

SECOND EDITION

**A VERY SHORT,
FAIRLY INTERESTING AND
REASONABLY CHEAP BOOK ABOUT**

**INTERNATIONAL
BUSINESS**

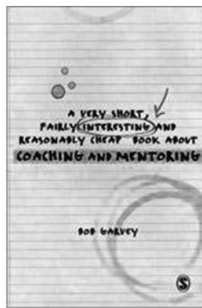
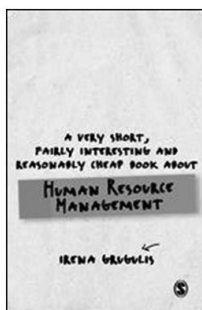
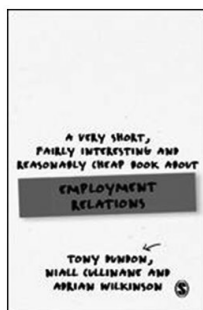
←
**GEORGE CAIRNS AND
MARTYNA ŚLIWA**



**A VERY SHORT,
FAIRLY INTERESTING AND
REASONABLY CHEAP BOOK ABOUT**

**INTERNATIONAL
BUSINESS**

Also in this series:



SECOND EDITION

**A VERY SHORT,
FAIRLY INTERESTING AND
REASONABLY CHEAP BOOK ABOUT**

**INTERNATIONAL
BUSINESS**



**GEORGE CAIRNS AND
MARTYNA ŚLIWA**

 **SAGE**

Los Angeles | London | New Delhi
Singapore | Washington DC | Melbourne



Los Angeles | London | New Delhi
Singapore | Washington DC | Melbourne

SAGE Publications Ltd
1 Oliver's Yard
55 City Road
London EC1Y 1SP

SAGE Publications Inc.
2455 Teller Road
Thousand Oaks, California 91320

SAGE Publications India Pvt Ltd
B 1/I 1 Mohan Cooperative Industrial Area
Mathura Road
New Delhi 110 044

SAGE Publications Asia-Pacific Pte Ltd
3 Church Street
#10-04 Samsung Hub
Singapore 049483

Editor: Matthew Waters
Assistant editor: Lyndsay Aitken
Production editor: Sarah Cooke
Marketing manager: Alison Borg
Cover design: Wendy Scott
Typeset by: C&M Digitals (P) Ltd, Chennai, India
Printed in the UK

© George Cairns and Martyna Śliwa 2017

First published in 2008. Reprinted 2009 (twice),
2010, 2011, 2013 and 2016
This second edition published 2017

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act, 1988, this publication may be reproduced, stored or transmitted in any form, or by any means, only with the prior permission in writing of the publishers, or in the case of reprographic reproduction, in accordance with the terms of licences issued by the Copyright Licensing Agency. Enquiries concerning reproduction outside those terms should be sent to the publishers.

Library of Congress Control Number: 2016955369

British Library Cataloguing in Publication data

A catalogue record for this book is available from
the British Library

ISBN 978-1-47398-100-3
ISBN 978-1-47398-101-0 (pbk)

At SAGE we take sustainability seriously. Most of our products are printed in the UK using FSC papers and boards. When we print overseas we ensure sustainable papers are used as measured by the PREPS grading system. We undertake an annual audit to monitor our sustainability.

Contents

<i>About the Authors</i>	vi
<i>Acknowledgements</i>	vii
<i>List of Abbreviations</i>	viii
Introduction: Why We Feel the Need to Write This Particular Book on International Business	1
1 Classical and Neo-classical Theories of International Trade	11
2 Twentieth Century Developments in Trade and Investment Theories	29
3 Institutions of International Business	47
4 The International Business Organization	64
5 The Dynamic Landscape of International Business	80
6 People in International Business	99
7 Understanding Organizations in the IB Environment	117
Concluding Remarks	134
<i>References</i>	139
<i>Index</i>	154

About the Authors



George Cairns is Adjunct Professor at QUT Business School, Brisbane. George co-founded and was co-editor of the journal *Critical Perspectives on International Business*. Throughout his writing, George has adopted a critical stance on the impacts of IB activity on remote and excluded stakeholders, both in the present and the future. Much of his work applies scenario methods to explore possible and plausible futures. His studies include a number of journal articles on the shipbreaking industry of Bangladesh. George has published in journals including *Human Relations*, *European Journal of Operational Research*, *Technological Forecasting & Social Change* and *Futures*.



Martyna Śliwa is Professor of Management and Organization Studies at the University of Essex. Her research interests focus on a range of topics relevant to the employees, managers and other stakeholders of contemporary organizations, especially those operating in the international business environment. Examples of Martyna's recent research projects include: language(s) and power in multinational corporations, transnational professional mobility, and the effects of the intersections of nationality and gender on organizational hierarchies and individual careers of highly skilled professionals. Martyna is currently an Associate Editor of *Management Learning*. She has published in journals including *British Journal of Management*, *Journal of International Business Studies*, *Management Learning* and *Organization*.

Acknowledgements

We would like to thank all academic colleagues, students, friends and family who have inspired, guided and encouraged us both in writing this second edition and in our earlier works that inform it. Their contributions have been invaluable. Any errors and omissions in the book are, of course, our own responsibility.

List of Abbreviations

ASEAN	Association of South East Asian Nations
BRICs	Brazil, Russia, India and China
BSCI	Business for Social Compliance Initiative
CAP	common agricultural policy
CSM	critical scenario method
CSR	corporate social responsibility
DDOS	distributed denial-of-service
DRC	Democratic Republic of the Congo
ECLA	Economic Commission for Latin America
EEC	European Economic Community
EIU	Economist Intelligence Unit
EMS	European Monetary System
EPZ	export processing zone
ERM	exchange rate mechanism
ETI	Ethical Trading Initiative
FDI	foreign direct investment
FTA	free trade area
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GFC	global financial crisis
HEIC	Honourable East India Company
HRM	Human Resource Management
IB	international business
IBRD	International Bank for Reconstruction and Development
ICIJ	International Consortium of Investigative Journalists
ICSID	International Centre for Settlement of Investment Disputes
ICT	information and communication technologies
IDA	International Development Association
IFC	International Finance Corporation
IJM	integrative justice model
ILO	International Labour Organization
IMF	International Monetary Fund
ISDS	Investor–State Dispute Settlement
ITO	International Trade Organization
KK	knowledge–capital
LDC	least developed countries
M&A	merger and acquisition
MERCOSUR	Common Market of the South

MFN	most favoured nation
MIC	middle-income country
MIGA	Multilateral Investment Guarantee Agency
MNC	multinational corporation
NAFTE	North American Free Trade Agreement
NGO	non-governmental organization
OECD	Organization for Economic Cooperation and Development
OLI	ownership, location and internalization
OPEC	Organization of the Petroleum Exporting Countries
PRC	People's Republic of China
R&D	research and development
Ro-Ro	roll-on, roll-off
SAPS	structural adjustment policies
SAR	Special Administrative Region
SIE	initiated expatriate
SOE	state-owned enterprise
TBL	triple bottom line
TCN	third country national
TPP	Trans-Pacific Partnership Agreement
TTIP	Transatlantic Trade and Investment Partnership
UN	United Nations
VER	voluntary export restraint
VLCC	very large crude carrier
VOC	Dutch East India Company (Vereenigde Oostindische Compagnie)
WTO	World Trade Organization

Introduction: Why We Feel the Need to Write This Particular Book on International Business

You are probably wondering what makes this short book on international business (IB) any different from other IB texts that you could have picked up. Undoubtedly, as can be inferred from the title, this small volume contains fewer words than the average IB textbook – and is also cheaper. But, is there really anything about it that makes it deserve the accolade of being ‘fairly interesting’? We hope so. Let us briefly say why.

First, we have a specific intention of involving you, our reader, in our discussions. We would like to help you think through your position towards various issues in international business, and to put these into a broader context of society and environment. We do not consider you as a student of IB, to whom we convey knowledge about ‘how to’ become a successful manager, one whose only concern is with making profit for the company and providing financial return to shareholders. Our key aim in writing this book is to address you as a concerned ‘stakeholder’ (Freeman, 1984), a ‘citizen of the world’, who is involved in, affects and is affected by IB practices, and who is implicated in their impacts upon and outcomes for all stakeholders – including future generations.

Second, we hope that you will find our overview of how the current model of IB practice has emerged over time of interest. To us, it is important to understand ideas and thinking that have underpinned IB development, and how theories have been constructed in order to explain this. Within most IB textbooks, history and theory (where they are introduced) are used mainly to justify and support the dominant paradigm of IB, with its emphasis on the profitability of capitalist enterprise, and market growth and expansion through internationalization and globalization. While they may touch upon critical issues such as ‘sweatshop labour’, environmental degradation and resource depletion, they see these largely as problems for the firm to overcome in pursuit of growth and profitability. Our text draws upon history and theory not just to present how things were and are, but also to convey

the idea that the trajectory along which IB has developed has not necessarily been a ‘natural’, ‘inevitable’ or the only possible route. We highlight the major impact that powerful stakeholders in IB – such as nation states, multinational corporations (MNCs) and supranational institutions – have had, over time, on developing particular types of IB practice and on the spread of theories that legitimize them.

Third, our thinking about the implications of IB for all stakeholders leads us to raise topics and issues of concern to us, and to consider aspects of IB other than the strategies for success of the ubiquitous Apple, Toyota, Walmart and the like. You will find that we discuss aspects of IB such as the working conditions of those who labour in the fields and in sweatshops across the world to produce the food-stuffs, clothing, consumer electronics and other products that pervade supermarkets and shopping malls. In addition, we raise issues such as trade in arms, tax evasion and the impact of consumers on labour governance in global supply chains.

Finally, we introduce a range of frameworks and approaches that you might employ to undertake your own analysis of issues in contemporary IB. Using these, we encourage you to think about possible scenarios for future developments, and what your role might be in bringing about positive change.

Who, then, do we see as the readership of this book? First, we have written it for students of management-related subjects who are looking for a short text that provides an overview of relevant theories and practices of IB. Second, we intend it to be of interest to IB managers who want to understand the conceptual underpinnings of what they do and why certain strategies are proposed for internationalization of the firm. For both of these groups, as we have outlined above, we hope to move thinking beyond simple ‘how to’ questions. We aim to prompt reflection on issues of ‘how things are connected’, ‘why’ and ‘with what effect’. We also like to think that our colleagues in the academic community will find this book useful. Finally, we hope that it will be of interest to a wider audience, recognizing that we all, whether as employees, consumers or citizens, impact and are impacted by contemporary IB activities, and have the potential to influence their future development.

We realize that, although intended as a ‘reasonably cheap’ text, this book will not be affordable to potential readers in many countries where the general level of income makes it very expensive. Bearing in mind that its distribution will be set within the confines of the publisher’s marketing strategy and that it is written in English by western academics, it will remain inaccessible for the majority of the world population. In writing this short book about international business,

we acknowledge that this in itself constitutes an IB project, using resources to generate profit from sales in those markets where demand can be identified.

We trust that, in discussing how everyone contributes to the development of and the problems stemming from IB, we can make you aware of these and stimulate your thinking on how you might, through your own actions, make a difference now for the benefit of future generations.

How to read this book

Since this is a ‘very short’ book, we cannot cover every aspect of IB in detail. However, we are conscious of the dangers of stereotyping and generalizing inherent in any attempt to provide both a short and a comprehensive account of a discipline. We have been selective in including and excluding material, and we recognize that other authors would have approached the subject from a different standpoint. For example, where we write about the history of IB theory and practice, we present a sequence of conceptual developments and empirical examples. This does not, however, mean that we see history as unfolding in a linear and progressive fashion, or that our chosen examples are exhaustive. We note that there have been certain shifts in thinking over time, about who the main actors in international transactions are, and how changes in technologies have impacted IB practice. However, we do not necessarily consider that these have contributed to an improvement of the situation of many of those affected. To enable you to read beyond our text and to fill in gaps in theory and thinking, we refer you to other sources for more background and more detail. The texts that we point you to represent examples of mainstream IB textbooks, more critical writing on the nature and impact of IB, and other relevant resources that will hopefully enable you to place your own consideration of IB into a broader context.

At this point, we would highlight a number of assumptions that underpin a general understanding of IB. We summarize these as follows:

- It is natural and beneficial for human beings to engage in economic activity.
- The term ‘business’ corresponds with the actions that people pursue when they undertake this economic activity.
- The rules according to which business takes place are, to a large extent, determined by nation states.

- Contemporarily, the pursuit of IB is linked to the spread of capitalism.
- As a domain of theory and practice, IB is worthy of attention by affected stakeholders, including researchers, educators and students.

To clarify our own approach, we outline a few key terms that we use throughout our text and the broad meaning that we attach to each, acknowledging their grounding in the above assumptions:

International business (IB): We read IB as referring to any form of commercial exchange of materials, goods, services or any other resources that involves transfer across national boundaries. These transactions may be formal and legal, or they may lie outside the confines of formal economy and legality.

Internationalization: In referring to the internationalization of business and of organizations, we point to their expansion beyond their country of origin through establishing relationships, transaction linkages or operations in one or more other countries.

Globalization: The term globalization is subject to many interpretations and has no single agreed meaning. For some, it represents a natural, inevitable and largely unproblematic move towards a ‘borderless world’ and the end of the independent nation state. Here, we align with those who read it as the spread of western social, economic and cultural values. Intertwined with this process, we see the imperative of MNCs to configure and develop their value chains at a global level in the aim of making the most of their own efficiency and effectiveness in order to maximize their shareholder value.

Neoliberalism: The process of globalization that we describe above is underpinned by the advancement of neoliberal policies. These support the transfer of control over country economies from the public to the private sector, with privatization of state-owned enterprises (SOEs), development of a free market largely devoid of government intervention, and the elimination of restrictions on firms’ decision making. The spread of neoliberalism is advocated, and in cases enforced, by Washington-based institutions that include the World Bank and the International Monetary Fund (IMF).

Drawing inspiration from Aristotle

As we have outlined above, our approach to IB is based upon inclusive thinking about all stakeholders. The ‘stakeholder approach’ was first

articulated by Ed Freeman (1984) and it has since been applied in discussions of business ethics and how organizations are responsible not only to their financial investors but also to other parties, and to society at large. However, contemplating the broad consequences of actions for the whole of humanity has a long history. It can be traced back to the Greek philosophers and, in particular, to Aristotle's (350BC/2004) virtue ethics, especially his writings in *The Nicomachean Ethics*. In this work, Aristotle outlines the intellectual virtue of *phronēsis*, generally translated into English as 'practical wisdom' or 'prudence'. Aristotle (350BC/2004: 150) considers *phronēsis* as an individual trait necessary 'to be able to deliberate about what is good and advantageous', and to be 'capable of action with regard to things that are good or bad'. *Phronēsis* implies concern for the good of humanity at large, including present and future generations. The concept has been applied by contemporary writers (e.g. Cairns and Śliwa, 2008; Dunne, 1993; Shotter and Tsoukas, 2014) to address problems of ethics, governance and the impact of the actions of groups and individuals on others. For example, Bent Flyvbjerg (2001: 60) offers a way of approaching inquiry into social phenomena in accordance with *phronēsis* by first asking four seemingly simple questions:

Where are we going?

Is this development desirable?

What, if anything, should we do about it?

Who gains and who loses, and by which mechanisms of power?

In writing this book, we bear in mind these four questions in relation to various aspects of the theory and practice of IB. We draw upon *phronēsis* to generate discussion from the perspective of a broad range of stakeholders, and to support an understanding of IB theories and activities in terms of their origins, emergence, outcomes and implications. More specifically, in Chapter 7 we show the application of phronetic inquiry to critically appraise current developments, and to explore potential future IB scenarios and their possible impacts for all stakeholders.

Stakeholders in international business

In the following three chapters of this book, we explain how the theories of international business that have developed over time have

placed the benefit of, first, the nation state and then, more recently, the firm as the key concern of IB. We draw your attention not only to countries and companies, but also to those who are often seen as either marginal to IB practice, or as factors to be ‘managed’ for the benefit of commercial organizations. Moving beyond the country- or firm-centred approaches, we question the frequently taken-for-granted notion that the underpinning purpose of capitalist organizations is to maximize profits and return on investment for financial stakeholders. The proponents of this assumption often quote the renowned economist Milton Friedman (1962: 133), who stated that:

There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud ... for corporate officials to make as much money for their stockholders as possible.

What is often missed out of the discussion, however, are topics that Friedman himself raised as a counterpoint to the profit motive of private enterprise, namely the duty of the state to attend to matters of health, education and defence, and the question of who looks after the interests of the worker, the consumer and broader society. Below, we briefly discuss some of the impacts of IB on these three categories of stakeholders. Further, we reflect upon what we identify as problematic issues that ought to be addressed in the context of Flyvbjerg’s framework of four questions for developing an analysis in accordance with *phronēsis*.

The worker and international business

In thinking about the relationship between the worker and the international business organization, we believe it is important to look at the effects of MNCs on all types and levels of employees – both their own and those of their supplier and client organizations – at a global level. In so doing, we draw attention to issues of socio-economic inequality and poverty, and of exploitation associated with internationalization and globalization of business.

Nowadays, it is common practice for MNCs to configure their ‘value chain’ internationally or globally, seeking to gain ‘competitive advantage’ (Porter, 1985) over their competitors through minimizing production costs. In so-called ‘developed economies’, labour has long been recognized

as the major contributor to overall costs of production. This has led firms to shift their production activities to locations that offer cheaper labour, both in terms of wages paid and of infrastructure provision and employee benefits. The existence of such locations, which are the result of structural discrepancies across countries and regions, underpins the possibilities for attaining competitive advantage through exploitation of global cost differentials. Companies that have moved some or all aspects of their product or service delivery to countries with low costs of employment have a vested interest in maintaining these differentials, whilst ‘developing economies’ that aspire to gain a foothold on the ladder of economic growth are prepared to market themselves as providers of cheap labour, low- or no-cost factories, and tax-free investment opportunities. Both the MNCs that seek out such locations and those countries that offer such opportunities continue to do so despite the problematic impact that this ‘race to the bottom’ may have on local populations.

Critical commentators draw attention to the growing inequalities between and within societies as a result of globalization and the development of new models of supply that take advantage of economic differences – for example, using sweatshop labour in one country to produce branded goods that generate high levels of profit when sold in another. This fragmentation of global production results in social exclusion and impoverishment for many, with a simultaneous formation of global ‘elites’; the social and economic ‘winners’ of globalization. At the end of the previous century, Zygmunt Bauman (1998: 72) stated that, in this age of globalized production and consumption, ‘the new rich do not need the poor any more’. But, as you will find as you read on, we consider that the dynamics of contemporary IB – in domains such as production, consumption, investment and disposal – is very much about complex interdependencies between the rich and the poor, even when these groups do not directly interact. Where the wealthy factory owner of the past lived in geographic proximity to his workers, the super-rich of today are globally mobile and can live in London or Dubai while they generate income in Dhaka or Shenzhen. In any of these settings, they can remain detached from the workers on whom they rely for wealth generation. The gap between the wealth and mobility of the world’s rich and that of the poor takes us to a consideration of another group affected by IB activity, consumers.

The consumer and international business

While shareholders are the focus of profit distribution for MNCs, consumers are the main group through which these profits are generated.