations increased from under 5 percent in 1990 to 28percent in 2019. Despite this increase, the vast proportion of outward FDI, about two-thirds, still originates from the developed countries.

108) Greenfield investment
Greenfield investment refers to the establishment of new facilities from the ground up.

109) cross-border acquisition
110) oligopolistic industry
An oligopolistic industry is an industry with a limited number of competing firms.

111) strategic behavior
The strategic behavior theory suggests that strategic rivalry between firms in an oligopolistic industry will result in firms closely following and imitating each other's international investments to keep a competitor from gaining an advantage.

112) Internalization
Internalization theory states that to obtain a higher return on its investment, a firm will transfer its superior knowledge to a foreign subsidiary that it controls, rather than sell it in the open market.

113) Dynamic capability
Dynamic capability theory states that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time.

114) eclectic
The eclectic theory of international production proposes that for a firm to invest in facilities overseas, it must have three kinds of advantages: ownership specific, location specific, and internalization.

115) internalization

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Dunning's theory of international production proposed that for a firm to invest in facilities overseas, it must have three kinds of advantages: ownership specific, location specific, and internalization. Note: the third advantage is *not* internationalization.

116) Essay
Answers will vary, but might include the following points: focusing on a nation that is already a sizable purchaser of goods coming from a would-be exporter's country has such potential advantages as (1) the business climate in the importing nation is relatively favorable, (2) export and import regulations are not insurmountable, (3) there should be no strong cultural objections to buying that nation's goods, (4) satisfactory transportation facilities have already been established, (5) import channel members (merchants, banks, and customs brokers) are experienced in handling import shipments from the exporter's area, (6) foreign exchange to pay for the exports is available, and (7) the government of a trading partner may be applying pressure on importers to buy from countries that are good customers for that nation's exports.

117) Essay
Answers will vary, but mercantilism traditionally has been interpreted as an economic philosophy that viewed the accumulation of precious metals as an activity essential to a nation's welfare because these metals were, in the mercantilists' view, the only source of wealth. As a result, the government established economic policies that promoted exports and stifled imports, resulting in a trade surplus and protection of jobs in the mercantilist nation. Mercantilist behavior tended to be costly to groups including consumers and some emerging industrialists, and to raise the potential for retaliatory efforts by other governments who encounter trade deficits due to the policies of the mercantilist nation.

118) Essay
Answers will vary, but the theory of absolute advantage states that a nation has absolute advantage when it can produce a larger amount of a good or service for the same amount of inputs as can another country, or when it can produce the same amount of a good or service using fewer inputs than could another country. Under conditions of free, unregulated trade, each nation should specialize in producing those goods that it could produce more efficiently, exporting some of those goods to pay for imports of goods that could be produced more efficiently elsewhere and thus enabling both nations to gain from trade.

119) Essay

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Answers will vary, but the theory of comparative advantage states that a nation having absolute disadvantage in the production of two goods with respect to another nation has a comparative or relative advantage in the production of the good in which its absolute disadvantage is less. Therefore, there will be potential gains from trade even if one country is less efficient than another in the production of each of two goods (as long as it is not equally less efficient in the production of both goods).

120) Essay

Answers will vary. The concept of an international product life cycle (IPLC) was developed by Raymond Vernon of Harvard. This theory addresses the role of innovation in trade patterns by explaining why a product that begins as a nation’s export eventually becomes its import, thus viewing a product as going through a full life cycle. The theory has four stages.

- Stage 1. The United States innovates and exports: Because the United States has the largest population of high-income consumers of any nation in the world, competition for their patronage is intense. Manufacturers constantly search for better ways to satisfy their customers’ needs, maintaining large research and development laboratories and keeping in close contact both with the home market and with suppliers of the materials they need for product development, who are often local.
- Stage 2. Foreign production begins: Overseas consumers, especially in developed nations, are similar to U.S. customers in their need for and their ability to purchase the product. Export volume grows and may become large enough to support production abroad, especially in larger markets. The technology for producing the good has become fairly stable, and if the innovator is a multinational firm, it will often be sending new product information to subsidiaries, with complete details on how to produce it.
- Stage 3. Foreign competition appears in export markets: As early foreign manufacturers gain experience in marketing and production; their costs will fall. Saturation of their local markets will cause them to look for buyers elsewhere. They may even be able to undersell the U.S. producers if they enjoy an advantage such as lower labor or raw material costs. In this stage, foreign firms are competing in U.S. export markets, and as a result, U.S. export sales will continue to decline.
- Stage 4. Import competition appears in the United States: If foreign producers attain sufficient economies of scale, they may be able to compete in quality with and underprice U.S. firms in the domestic market. From that point on, the U.S. market will be served exclusively (or nearly so) by imports. Televisions, footwear, and semiconductor chips are examples. The rise in imports puts increasing pressure on the innovating companies to achieve product innovation and improvement, which may initiate a new IPLC.

Module 2: International Trade and Investment

Your Content

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Engagement and Application

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Your Content

Summary

This module provides an overview of trends and theories regarding international trade and foreign direct investment. International trade and foreign direct investment have grown dramatically over recent decades. Although new trading and investment patterns are emerging, developed nations tend to trade with and invest in other developed nations, not in developing countries. Much trade is conducted based on regional trade partners and bilateral or multilateral trade agreements. Trade theories attempt to explain why nations trade with each other. Mercantilists believed that trade should be a vehicle for accumulating gold and other precious minerals. Adam Smith, displeased with mercantilist ideas, showed that a nation could acquire what it does not produce by means of free, unregulated trade. A nation could gain most by producing only goods that it could produce with less labor than other nations. Ricardo carried Smith's argument a step farther by proving that a country that was less efficient in the production of all goods could still gain from trade by exporting those products in which it was less inefficient. Newer trade theories are also discussed, including differences in resource endowments, overlapping demand, international product life cycle, economies of scale and the experience curve, and national competitive advantage from regional clusters.

The traditional approach to international involvement was to begin with exporting, then setting up foreign sales companies and finally, where the sales volume warranted, establishing foreign production facilities. Increasingly, because countries have liberalized trade restrictions and IT has made communication instantaneous, companies are becoming involved in trade and FDI for many reasons. International investment theory attempts to explain why foreign direct investment occurs. Product and factor market imperfections as well as strategic behavior help explain foreign investment patterns and help explain why firms primarily from oligopolistic industries may develop advantages not open to indigenous companies. The internalization theory states that international firms will seek to invest in a foreign subsidiary rather than license their superior knowledge to receive a better return on investment used to produce the knowledge. Dynamic capabilities theory suggests that successful international investment requires firms to have an ability to dynamically create, sustain, and exploit unique knowledge or resources over time. There is a brief description of the Eclectic Theory of International Production.

Learning Objectives

LO 2-1	Describe the magnitude of international trade and how it has grown.
LO 2-2	Identify who participates in trade.
LO 2-3	Distinguish among the theories that explain why certain goods are traded internationally.
LO 2-4	Describe the size, growth, and direction of foreign direct investment.
LO 2-5	Explain several of the theories of foreign direct investment.

Key Terms and Definitions

absolute advantage (p. 39)	A nation's ability to produce more of a good or service than another country for the same or lower cost of inputs
comparative advantage (p. 44)	When one nation is less efficient than another nation in the production of each of two goods, the less efficient nation has a comparative advantage in the production of that good for which its absolute disadvantage is less
cross-border acquisition (p. 54)	The purchase of an existing business in another nation
currency devaluation (p. 45)	A reduction in the value of a country's currency relative to other currencies
direct investment (p. 50)	The purchase of sufficient stock in a firm to obtain significant management control
dynamic capability theory (p. 56)	Theory that for a firm to successfully invest overseas, it must have not only ownership of unique knowledge or resources, but also the ability to dynamically create, sustain, and exploit these capabilities over time
eclectic theory of international production (p. 56)	Theory proposing that for a firm to invest in facilities overseas, it must have three kinds of advantages: ownership specific, location specific, and internalization
economies of scale (p. 48)	The predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases
exchange rate (p. 45)	The price of one currency stated in terms of another
experience curve (p. 48)	The rising scale on which efficiency improves as a result of cumulative experience and learning
greenfield investment (p. 54)	The establishment of new facilities from the ground up
internalization theory (p. 55)	Theory that to obtain a higher return on investment, a firm will transfer its superior knowledge to a foreign subsidiary

	that it controls, rather than sell it in the open market
international product life cycle (IPLC) (p. 46)	A theory explaining why a product that began as a nation's export eventually becomes its import
mercantilism (p. 38)	An economic philosophy based on the belief that (1) a nation's wealth depends on accumulated treasure, usually precious metals such as gold and silver and (2) to increase wealth, government policies should promote exports and discourage imports
monopolistic advantage theory (p. 55)	Theory that foreign direct investment is made by firms in industries with relatively few competitors, due to their possession of technical and other advantages over indigenous firms
national competitiveness (p. 49)	A nation's relative ability to design, produce, distribute, or service products within an international trading context while earning increasing returns on its resources
oligopolistic industry (p. 55)	An industry with a limited number of competing firms
overlapping demand (p. 46)	The existence of similar preferences and demand for products and services among nations with similar levels of per capita income
perfect competition (p. 39)	A market situation in which there is a sufficiently large number of well-informed buyers and sellers of a homogeneous product, such that no individual participant has enough power to determine the price of the product, resulting in a marketplace that is efficient in production and allocation of products
portfolio investment (p. 50)	The purchase of stocks and bonds to obtain a return on the funds invested
product differentiation (p. 46)	Unique differences producers build into their products with the intent of positively influencing demand
resource endowment (p. 45)	The land, labor, capital, and related production factors a nation possesses
strategic behavior theory (p.	Theory suggesting that strategic rivalry between firms in an

55)	oligopolistic industry will result in firms closely following and imitating each other's international investments in order to keep a competitor from gaining an advantage
trade deficit (p. 38)	The amount by which the value of imports into a nation exceeds the value of its exports
trade surplus (p. 38)	The amount by which the value of a nation's exports exceeds the value of its imports

Content Outline

The following section provides the flow of information using the Learning Objectives as a guide, Key Terms learners will need to take away from the course, and Lecture Notes to drive home teaching points.

LO 2-1	Describe the magnitude of international trade and how it has grown.
	• Introduction
	• International Trade
	  ○ Volume of International Trade
	  ○ How Evenly Has Trade Grown?
	  ○ Which Nations Account for the Most Exports and Imports?
		Key Terms:

I. Introduction

A. In this module, two topics are examined that relate directly to exporting and production in foreign countries: (1) international trade, which includes exports and imports, and (2) foreign direct investment.

II. International Trade

A. Volume of International Trade

1. The volume of international trade in goods and services was $4 trillion in 2000 and was six times that level by 2019.
2. Trade in physical goods accounted for $19.1 trillion of the $25 trillion in 2019, while trade in services was $5.9 trillion.
3. While smaller in absolute terms, trade in services has grown faster in the past 20 years than has merchandise trade.
4. Nearly 60% of global output is now destined for international trade.

B. How Evenly Has Trade Grown?

1. The proportion of exports from North America, Latin America, Africa, and the Middle East has *decreased* since 2003.
2. The proportion of merchandise exports from Asia has increased by over 30% since 2003, with China accounting for over 84% of the increase.
3. Rapid expansion of international trade has helped transform nations such as Singapore, Taiwan, and South Korea from poverty in the 1950s to developed country standards of living, and 500 million Chinese have been lifted out of poverty by China's trade-driven policies.
4. Although the EU's share of world merchandise trade decreased by nearly 17% since 1983,

the expansion of the EU to 28 member countries kept this decline from being even larger.

5. All regions and essentially all primary world nations experienced an absolute increase in the dollar volume of their services exports, though the proportion of world exports of commercial services from Latin America, the EU, Africa, and the Middle East has declined since 2005.
6. The rapid increase of world exports in the past 40 years demonstrates that exporting is a viable growth strategy and one that can benefit exporting nations by creating jobs for their citizens.

C. Which Nations Account for the Most Exports and Imports?

1. Table 2.1 shows the ranking of the world's 10 leading exporters and importers of merchandise and services.
2. The top exporters and importers are generally developed countries, though China ranks in the top 5 for each list and India in the top 10 for imports and exports of services.
3. The 10 largest exporters and importers collectively account for over 50% of the world's exports and imports.

LO 2-2	Identify who participates in trade. • Direction of Trade ○ The Increasing Regionalization of Trade ○ Major Trading Partners: Their Relevance for Managers ○ Major Trading Partners of the United States	Key Terms: • trade deficit • trade surplus

III. Direction of Trade

A. A major portion of exports from developing nations go to developed countries, but this proportion has been declining, from 72% in 1970 to about 43%. Less than half of exports from developed countries go to other industrialized nations.

IV. The Increasing Regionalization of Trade

A. World Trade is dominated by exchanges within, not between, geographic regions.

1. About half of exports from North American nations went to other nations in North America.
2. A little more than half of Asian nations' exports were to other Asian nations.
3. Over 80% of exports from European nations went to other European nations.
4. Regionalization of trade is reinforced by the development of expanded regional trade associations and agreements such as ASEAN, Mercosur, the EU, and USMCA.
5. There are more than 300 regional trade agreements in operation worldwide and the share of world trade they account for increased from 37% in 1980 to over 70% by 2020.

B. Growth of exports into developing country markets and corresponding growth from developing countries to developed countries are due in part to developing nations' increased ability to export manufactured goods but also due to growing intrafirm trade among international companies' affiliates around the world.

V. Major Trading Partners: Their Relevance for Managers

A. Advantages of focusing attention on a nation that is already a sizable purchaser of goods from the would-be exporter's country include:

1. Business climate in the importing nation is relatively favorable.
2. Export and import regulations are not insurmountable.
3. There should be no strong cultural objections to buying that nation's goods.
4. Satisfactory transportation facilities have already been established.
5. Import channel members are experienced in handling import shipments from the exporter's area.
6. Foreign exchange to pay for the exports is available.
7. A government may encourage its importers to buy from the countries that buy their exports.

VI. Major Trading Partners of the United States

B. Figure 2.2 shows the major trading partners of the United States.

1. The top 10 accounted for 64% of U.S. exports and 69% of U.S. imports in 2019.
2. Mexico and Canada are major trading partners, sharing a common border with the United States and being partners in the USMCA.
3. Seven of the top 15 nations the U.S. imports from have remained on the list over the past 50 years.
4. Rankings of America's trading partners are rapidly changing. Asian nations, like China, have become increasingly important, yet challenging, trade partners for both exports and imports.
5. Between 1991 and 2019, China rose from sixth to first place in exports to the United States and to third place as an importer of U.S. goods, albeit with a substantial trade deficit for the United States.

C. Many Asian countries are becoming major importers of American goods because:

1. Their rising standards of living enable their people to afford more imported products, and export earnings provide foreign exchange to pay for imports.
2. They are purchasing large amounts of capital goods to further their industrial expansion.
3. They are importing raw materials and components to assemble into subassemblies or finished goods to subsequently export, often to the United States.
4. Their governments, sometimes under pressure from the U.S. government, have sent buying missions to the United States. to seek products to import.

D. New international business opportunities can be identified by examining trade statistics from various governmental sources.

2-3	stinguish among the theories that explain why certain goods are traded internationally.
	• Explaining Trade: International Trade Theories
	  ○ Mercantilism
	  ○ Theory of Absolute Advantage
	  ○ Theory of Comparative Advantage
	  ○ How Exchange Rates Can Change the Direction of Trade
	  ○ Some Newer Explanations for the Direction of Trade
	  ○ Summary of International Trade Theory
		y Terms:
		• mercantilism
		• absolute advantage
		• perfect competition
		• comparative advantage
		• exchange rate
		• currency devaluation
		• resource endowment
		• overlapping demand
		• product differentiation
		• international product life cycle (IPLC)
		• economies of scale
		• experience curve
		• national competitiveness

VII. Explaining Trade: International Trade Theories

A. International trade is large in volume and growing and is also critical to the economic performance of most nations. International trade theory attempts to answer the question, “Why does this trade occur, both overall and between particular nations?”

B. Mercantilism

1. One of the first economic doctrines.
2. Central idea—precious metals were viewed as the only source of wealth and nations could accumulate these precious metals by exporting more goods than they import.
3. Governments should control foreign trade to ensure a favorable trade balance.

C. Theory of Absolute Advantage

1. Adam Smith (*The Wealth of Nations*—1776) attacked mercantilism and said that to trade in order to accumulate gold and other precious metals was foolish. By means of free, unregulated trade, a nation could acquire what it did not produce.
2. He stated that a nation should produce only those goods in which it was most efficient (country specialization). The surplus could be traded to obtain the products that could not be produced advantageously.
3. Ask: "What are the limits within which both countries are willing to trade?" Discuss these topics: Terms of Trade (Ratio of International Prices) and Gains from Specialization and Trade to further explain Absolute Advantage Theory.
4. Use the examples in the text to explain Absolute Advantage Theory in depth.

D. Theory of Comparative Advantage

1. David Ricardo (1817) showed that if a nation were less efficient in the production of two products, it could still gain from international trade if it were not equally less efficient in the production of both goods.
2. Smith's and Ricardo's theories considered labor as the only important factor in calculating production costs and no thought was given to the possibility of producing the same goods with different combinations of factors.
3. Use the examples in the text to explain Comparative Advantage Theory in depth.

E. How Exchange Rates Can Change the Direction of Trade

1. Traders must know a price in domestic currency to determine if is better to produce locally or import.
2. Exchange rate is the price of one currency stated in terms of the other.
3. Countries can regain a competitive position through currency devaluation.
4. Use examples from the text to explain Exchange Rates.

F. Some Newer Explanations for the Direction of Trade

1. Differences in Resource Endowments
2. Some countries have more abundant resources than others, which can result in different opportunity cost of producing these resources and bringing them to market.
3. Difference in resource endowments suggests that developed countries would more likely trade with developing countries rather than other developed countries with similar factor endowments.
4. Overlapping Demand
    a. Consumers' tastes, preferences, and their nation's per capita income affect market demand in any country.
    b. Customers in countries with similar levels of per capita demand will demand similar goods and services.

   c. Unlike the theory of comparative advantage, overlapping demand theory does not specify the direction a given good will go.

5. International Product Life Cycle (IPLC)

   a. Developed by Raymond Vernon, this theory addresses the role of innovation in trade patterns by explaining why a product that begins as a nation's export may eventually become its import.

   b. Figure 2.3 illustrates the evolution of this life cycle.

   c. The IPLC may have less relevance for "born global" companies and under conditions of increased international competition and short product life cycles.

6. Economies of Scale and the Experience Curve

   a. Economies of scale refer to the predictable decline in the average cost of producing each unit of output as a production facility gets larger and output increases.

   b. Experience curve effects may also decrease production costs due to cumulative experience and learning.

   c. These concepts can help explain a nation's ability to become a low-cost producer even without an abundance of resources like labor or minerals.

7. National Competitive Advantage From Regional Clusters

   a. National competitiveness results from a country's ability to complete the functions necessary to drive a product/service to market and while increasing ROI: design, produce, distribute, and service.

   b. Alfred Marshall explained that many industries or firms cluster together geographically because of three reasons:

      i. Advantages gained from pooling a common labor force.

      ii. Gains attained from the development and pooling of specialized labor which can be coordinated with the needs of buyers.

      iii. Benefits gained from the sharing of technological information and corresponding enhancement of the rate of innovation.

   c. Porter's Diamond Model of National Advantage (Figure 2.4) identifies four variables that will have an impact on local firms' abilities to use a country's resources to gain competitive advantage:

      i. Demand conditions, the nature of domestic demand within the country.

      ii. Factor conditions, the level and makeup of production infrastructure.

      iii. Availability of related and supporting industries such as suppliers and support services.

      iv. The firm's strategy, structure and strategic rivalry, including the organization and management style of the firm, level of domestic competition, and barriers to market entry.

v. Porter also claimed that competitiveness could be affected by government and chance.

G. Summary of International Trade Theory

H. International trade theory shows that nations will attain a higher level of living by specializing in goods for which they possess a comparative advantage and importing those for which they have a comparative disadvantage.

) 2-4	escribe the size, growth, and direction of foreign direct investment.
	• Foreign Investment
	  ○ Portfolio Investment
	  ○ Foreign Direct Investment (FDI)
	  ○ Does Trade Lead to FDI?
		ey Terms:
		• portfolio investment
		• direct investment

/III. Foreign Investment

A. Divided into two components: (1) portfolio investment and (2) direct investment. The distinction between these two has begun to blur, particularly with growing size and number of international mergers, acquisitions, and alliances.

B. Portfolio Investment

1. Not directly concerned with the control of a firm but to gain ROI.
2. Nonresidents owned American stock and bonds with a value of $8.0 trillion in 2020. Americans owned $11 trillion in foreign securities in 2020.

C. Foreign Direct Investment (FDI)

1. The Outstanding Stock of FDI (Figure 2.5)
   a. The book value of all FDI worldwide was nearly $34.6 trillion at the beginning of 2020.
   b. The United States is the largest investor nation, with $7.7 trillion invested abroad, over three times the FDI of the next largest investor, the Netherlands.
   c. The proportion of FDI accounted for by the United States declined by 44% in the past 20 years; the proportion accounted for by the EU declined by 4%, despite the inclusion of additional member countries. Developing countries increased their proportion of FDI, from 1% in 1980 to 22% in 2020.
2. Annual Outflows of FDI
   a. Outflows often fluctuate substantially across years, due to factors such as level of economic growth within and across nations and regions of the world.
   b. Outflows hit a historical high in 2000—$1.16 trillion, more than 3.25 times the

level in 1995. Global economic slowdown in late 2000 resulted in subsequent decline in annual FDI flows to under $498 billion in 2002, then increasing to $2.17 trillion in 2007 before another economic slowdown resulted in a decline to $1.18 trillion in 2019. FDI outflows increased again thereafter, averaging over $1.43 trillion per year from 2010 through 2019.

c. The volume of outward FDI from developing nations in 2019 was 29 times the level in 1990; the proportion of outward FDI worldwide from developing nations increased from under 5% in 1990 to over 28% in 2019.

d. The vast proportion of outward FDI, about two thirds, comes from developed nations.

e. Much of outward FDI is associated with global mergers and acquisitions, because:

i. U.S. corporate restructuring put underperforming businesses and assets on the market.

ii. Foreign companies want rapid access to U.S. advanced technology.

iii. Foreign firms felt that access to the lucrative U.S. market would be more successful through acquiring known brand names rather than promoting unknown foreign brands.

iv. Increased international competition, including pursuit of economies of scale, led to restructuring and consolidation of many global industries and acquisition of firms in major markets like the United States.

3. Annual Inflows of FDI

a. Industrialized nations invest and trade with one another, but this proportion has declined in recent years: from an average of 76% for 1998–2002 to 58% for 2015–2019.

b. FDI flowing into developing countries was seven times larger in 2000 than 1990 and tripled again by 2019, although the proportion of FDI funds flowing to these nations fluctuates widely.

c. Asia has seen a dramatic increase in FDI inflows in recent years, accounting for over 56% of all investments not directed at the United States and the EU during 2017–2019.

4. Level and Direction of FDI

a. Difficult to accurately determine present value of foreign investments, but if a nation continues to receive growing amounts of FDI, its investment climate must be favorable and the political forces of that country are attractive.

b. If there is political instability and low levels of FDI inflow, little investment will occur.

D. Does Trade Lead to FDI?

1. Historically, FDI followed foreign trade because trade costs less and has less risk than FDI and business can be expanded in smaller, controllable increments rather than incurring large investments and larger risk. A firm would start exporting by using agents and then set up an export department with foreign sales personnel as business expanded.
2. However, FDI can now lead to trade. Significant changes in today's global business environment make FDI a possible first step into international trade.

) 2-5	plain several of the theories of foreign direct investment. • Explaining FDI: Theories of International Investment ○ Monopolistic Advantage Theory ○ Strategic Behavior Theory ○ Internalization Theory ○ Dynamic Capabilities Theory ○ Eclectic Theory of International Production	y Terms: • greenfield investment • cross-border acquisition • monopolistic advantage theory • oligopolistic industry • strategic behavior theory • internalization theory • dynamic capability theory • eclectic theory of international production

IX. Explaining FDI: Theories of International Investment

A. Accepted theories to explain FDI: FDI can either be greenfield investment, where new facilities are built from the ground up, or cross-border acquisition, the purchase of existing business facilities in another nation. Strategic motives for FDI include finding new markets, accessing raw materials, accessing new technologies or managerial expertise, achieving production efficiencies, enhance political safety of firm's operations, or respond to competition.

B. Monopolistic Advantage Theory

1. This theory is based on the premise that FDI is made by firms in oligopolistic industries possessing technical and other advantages over indigenous firms. These advantages could be economies of scale, superior technology, or superior knowledge of marketing, management, or finance, giving the MNE competitive advantage over local firms.

C. Strategic Behavior Theory

1. In oligopolistic industries, where there is a limited number of competing firms, the actions of one firm can strongly affect the performance of others in that industry, so firms closely follow and imitate each other's international investments to keep a competitor from gaining an advantage.

D. Internationalization Theory

1. To obtain a higher ROI, a firm will transfer its superior knowledge to a foreign subsidiary and not sell it in the open market. Firms transfer knowledge across borders without it leaving the firm.

E. Dynamic Capabilities

1. Ownership of specific knowledge or resources is necessary but not sufficient enough for success in FDI, but firm must also develop distinctive competitive advantages to complement their knowledge or resources.

F. Eclectic Theory of International Production

1. This theory states that for a firm to invest overseas, it must possess three types of advantages:
   a. Ownership specific—tangible and intangible assets not available to competitors but can be transferred abroad (e.g., a recognizable brand name).
   b. Location specific—foreign market offers economic, social, or political advantages which will let the firm exploit its ownership specific advantages (market size, tariff or nontariff barriers, or transportation cost advantages)
   c. Internalization—firms have choice as to the way to enter foreign markets, ranging from arm's length market transactions to hierarchy via a wholly owned subsidiary. It is in the firm's interest to exploit ownership specific advantages through internalization in those situations where either the market does not exist or it functions inefficiently.
2. Eclectic Theory (also referred to as OLI Model) explains MNEs' choice of foreign production facilities.

G. The common factor for all three of these theories is that FDI is typically made by large, research-intensive firms in oligopolistic industries and is the reason why these companies find it profitable to invest overseas.

Engagement and Application

Boxed Text Discussion Questions With Suggested Answers

IB in Practice: Are Trade Deficits Good or Bad for a Country?

Arguing that trade balances are akin to a scorecard on international competitiveness, President Donald Trump suggested that the existence of trade deficits indicates the United States is losing in trade and is a major problem that needs fixing. Are trade deficits necessarily bad for a country?

A trade surplus does not necessarily indicate that a country is positioned for strong economic growth. Japan maintained a significant trade surplus every year from 1981 to 2010, but averaged less than 1% annual growth during the last 20 years of that time period.

Most economists do not consider trade deficits to be inherently bad or good. At its simplest, a trade deficit indicates that a country is purchasing more products or services from other countries than it sells to those countries. What happens in such a situation? There would have to be a corresponding flow of capital to make up the difference in trade, such as investments in stocks, bonds, currency, or companies. Essentially, the deficit in trade would have to be "paid for" by a surplus of inflows of foreign investment.

Trade balances are affected by a variety of macroeconomic factors, including the relative strength of countries' currencies, their rates of saving and investment, their relative rates of growth, and tax policies. Alternatively, a strengthening national currency can cause foreign-made products—for example, cars, food, or clothing—to be more affordable relative to domestically produced products. An increase in consumption of cheaper foreign-made products might help raise the standard of living in a country, giving its citizens access to a broader range of more competitively priced goods and services. Yet, these foreign-made goods might contribute to a loss of jobs in domestic industries impacted by growing imports, although such an outcome is not guaranteed.

Whether a trade deficit creates more or fewer jobs depends on what the country with the deficit does with the inflows of capital. Is the money being invested in activities with long-lasting economic returns, such as better roads and ports, new factories and machinery, and improved worker education? Is it helping to reduce the cost of debt, allowing money to be redirected to other value creating activities? Or does the money fuel unsustainable bubbles in housing or financial markets, high levels of consumer spending fueled by access to low-cost debt, or excessive public expenditures?

Online and Hybrid: Assign questions to be prepared in virtual teams and submitted as a team assignment or submitted individually and then discussed in a blog or group discussion site.

Face-to-Face: Students develop responses to the questions in class in teams/groups

1. Why might a country be concerned about the level of its trade deficit?

Although many might think that a trade deficit is always bad, one must look deeper to know if the trade deficit is truly bad for the country. A trade deficit causes a greater inflow of capital into the country. If that capital is invested in ways that will grow the economy, then the trade deficit does no harm. If it used to raise the price of real estate, company stocks, or consumer spending, then it might be bad for the country.

2. What actions should a country encourage or discourage in order to minimize potential concerns about a trade deficit?

A country should make sure that the capital flowing into the country as a result of the trade deficit is used for investments that can grow the economy. Infrastructure, R&D, and education are examples of investments that could have a positive impact on an economy. Such an inflow may lower interest rates for consumers, but a country should discourage simple increased consumer spending. The increased capital could feed a bubble in real estate or financial markets. Governments should do what they can to avoid such bubbles.

Global Debate: Comparative Advantage: Should Service Jobs Be Offshored to India?

This Global Debate box provides an overview of the use of outsourcing as a way for multinational corporations to improve profitability through comparative advantage offered by markets where the cost of labor is significantly less than in the home country of a multinational. However, this simple lesson in economics is quite controversial and serves as a starting point for a stimulating class discussion on such topics as:

- What are the profit motives for outsourcing? What advantages other than profit can be gained by outsourcing?
- How should a company manage outsourcing?
- How can outsourcing impact (help or hurt) a company's corporate image?
- Is there a potential for an "upward creep" where low-level, low-skill tasks start to move upward into higher skilled, higher level jobs being outsourced? What impact can this shift have on home country jobs? On host country jobs?
- Is there a risk of a country losing its innovative edge if higher skilled jobs are outsourced?
- Will outsourcing cause a shift in the home country's workforce by creating new job opportunities to replace those being outsourced?

Online and Hybrid: Virtual teams can be assigned questions and submit their work as a group. Alternatively, virtual teams can be assigned to take different roles or perspectives to argue for (or against), and these assignments can be submitted as a group and then opened up to discussion and debate on an online class discussion site or blog, or presented and debated in a face-to-face setting.

Face-to-Face: Students develop responses to the questions in class in teams/groups or else assign perspectives and conduct an in-class debate and discussion.

1. Can a company gain advantages besides profit by offshoring? If so, what are they? If not, why not?

The answer to this question will vary, and it is intended to help people think through the issue. Certainly, students are likely to focus on the profit motives as a key driver, and many times their responses will relate at least in part to profit-based drivers. However, by probing on this topic it may be possible to extract comments about enhancing the capabilities of a company, through expanding into new and attractive markets or incorporating a more diverse workforce with different ideas (e.g., on how to design or manage a product or process). Offshoring may enable the firm to be more competitive when faced with new or existing competitors who also have operations abroad in lower cost locations. Companies may also offshore activities in order to help disperse risks such as those associated with currency fluctuations, differences in economic growth rates within and across regions, shortages of home country labor, or political risk factors. To the extent that offshoring might also help to promote economic and social development in other nations, a company might feel that offshoring enables them to enhance their reputation and to engage in meaningful, socially responsible investment activity intended to enhance human welfare. Of course, outsourcing can also bring challenges for companies. By moving activities abroad, it may expose the company to loss of capabilities (e.g., going from experienced workers located close to each other to workers located in distant locations), challenges managing different workforces and institutional contexts, challenges with logistics of globally dispersed operations, and so forth. Offshoring may damage a company's reputation in the home country, due to strikes or other responses to moving jobs away. Many companies find that moving activities to a foreign location where labor costs are lower may expose them to a higher level of overall costs, due to factors such as increased transportation costs, increased uncertainty in logistics and scheduling, exposure to a range of political, and economic and other risks.

2. Does a company face ethical considerations in deciding whether to offshore activities? Why or why not?

This question raises an issue that almost always generates strong opinions and a variety of perspectives. Some students may feel that companies have a primary responsibility to maximize their returns to shareholders, so going abroad to a lower cost location may be argued to be the ethical responsibility of managers. Some students may also argue that failure to be cost-competitive on key dimensions of the company's activities, especially when faced with competitors who have lower cost structures, may put the entirety of the company's operations at risk: "it is better to sacrifice a portion of the home country business for the benefit of the overall operations" might be the theme here. Other students will often raise the notion of the harm that a company may cause to workers and their communities when their jobs and associated activities are moved from the home country to another host country. Exploring the variety of perspectives and allowing the debate to blossom can yield a rich and insightful learning experience for the participants.

3. What might be the long-term implications of offshoring, from the perspective of the home country? The host country?

This question also raises issues that almost always generates strong opinions and a variety of perspectives. Some students may feel that the home country is being hollowed out, with jobs, knowledge, and growth opportunities moving abroad to where costs are lower. In some cases, this can be argued to be a "race to the bottom," as companies seek those places where lax health or environmental standards, weak labor protection, and other factors will enable the weakest and most inexpensive and powerless to be exploited, with corresponding damage to the stakeholders in the home country. This could also be argued to be an initial step toward an "upward creep," where low-level, low-skill tasks that are offshored can start a process whereby higher skill jobs will subsequently be outsourced as host country labor builds competencies. Other students will often raise the notion of moving low value-added jobs abroad, thereby enhancing the competitiveness of the overall company and creating the opportunity to create new, better jobs in the home country. Students may very well link some of this discussion to the theoretical perspectives of the module, whereby international companies develop and exploit dynamic capabilities in order to gain international advantage. Students might also argue that going abroad may enable the company to access new, better resources, capabilities, growth opportunities, and other advantages that can enhance the company's long-term competitiveness, as well as enhance the benefits flowing back to the home country through the success of companies headquartered within its borders. Exploring the variety of perspectives and allowing the debate to blossom can yield a rich and insightful learning experience for the participants.

When examining this perspective from the host country, some students may suggest that it is essential for economic and social development that the host country encourage foreign investment and/or job creation associated with bringing in offshored jobs. These jobs can help promote economic growth, transfer knowledge and skills, and provide the foundation for a virtuous cycle of enhanced opportunities for more and better job prospects and the benefits that accompany them. Others might argue that the "race to the bottom" syndrome may cause countries to try to undercut each other, through less rigorous health or environmental practices or lax enforcement, or through devaluation of their currency or economic mercantilist behavior, in order to attract the offshored jobs. In so doing, this may stunt rather than promote the economic and social well-being of the host countries, according to these perspectives.

Get That Job! From Backpack to Briefcase: Mark Haupt: A Central California-Based International Career

Mark Haupt discusses how he developed a career in international business while still living in California. He discusses his preparation for international travel and gives advice for those that are interested in going abroad or working with others abroad.

Online and Hybrid: Virtual teams evaluate Haupt's advice for their own career development and their ability to work with people from another culture, particularly one that is quite different from one's home culture. Share conclusions with class, either online or in face-to-face setting.

Face-to-Face: Students evaluate their own career strategy in light of Haupt's example.

1. What do you think of Haupt's goal to be involved in international business while living in California instead of abroad? What kinds of international jobs would require living in the United States and what kinds would require living abroad? What qualifications would be the same and what would be different for domestic-based and foreign-based jobs?

Student responses will vary, but some may think that you must live abroad to have an international job, rather than living in your home country. Small companies often cannot afford international locations, so they need to have employees based in the home country that travel abroad for sales, marketing, sourcing, and production. These jobs can lead to international posting when the companies grow larger. Companies that engage in international projects (such as infrastructure development and construction) often need people for international assignments that last a few months to a few years. Government jobs, such as with the U.S. State Department, have many careers that have foreign postings. Whether one is based in the home country or abroad, international business requires an understanding and sensitivity to other cultures and their business environments. However, being posted abroad increases the need to learn the local language to be able to work with locals.

2. What do you think of Haupt's efforts to prepare himself for international trips? Is there anything else he should do? What does it mean to "assume nothing" about international encounters?

Students will have various answers depending on their own experiences or those that they know who travel. Other things one might do in preparing for a trip is to research more about the culture, especially related to business meetings, meals, tipping, and so forth. Many people have different routines to adjust to new time zones, including some very interesting ones. These often include getting as much sun as possible upon arriving in the new location, staying awake until the nighttime, taking sleeping pills on the flight over, and eating lots of pasta.

"Assuming nothing" is often much easier said than done because we are often not aware of what we are assuming, and double checking every word and action is not feasible. Haupt's advice to go over something twice is especially useful for any agreed plan or action. Otherwise, be attuned to things that do not seem to go as you expected and then inquire into the cultural or other reasons for the differences. As you gain experience you will become more and more comfortable engaging people from different countries and cultures.

End of Module Exercises

Critical Thinking Questions

1. Discuss and explain how international trade in merchandise and services has changed over the past two decades and what the major trends are. What future trends can you speculate about? How might this information be of value to a manager?

The answers to this question may vary. The introductory vignette, "Firms invest overseas, but they also export," shows how exports of both goods and services have grown since 2000. Except for a significant drop in 2009, and a slight decline during the 2000–2003 period, both associated with a worldwide economic slowdown and mainly affecting demand for goods, the curve has basically been continuously upward sloping. The text also states that services growth has been greater on a percentage basis in recent decades than has the growth of goods exports. The growth in export demand is attributable to global competition, liberalized trade policies of various national governments, and advances in technology, among other factors, and the two slowdowns shown in Figure 2.1 suggests that the growth in goods and services exports is likely to continue, except during periods of significant worldwide economic slowdown. This trend will also be encouraged by international companies as they not only develop markets in foreign locations but also establish increasingly international supply chains. As the text discusses, most of the trade has been occurring within regional trade agreements, rather than on a global basis per se. Certain areas, particularly Asia, have exhibited an increasing proportion of world trade. Although developed countries have historically dominated international trade, we also see that an increasing portion of world trade involves developing countries, both as sources and as destinations for trade. This information will be of value to managers who want to serve international companies as customers, as well as in identifying which areas within and across regions might be more or less likely to experience an increase in trade.

2. Where do merchandise exports come from, and where do they typically go? How and why has this been changing over time, and do you think these trends are likely to continue? Why or why not? Why might this information be valuable to a marketing analyst?

The answers to this question may vary. More than half the exports from developing nations go to developed nations, but this proportion has been declining, from 72% in 1970 to about 43% by 2015. About two thirds of exports from developed countries go to other industrialized nations. Trade is dominated by exchanges within, rather than between, geographic regions, reinforced by expanded regional trade associations and agreements. Indeed, about 70% of world trade in 2013 was accounted for by trade involving countries who are partners in regional trade agreements. There may be differences of opinion about whether these trends will continue. Proliferation of regional trade agreements may suggest continued growth in regional trade. Interregional trade agreements that occur between Europe and some of the former colonies around the world, or the proposed Transpacific Partnership between Australasia and the Americas, may create a basis for increased regional trade. The internationalization of supply chains by international companies may also promote continued growth in trade, as companies ship products among their international affiliates as well as to international customers. Some may argue that the pendulum may swing back from international trade, due to protectionism, costs of transportation, and so forth, although evidence suggests that growth of trade tends to be associated with economic and social benefits for countries that have liberalized their trade policies. A marketing analyst could find the information about not merely the level of trade but the regionalization of trade and the internationalization of supply chains to be valuable when identifying where to focus efforts for market development or expansion.

3. Describe mercantilism, and explain why some call it a poor approach to promoting economic development and prosperity. Given the criticisms, why do some countries continue to rely on practices based on mercantilism?

Mercantilism is an economic philosophy based on the belief that (1) a nation's wealth depends on accumulated gold and (2) to increase wealth, government policies should promote exports and discourage imports. As a means of promoting economic development and prosperity, mercantilism has a poor record. Mercantilism views trade as a zero-sum game with one specific winner. It has been proven that the markets, not the government, should determine the direction, volume, and composition of world trade.

4. Explain Adam Smith's theory of absolute advantage. What are the potential limitations of this theory for helping policy makers when making decisions related to international trade? How does Ricardo's theory of comparative advantage differ from the theory of absolute advantage?

According to Adam Smith's theory of absolute advantage, each nation should specialize in producing the goods it can produce most efficiently. Some of them can be exported to pay for imports of goods that can be produced more efficiently elsewhere. Ricardo showed that even though a nation did not hold an absolute advantage in producing any good, it could still trade with another with advantages for each as long as the less efficient nation was not equally less efficient in producing both goods. Absolute advantage may have some limited value for policy makers, especially when a country does not have a condition of absolute advantage, or where its absolute advantage may erode or disappear over time due to developments elsewhere, such as devaluation of currency, economies of scale that emerge in other nations, and competitive declines in one or more areas of advantage within a regional competitive cluster.

5. "Sending service jobs to low-cost nations, such as India, is good for America." What are the arguments in support of such an assertion? Under what circumstances might such an assertion be viewed as false?

The answers to this question may vary. For example, there may be situations in which a country does not have, or cannot maintain, competitive advantage in one or more activities. By outsourcing these activities to another country that might have advantage, it may allow the company to avoid this competitive disadvantage and to make the remaining activities more competitive globally, thereby enhancing prospects for the company and its various stakeholders. These outsourcing efforts may promote international trade and even open new or expanded market opportunities abroad for American companies, both in the country where activities are being outsourced to, and perhaps elsewhere as well. On the other hand, outsourcing may result in job losses that cannot be quickly and fully replenished through the creation of other jobs, due to the different skills required and the time needed to acquire such skills. Job losses may also result in the loss of domestic competencies, and result in a continuing migration of increasingly skilled jobs from America to the foreign locations, especially if the destination nations have the policies and competencies to acquire and enhance their human capital or otherwise enable the development of internationally competitive regional clusters.

6. Name some products that you believe have passed through the four stages of the international product life cycle. Try to identify industries or products for which the international product life cycle still helps explain international trade and investment. Can you identify industries or products for which this concept does not apply?

The answers to this question may vary. Microwave ovens and athletic shoes are two examples of products that have passed through the four stages of the international product life cycle. Other examples include ships, automobiles, and computer chips, the latter two being sectors where the life cycle process appears to still be occurring. Students might identify sectors where the IPLC does not apply, such as those where transportation poses a barrier to locating operations abroad (e.g., due to extreme perishability) or where government-driven barriers to trade inhibit the movement of production across borders (e.g., due to national security or other policy priorities).

7. Use Porter's diamond model of national advantage to explain why an emerging market such as Indonesia would be expected to experience great difficulty in achieving global competitiveness in a new industry sector such as smartphones or hybrid electric–gasoline automobile engines.

An emerging market such as Indonesia would be expected to experience great difficulty in achieving global competitiveness in a new industry sector such as "smart" cell phones or hybrid electric–gasoline automobile engines because: (a) The nature of demand conditions would be unlikely to include the most sophisticated and demanding customers, who would pressure companies to produce high-quality, innovative, competitively viable products. (b) Factor conditions are likely to be deficient, since these new sectors are likely to depend on highly skilled, highly educated workforces, advance communication systems, the most advanced design and production equipment, and so forth. (c) Related and supporting industries are likely to be deficient, since an emerging market is unlikely to have strong computer hardware and software industries, venture capital markets, a pool of highly experienced entrepreneurs and business people in similar or related advanced sectors, and so forth. (d) The extent of domestic competition is likely to be limited due to the emerging nature of the market, hindering the beneficial competitive rivalry that is key to innovation and success. (e) There could be beneficial government policies oriented toward nurturing new industry sectors, and an emerging market could, by chance, achieve a breakthrough in technology or design. However, in the absence of the above four factors, it will be difficult for competitors from the emerging market to sustain this position long term, especially in the face of vigorous competition from competitors in nations with stronger profiles on the above factors.

8. What are the possible explanations for the observed decline in the proportion of FDI accounted for by the United States and Japan? What are the implications of such a decline? Do you expect that this decline will continue in the future? Why or why not?

The answers to this question may vary quite a bit across students. The United States only accounts for about 5% of the world's population, and Japan only about half that much. Therefore, as economic development occurs around the world, it can be expected that more wealth and other resources will be built up within industrially developed and newly industrialized nations. This enhanced wealth and desire for international competitiveness is likely to encourage multinational companies from emerging and newly industrialized nations like the BRICs (Brazil, Russia, Indonesia, China), Mexico and South Korea to expand their investments abroad in order to build globally viable scale and scope. Much of this investment will likely be made via mergers and acquisitions, as companies try to acquire brands, technology, and other capabilities to enhance international competitiveness. While the percentage of FDI accounted for by the United States and Japan may decline, that does not mean that the absolute level of outstanding stock of FDI will decline. Indeed, as global competition continues to escalate, it is likely that the overall level of FDI worldwide will increase over time. On the other hand, some students may suggest that globalization may reverse course over time, due to environmental, political, military, or other factors, and they may also suggest that the emergence of China and other countries as major economic forces will erode the scale and importance of developed countries in global trade and investment. They may even suggest that either the absolute level of global FDI will decline, or that the United States and Japanese (and perhaps European, as well) proportions will shrink as the power of developed countries wanes and the power of emerging markets grows. This can be an interesting discussion to have within class.

9. How has the level and direction of FDI changed over the past two to three decades, both overall and in terms of annual outflows and inflows? What might explain why these changes have occurred? Why would this information be of relevance to managers?

The answers to this question may vary. The proportion accounted for by the United States has declined by over one third during the past 20 years, although the United States still accounts for more than three times the level of the next largest investor. The European Union's proportion of FDI has increased, but that is at least partially due to the enlargement of the EU through adding new member countries. Developing nations have dramatically increased their proportion of FDI, growing from 1% in 1980 to over 22% in 2018, largely reflecting the increasing internationalization that has occurred in emerging markets such as China, Mexico, Brazil, India, and other nations. Overall, as shown in Figure 2.5, the level of FDI worldwide has continued to rise significantly over the past 38 years. Increasing internationalization of competition, economic liberalization (especially in emerging markets), growth in the international financial markets, developments in technology and transportation, and the development of regional trade and investment agreements, among other factors, have favored this growth in FDI, both in absolute level and in the sources and destination of investments. This information is of great potential value to managers, in terms of identifying potential sources of new or increased competition (or collaboration) as well as new sources of supply or of customers.

10. According to theories presented in this module, why might companies engage in foreign direct investment rather than international trade?

The answers to this question may vary. Each of the trade theories presented in this chapter offer an explanation for why companies engage in foreign direct investment, because each of the theories helps to explain why production costs differ across national borders or how competitive responses are necessary in a globalized economy. However, in some cases there may not be sufficient market mechanisms in place to protect a company's assets (e.g., inability to protect a company's intellectual assets if it tries to license its technology to a foreign company to serve international market opportunities) or to enable the company to adequately capture the value of its competencies. The Eclectic Theory discusses factors that might be relevant to this argument. In addition, it might be argued that corporations, especially those in oligopolistic industries, may engage in foreign direct investment in order to imitate or counterbalance the actions of their international competitors.

The answers to this question may vary. Some techniques and concepts can be applied to operations in other nations. However, the differences among the environmental forces often require that these techniques are altered and in some cases, they cannot be used at all.

globalEDGE Research Task

Exercise 1

globalEDGE "Global Insights" is where profiles of trade blocs, countries, U.S. states, and industries can be found. When navigated as described in the exercise (i.e., globalEDGE > Global Insights > by Country > "country of choice"), each country's profile page will be displayed individually from where "Indices" subsection of countries can be accessed on the left column menu.

Search Phrase: Indices

Resource Name: Global Insights by Country

Resource Link: https://globaledge.msu.edu/global-insights/by/country

Exercise 2

globalEDGE "Global Insights" is where profiles of trade blocs, countries, U.S. states, and industries can be found. When navigated as described in the exercise (i.e., globalEDGE > Global Insights > by Country > "country of choice"), each country's profile page will be displayed individually from where "Economy," "Statistics," and "Trade Statistics" subsections of countries can be accessed on the left column menu.

Search Phrase: by Country

Resource Name: Global Insights by Country

Resource Link: https://globaledge.msu.edu/global-insights/by/country

MiniCase: Brazil: A Global Competitor in Information Technology Outsourcing?

This MiniCase explores the issue of outsourcing and how countries may compete to be the destination for outsourced activities. The specific example is of Brazil and how it has emerged as an alternative to countries such as India, China, or various Central or Eastern European nations for the outsourcing of sophisticated IT activities. Brazil has an advanced telecommunications and network services infrastructure, sometimes rated above those of nations such as India or China. Brazil has a large base of jobs in the IT sector and a strong tradition of producing competent graduates from engineering schools. Brazil's banking sector is highly automated and a dynamic marketplace for IT software and support services, helping to encourage domestic demand for advanced IT services. Brazilian wage rates are significantly below those in the United States, and recent devaluations of the real, Brazil's currency, may further enhance the country's competitiveness in this regard. With lower employee turnover rates and attractive levels of total operating costs, as well as less time zone difference than found for European or Asian outsourcing countries, Brazil can be attractive for real-time services. Brazilian culture and business practices also tend to be more similar to those in the United States than may be the case for China, for example.

1. Use the theories of international trade and investment in this module to help explain Brazil's intentions and actions regarding the international information technology sector.

Answers are likely to vary quite a bit on this question. Students may refer to absolute or comparative advantage theories to show why Brazil is a superior site to the United States (absolute advantage), and to other potential offshoring sites (e.g., China, India), based on labor cost, labor quality, and other factors. Students may refer to Porter's diamond model to show how Brazil has developed a cluster that has internationally competitive competencies, enabling it to compete effectively with other sites internationally. Some students might refer to Linder's theory of overlapping demand, arguing that the culture and business practices are similar, but this would probably be an incorrect application of the theory as Linder refers to countries with similar income levels and Brazil and the United States are quite different. Students might use resource endowment theory, arguing that Brazil has an ample supply of talented IT specialists and engineers, helping to compensate for shortages in the United States. Some students might even use the international product life cycle (IPLC) to explain the situation, arguing that advanced IT services often begin in a lead market such as the United States, get exported from the United States, and then as skills develop abroad there may be replacement of export market supply from the lower cost foreign sites (displacing U.S. exports of these services) and ultimately replacing these services in the United States as well. Strategic behavior theory, for example, might help explain why firms from the United States or elsewhere might set up operations to exploit the talented, low-cost labor available in Brazil, in order to service U.S. demand in a more cost competitive manner. Dynamic capabilities theory might also suggest that firms might invest in Brazil in order to participate in the development and exploitation of cost competitive centers of excellence in emerging markets such as Brazil. The variety of positions and theoretical perspectives that are likely to be presented can provide the basis for a lively discussion or even debate within the classroom and provide a strong link to the concepts of internationalization of businesses, economic globalization, and offshoring.

2. What recommendations would you give to the Brazilian government and its outsourcing industry in order to improve their prospects for success in building a strong international competitive position in the information technology outsourcing business?

This question can prove to be difficult for some students to answer, and there can be a range of alternative responses. Policy actions might be taken to enhance the absolute advantage of Brazil versus the United States, through continued investment in skilled labor, or encouragement of economies of scale and experience curve benefits, for example. Monetary policy may also be managed so that the Brazilian currency, the real, is kept at a lower valuation and therefore Brazilian labor is quite inexpensive versus U.S. labor, and perhaps versus labor costs in China or

India or elsewhere as well. Providing evidence of political and economic stability might also make Brazil a more attractive offshoring location versus other emerging markets. Emphasis on the similarities of culture, business practices, and time zone, among other factors, might also help to encourage potential customers to consider Brazil as a more attractive location for offshoring, versus other locations that may be more geographically or culturally distant.

Bonus Activities

This section provides you with support of your course above and beyond what is found in the text. We have developed these resources to support your course, to support your traditional, hybrid, online, or flipped class.

Video Suggestions

McGraw Hill's collection of international business videos is available at http://bit.ly/MHEIBVideo. The International Trade Theory board is rich and varied and is updated monthly, as is the Foreign Direct Investment board.

See www.pbs.org/newshour/show/euro-greece-2 for a discussion of "will falling euro end up boosting Europe's economy" to discuss how currency fluctuations affect international competitiveness of nations.

The video on "World Bank: Let Africa Trade With Africa" helps to highlight regional trade opportunities as well as potential growth of trade between developing countries (rather than between developing and developed countries); this video can be found at: www.youtube.com/watch?v=4f9aZrWdnFc&feature=youtu.be.

The video "How Currency Choices 'Made in China' have Big Impact on U.S. Economy," at www.youtube.com/watch?v=pXH-Up2sB24&feature=youtu.be, helps to highlight currency fluctuations and economic mercantilism.

The video "India Economy to Overtake China But Many Still in Poverty," at www.bbc.com/news/world-asia-india-31668217, discusses issues of economic growth and social welfare.

MapsofWorld.com has an interesting series of facts and discussion about international trade, which you can find at www.mapsofworld.com/answers/tag/trade.

globalEDGE and the Academy of International Business provide links to a number of organizations that offer videos about international business. You can find these links at https://aib.msu.edu/resources/videodepositories.asp.

YouTube has many international business-related videos in its collection. For example, you can find a 31-min video on How Beneficial Is World Trade at https://youtu.be/xRJZWfqWcs0?list=PL9E6D9764746EA546.

Team Exercises

These may be done individually or in groups or teams, either in or out of class, for later class presentation. Some are also appropriate for hybrid and online courses.

1. Investment Inducements

Ask the students to check advertisements in *The Wall Street Journal*, the *Financial Times*, and *New York Times*, for ads in which investment inducements are offered by foreign governments. Similar ads also appear in *The Economist*, *Business Week*, and *Fortune*. Students can also search the web to find such inducements for various countries. What kinds of inducements are offered? Does your city and state offer foreign firms inducements to invest in your area? How successful have they been in attracting foreign FDI into your state, region, or local area?

2. Importing and Exporting Services

Students typically understand that products are exported and imported because of their tangible nature and the benefits derived through their consumption are apparent. The import and export of services are more difficult for students to grasp. Have students research this and explain their findings. Have them rank the volume of U.S. services' imports and exports, the countries, and the top 10 types of services involved. Have them do the same for an EU and an Asian country and compare their findings. Then, have them answer the question, "Why export services?"

3. Trade Theory Activity

You can check the students' comprehension of trade theory through the following activity:

This is the output of cigars and calculators for countries A and B.

Output/Man/Day

Country:	**A**	**B**
Calculators:	6	2
Cigars:	20	10

Country A:

Calculators:	$\frac{\$30}{6 \text{ calculators}}$	=	\$5/calculator
Cigars:	$\frac{\$30}{20 \text{ cigars}}$	=	\$1.50/cigar

Country B:

Calculators:	$\frac{120 \text{ pesos}}{2}$	=	60 pesos/calculator
Cigars:	$\frac{120 \text{ pesos}}{10}$	=	12 pesos/cigar

a. Would it be advantageous for B and A to trade?

b. What would be the range of values within which trading of cigars for calculators would make economic sense?

- Answer: 3-1/3 cigars/calculator to 5 cigars/calculator

c. Total production costs per day are $30 in A and 120 pesos in B. If the exchange rate is 10 pesos in B = $1 in A, will trade still place in the same direction as for Part A?

Converting to dollars:

Country:	**A**	**B**
Calculators:	$5/Calculator	$6/calculator
Cigars:	$1.50/cigar	$1.20/cigar

d. What change must be made in the exchange rate to change the flow of trade?

- Answer:

  (1) If rate goes to 12 pesos = $1, calculator will cost $5 in B, which is the same price as in A, so based on price alone, B will not import from A. B can still sell cigars to A because their price has improved and gives them a greater price advantage.

  (2) If the rate goes to 8 pesos = $1, then B's cigars will cost A $1.50 and B will lose its price advantage. Calculators in B will cost $7.50 to produce.

e. If rate goes to 8 pesos or even 7 pesos = $1, will B sell any cigars to A?

- Answer: They probably will if their cigars taste better or are handmade, if A's are machine made. Cigars, like most products, are not bought purely on the basis of price.

Supplemental Activities

Case Studies

Case studies that focus on intercultural issues and their effects in business environments are available through Ivey Publishing and Harvard Business School. Ivey's catalog is available for browsing (www.iveycases.com); the cases are downloadable for review, and pricing is around $3.75. Harvard Business Publishing (https://cb.hbsp.harvard.edu/cbmp/pages/home) requires an account and offers downloadable review copies for educators. The case prices begin at $7.50.

<u>Harvard Cases</u>

"Free Trade Vs. Protectionism: The Great Corn-Laws Debate" examines the conflict that arose between those advocating free trade and those advocating protectionism in 19th-century Britain. The Corn Laws were a series of acts that protected British agricultural interests for nearly 200 years, and the decision on whether to repeal the acts had significant implications for industrialists and landowners. There is also an abridged version available.

"Yue Yuen Industrial (Holdings) Limited: (A) Making 200 Million Pair of Shoes a Year and Growing" describes the industry for outsourcing shoes by companies such as Nike and Adidas. Yue Yuen has become the largest contract footwear maker in the world, five times larger than its next largest competitor. The case allows students to understand the decisions for offshoring parts of a company's value chain, such as manufacturing, and the challenges that a company faces in not only achieving competitiveness as an offshore supplier but being able to remain competitive as the environment changes over time. This is a University of Hong Kong case distributed by Harvard.

"Background and Agreements on Foreign Direct Investment" provides a brief history of foreign direct investment, including various conflicts, issues associated with FDI-related legal frameworks, and international agreements and principles for resolving FDI-related disputes. It can provide a useful basis for discussing the "whys" and "hows" of FDI. This is a Harvard case.

"Foreign Direct Investment in China" examines the role that FDI has played in China in helping that nation to achieve rapid economic growth since 1978. This is a University of Hong Kong case distributed by Harvard.

Controversial Issues

1. Global Debate: Comparative Advantage: Should the United States be Sending Service Jobs to India?

This boxed feature described earlier in this module's instructor guide provides an excellent foundation for debating some of the issues raised in the text.

Online and Hybrid: Virtual teams can be assigned questions and submit their work as a group. Alternatively, virtual teams can be assigned to take different roles or perspectives to argue for (or against), and these assignments can be submitted as a group and then opened up to discussion and debate on an online class discussion site or blog or presented and debated in a face-to-face setting.

Face-to-Face: Students develop responses to the questions in class in teams/groups or else assign perspectives and conduct an in-class debate and discussion.

2. Debate on Whether Deficits Are Good or Bad for a Country

Drawing from the content in the IB in Practice box, "Are Trade Deficits Good or Bad for a Country?" you can ask students to take opposing perspectives to argue that trade deficits mean lost jobs and a weak economy that cannot produce products that other countries want, as well as arguments that accompanying investment can be used to improve the country's competitiveness and increase the standard of living.

Online and Hybrid: Virtual teams can be assigned to take different perspectives to argue if trade deficits are good or bad, and these assignments can be submitted as a group and then opened up to discussion and debate on an online class discussion site or blog, or presented and debated in a face-to-face setting.

Face-to-Face: Students can be assigned to take different perspectives to argue the pros and cons of trade deficits and then they can be asked to argue their positions within an in-class debate and discussion.

3. Current Events

A focus on current events that are relevant to the module's topics is a good way to bring home the concepts, review their application, and build news-review habits. Ask everyone to come prepared with an article for every meeting. If a meaningful percentage of the final grade is allocated to discussion (10–15), motivation is there. Devote 5 min at the beginning of class to discussion of current events. Recent relevant current events include the ongoing controversy in the United States about whether free trade agreements such as USMCA or the Trans-Pacific Partnership will promote domestic job creation and improved economic prosperity, or whether they send jobs abroad and harm American workers and the overall economy. Depending on the online interface, this activity may be done in chat forums (Blackboard) or discussion boards, before class begins. This activity also works well in large lecture classes.

Teaching Suggestions

1. Students often are unaware of the rapid growth of international trade, so we discuss Figure 2.1 in class. We point out that there have been numerous changes in trade relationships as Table 2.1 illustrates. Most students believe that the major trade direction is between developed and developing nations (exchanging raw materials for finished goods). Figure 2.2 shows the major trading partners of the United States, which shows that there are several Asian trading partners in addition to the traditional European and USMCA trade partners among the key export markets for U.S. goods, as well as for imports into the United States.

2. The material on Theories of International Trade is somewhat difficult for many students and it is easy to lose their interest when discussing theories from the 17th century. We emphasize in class that there are good, practical reasons for knowing the essentials as we have also emphasized in the text. We recommend that you go slowly in discussing comparative advantage. If you whip through it, you will probably lose most of the class. We commonly ask a student to come to the board and create a table to explain the theory and we give them all of the help required. We came across a short haiku-like summary of comparative advantage that might help students get the general idea: Do what you do best and trade the rest.

3. We find it advantageous to follow the discussion of comparative advantage with the example in which we introduce money because the students learn quickly about the importance of exchange rates and they are better prepared when we examine the financial markets.

4. Generally, students are surprised to learn that the U.S. share in total foreign investment is still as large as it is (see Figure 2.5). They often believe that China's share is largest, due to all of the press that China's growth has received and the number of Chinese firms that have entered foreign markets through acquisitions. Do you want to see how many read the assignment? Ask them which country has the largest share of foreign direct investment (Answer: the United States).

5. The Global Debate box, "Comparative Advantage: Should Service Jobs Be Offshored to India?," is generally a good way to generate many different perspectives on globalization, offshoring, and the movement of jobs to foreign locations.

6. We often find it useful to use the international product life cycle, illustrated in Figure 2.3, to stimulate discussion. We ask questions such as, "Can you identify any products or services that have completed the IPLC?" "Can you identify any products or services which are still in the early stages of the IPLC but that you would expect to continue evolving along the lines of this model? Can you explain why you expect this evolution to occur and the implications for business managers?"

7. You may be interested in discussing the IB in Practice box, "Are Trade Deficits Good or Bad for a Country?" Many students think that a trade deficit is automatically bad and that a trade surplus is good. This section explains what happens when there is a trade deficit and when it can be good for a country.

8. Guest lecturer who could contribute to the material in this module would be:

- Someone in the technical department of a multinational to talk about licensing and contract manufacturing arrangements that the firm has with overseas licensees.
- Product manager of the international division of a multinational who should be knowledgeable about licensing and all the means for entering a market. Such a person can also explain why the firm went overseas.
- Financial person in the international division who can discuss the points mentioned in Questions 1 and 2 plus the ROI obtained from these arrangements.
- Representatives from a foreign-owned subsidiary in your area. Ask them to tell the class what motivated their company to come to the United States and your area.
- If you have an economic development department in your state that is active in attracting foreign investors, you may be able to get a representative to explain to the class what it does to attract foreign investors and what foreign investors are looking for. Your chamber of commerce director of economic development may have had visits from foreign company representatives that they are willing to share.
- If you are in an area with foreign consuls, you might invite a member of the consulate to discuss their government's policy with respect to trade restrictions and economic development, especially as it affects foreign investment in that country. The representative could also be asked about that government's efforts to promote foreign trade.

Connect Tools for Assessment of Learning

Connect Content Matrix

For every chapter, please refer to the Connect Content Matrix to see what application exercises are available, what Learning Objectives they help reinforce/assess.

Title	Assignment Type	Topic(s)	Learning Objective(s)	AACSB Accreditation Tagging	Bloom's Taxonomy
Volume and Direction of International Trade	se Analysis	erview of Trade	)1; 02-02; 02-04	Analytical Thinking	Remember
International Trade Theories	ck and Drag	ıde Theories and Their Implications	02-03	Reflective Thinking	Understand
Exporting, Licensing, or FDI	se Analysis	eories of Foreign Direct Investment	)2-04; 02-05	Analytical Thinki	Apply

				n g	
International Trade	ck and Drag	ernational Trade	)2-01; 02-02	Refle ct i v e T h i n k i n g	nember/Underst and

Connect Activities

1. Volume and Direction of International Trade

Activity Summary: This case analysis activity describes an undergraduate business student learning about important trade partners for the United States. It is then followed by multiple-choice questions.

How to Use Activity: For online and hybrid classes, assign this as part of the module's homework. For an in-class assignment, have the students do this individually before class and then discuss the answer. This can then be used to launch into further discussion about the volume and direction of trade.

2. International Trade Theories

Activity Summary: This is a click and drag activity in which general characteristics of international trade theories are matched to the theory that it is most associated with.

How to Use Activity: This can be given for individual work at home for online or live classes. For live classes, have students do this in teams in class. Walk around to the various teams to answer any questions that arise. Then lead a general class discussion, focusing on those theories that the individual groups struggled with.

3. Exporting, Licensing, or FDI

Activity Summary: This is a case analysis activity in which students are asked to decide whether exporting, licensing, or foreign direct investment strategies would be the most appropriate for the situation.

How to Use Activity: The multiple-choice questions are broad and can be used as the basis for a short written assignment to be done at home. For live classes, have students discuss this case in groups and report to the rest of the class the key points they discussed.

4. International Trade

Activity Summary: This is a click and drag activity in which boxes of statements about international trade are matched to the correct term.

How to Use Activity: For online and hybrid classes, assign this as part of the module's homework. For an in-class assignment, divide the class into small groups and have them do the assignment as a team. Monitor the team discussions to clarify any confusing terms. Or have students do this individually and then in class discuss any choices that were confusing and why.