

# Global Business Strategy (Chapter 1 and 2)

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# Some features of this course

- Globalization studies for Japanese firms to invest in emerging economies, importance of partnership with government. (C and I)
- Combination of theory (international business management) and practices:  
Teaching method: lecture and case studies (active class participation is encouraged!)
- International business plan: Application to the real world

# What is this?



Galapagos islands  
(Japan's mobile phone)



Infosys campus  
(Bangalore, India)

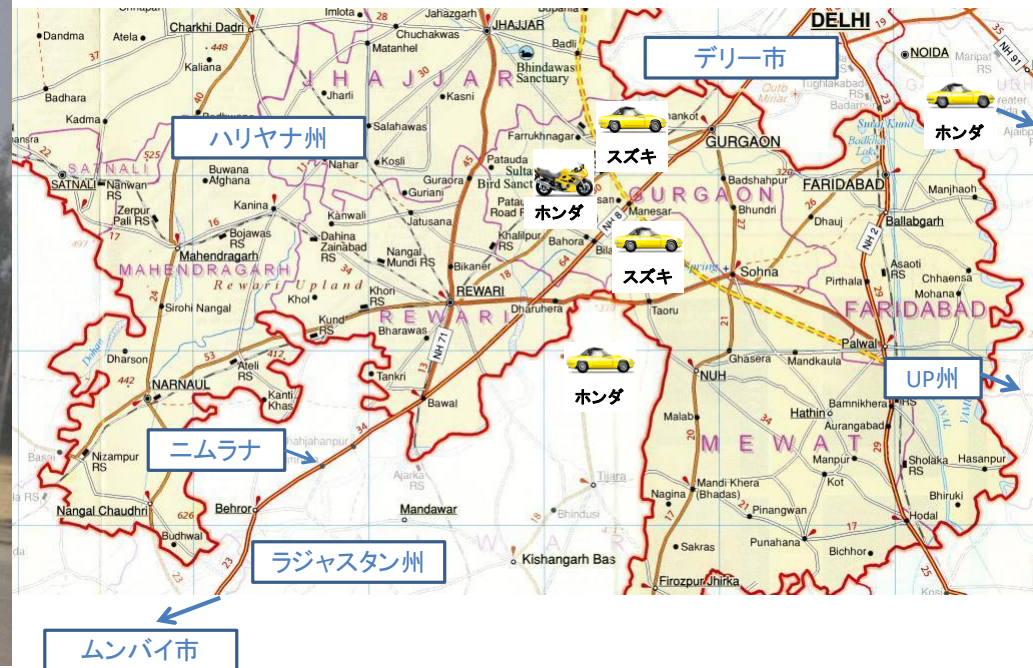
# Topics to be covered

- Introduction of this course (Chapter 1)
  - Why “Global” Business Strategy?
    - World is not completely flat (not same all over the world)
    - Innovations may come from the “difference”?
  - Why “Emerging Markets”, like China and India?
- Global business strategy: Theory (Chapter 2)
  - Example: China is your “market” or “factory”?
  - CAGE and AAA framework

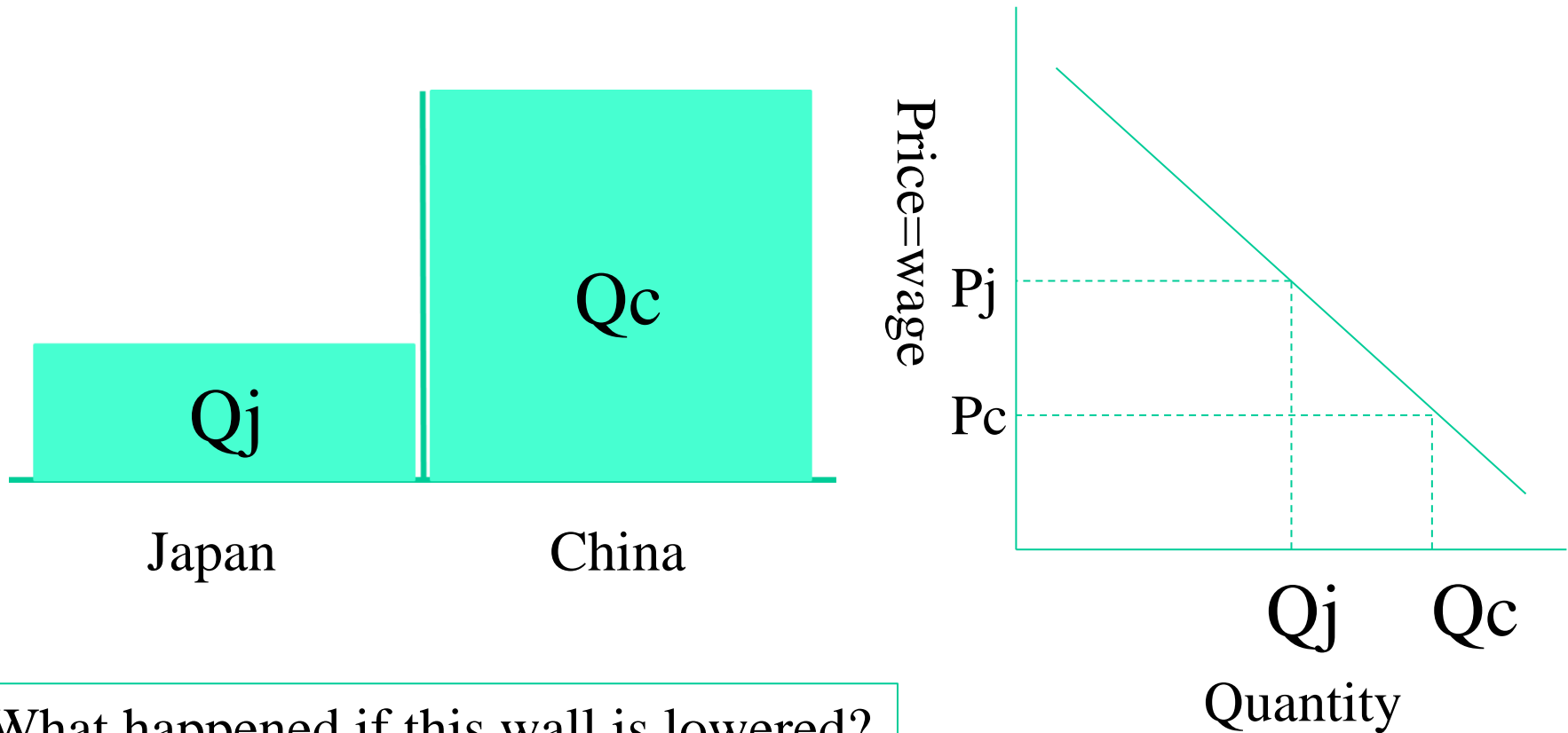
# “The World is Flat” by Thomas Friedman

- 1<sup>st</sup> Globalization Era: 1492: Columbus found the American continent.
- 2<sup>nd</sup> Globalization Era: Around 1800: Industrial revolution (by steam engine) drove down transportation costs significantly.
- 3<sup>rd</sup> Globalization Era: Around 2000: Internet and information technology revolution -> Globally flat business emerges (like Infosys)

# Reality in India...



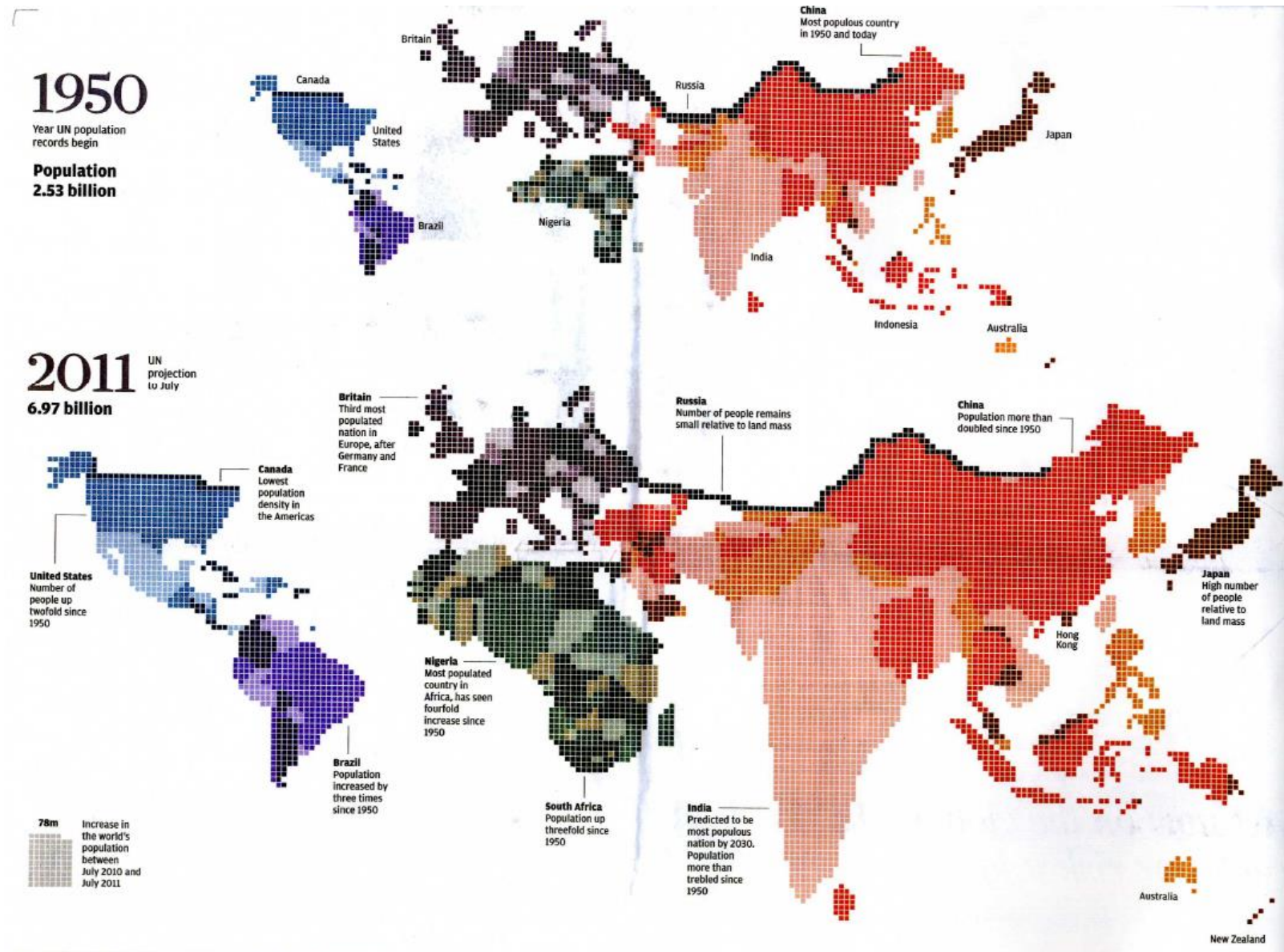
Why an average wage is different between Japan and China? (although the gap is narrowing)



What happened if this wall is lowered?

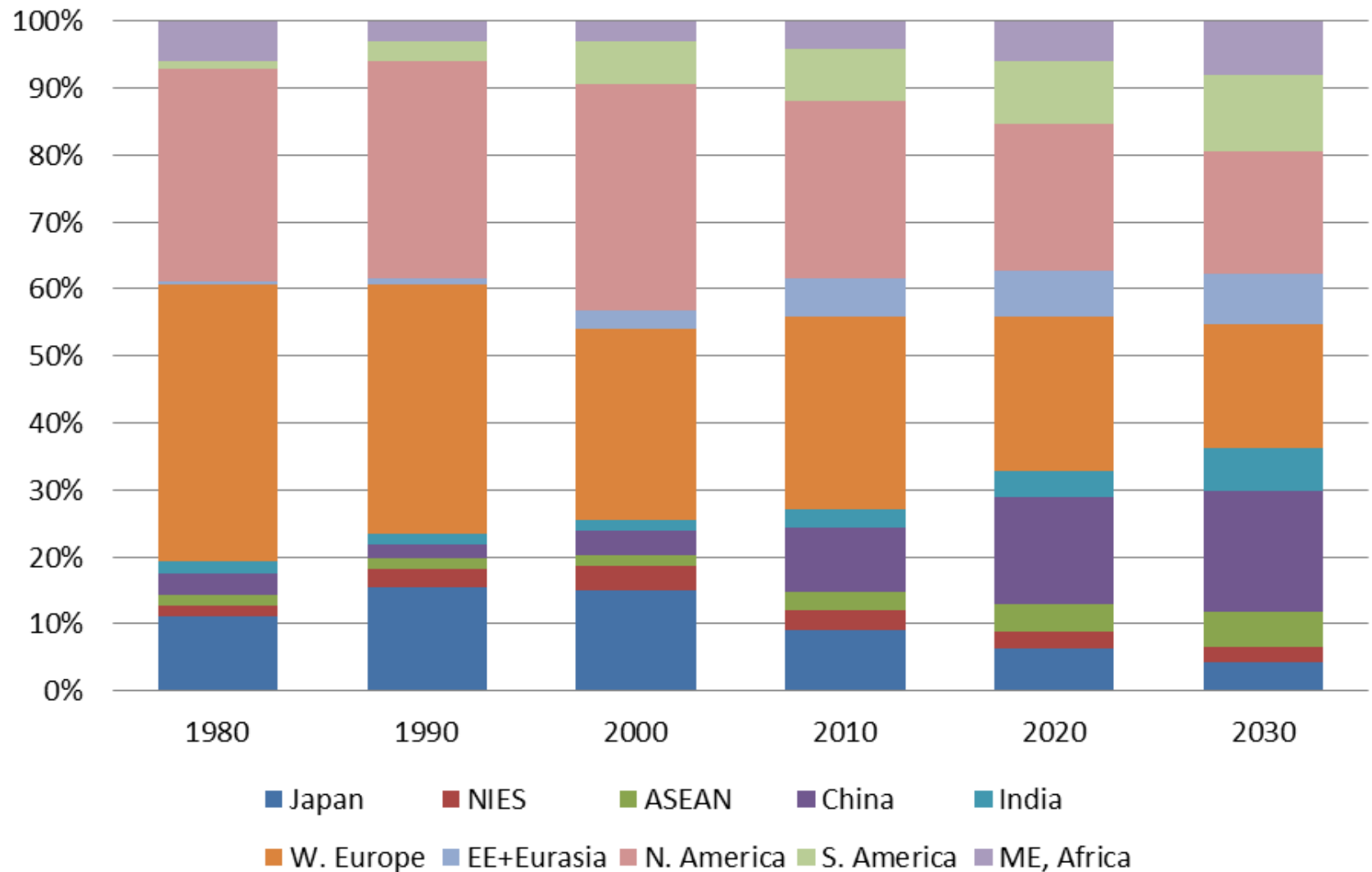


# Changes in the world population

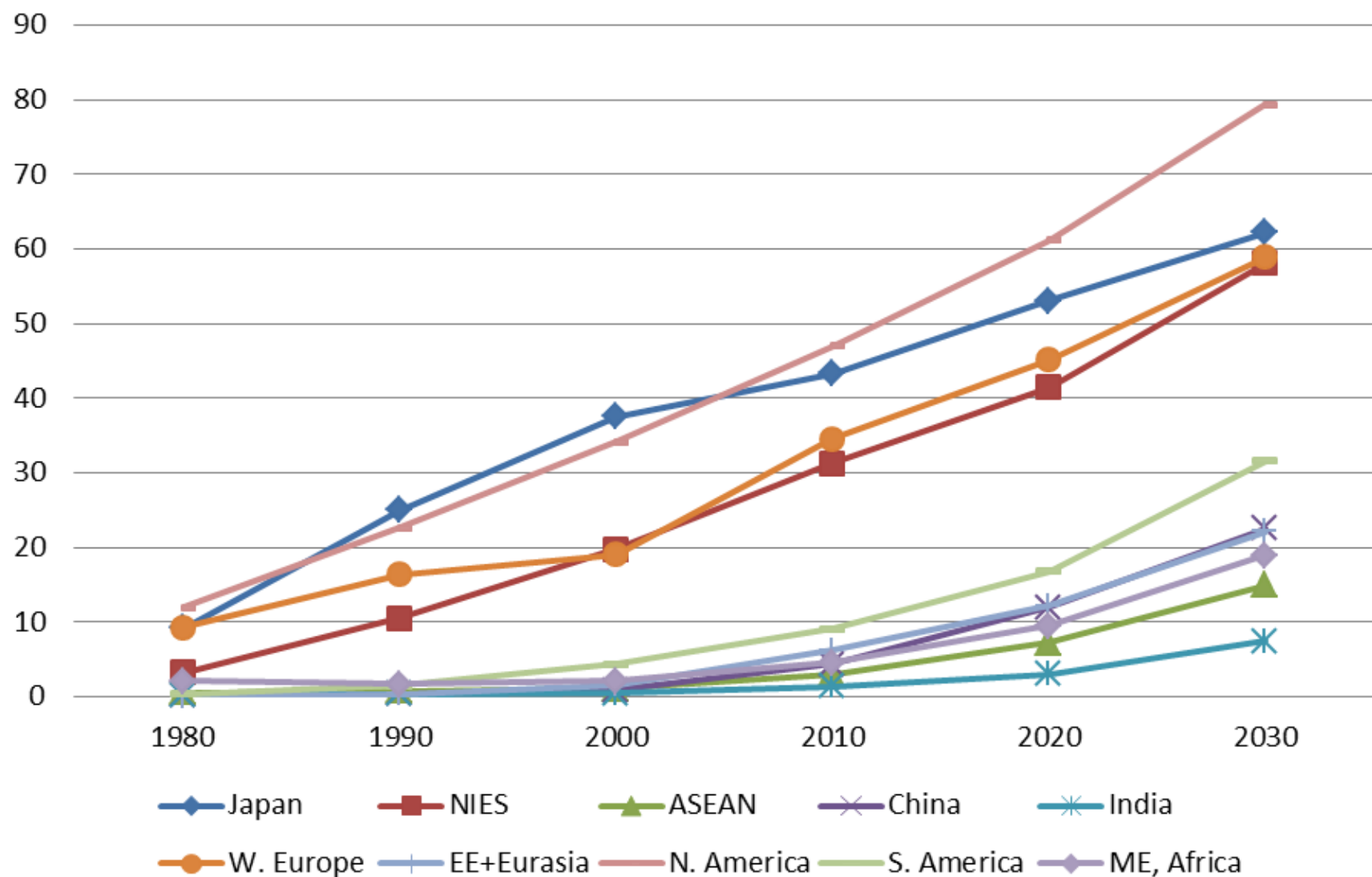




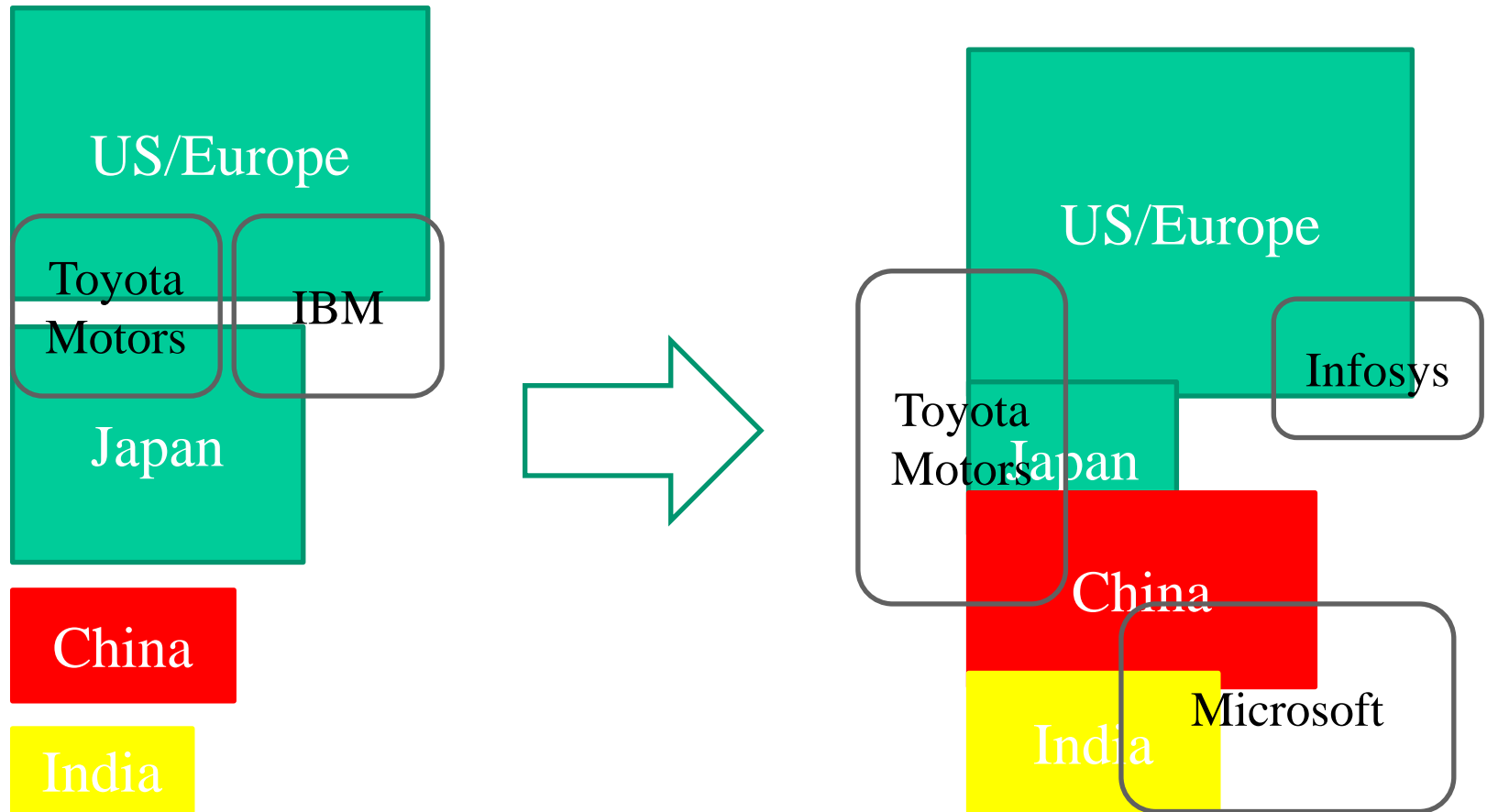
## GDP (US dollar)



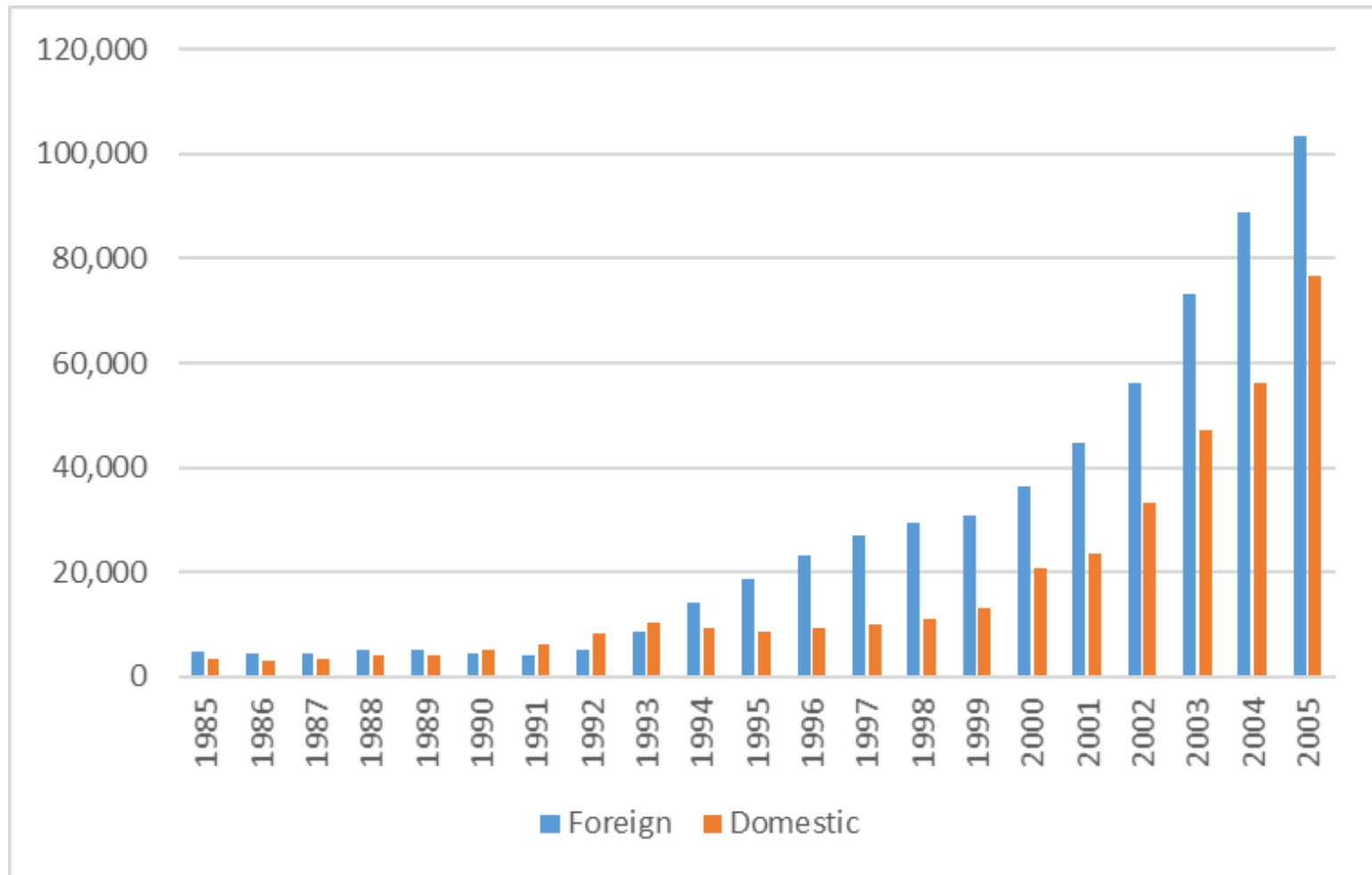
## GDP\_Per\_Capita (US dollar)



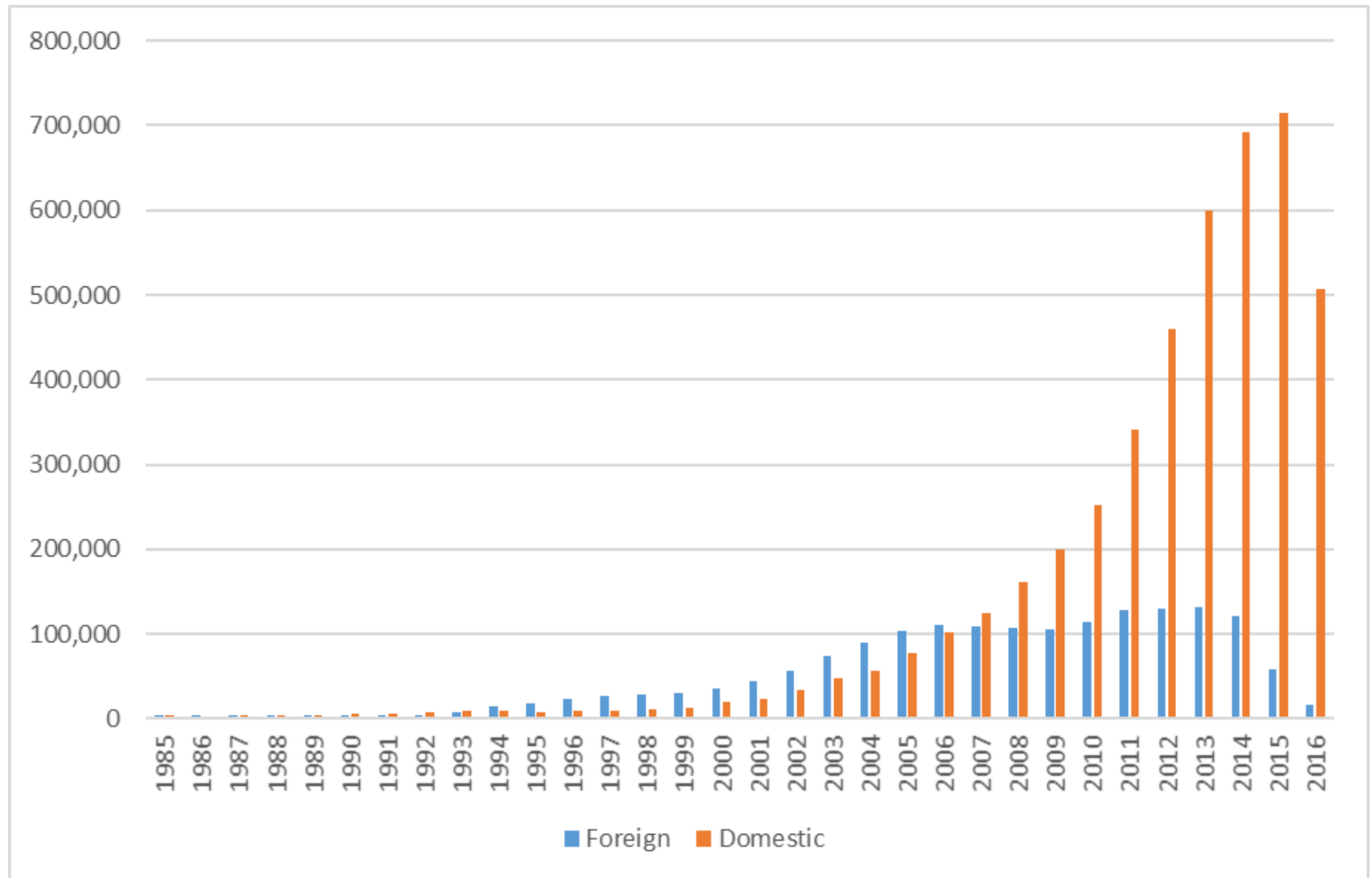
# Growth of emerging economies, as a market as well as a competitor



# Patent Applications in China (-2005)



# Patent Applications in China (-2015)



# Recent Trends

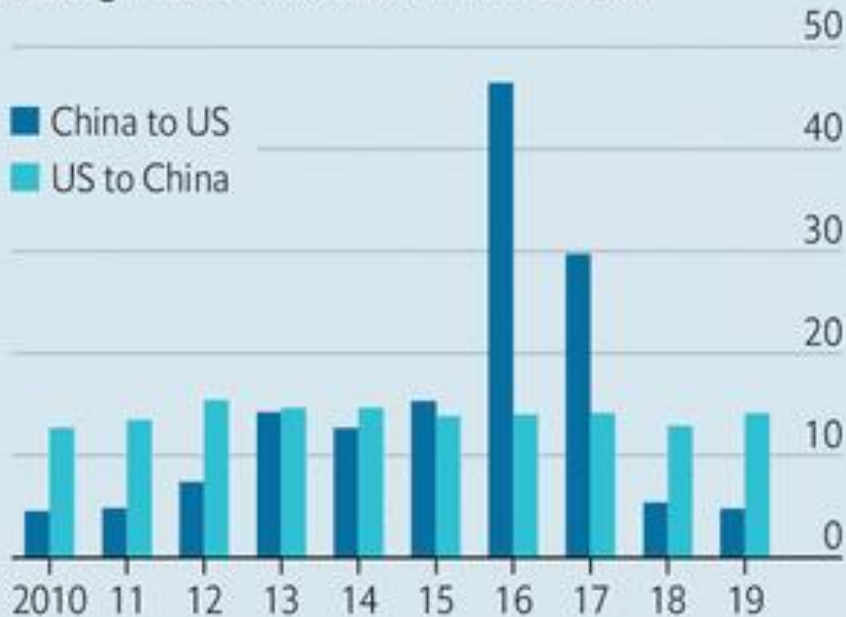
- Convergence story : “imitation” is easier than “innovation”, in general, but
- US “Decoupling Policy” Against China
- Covid-19 crisis breaks in – supply chain, international personal mobility



# US “Decoupling Policy” Against China

## Chill factor

### Foreign-direct-investment flows, \$bn



Sources: Rhodium Group; Peterson Institute for International Economics

### China

#### Number of CFIUS\* cleared transactions

60

#### Venture-capital investment in US, \$bn

20

40

60

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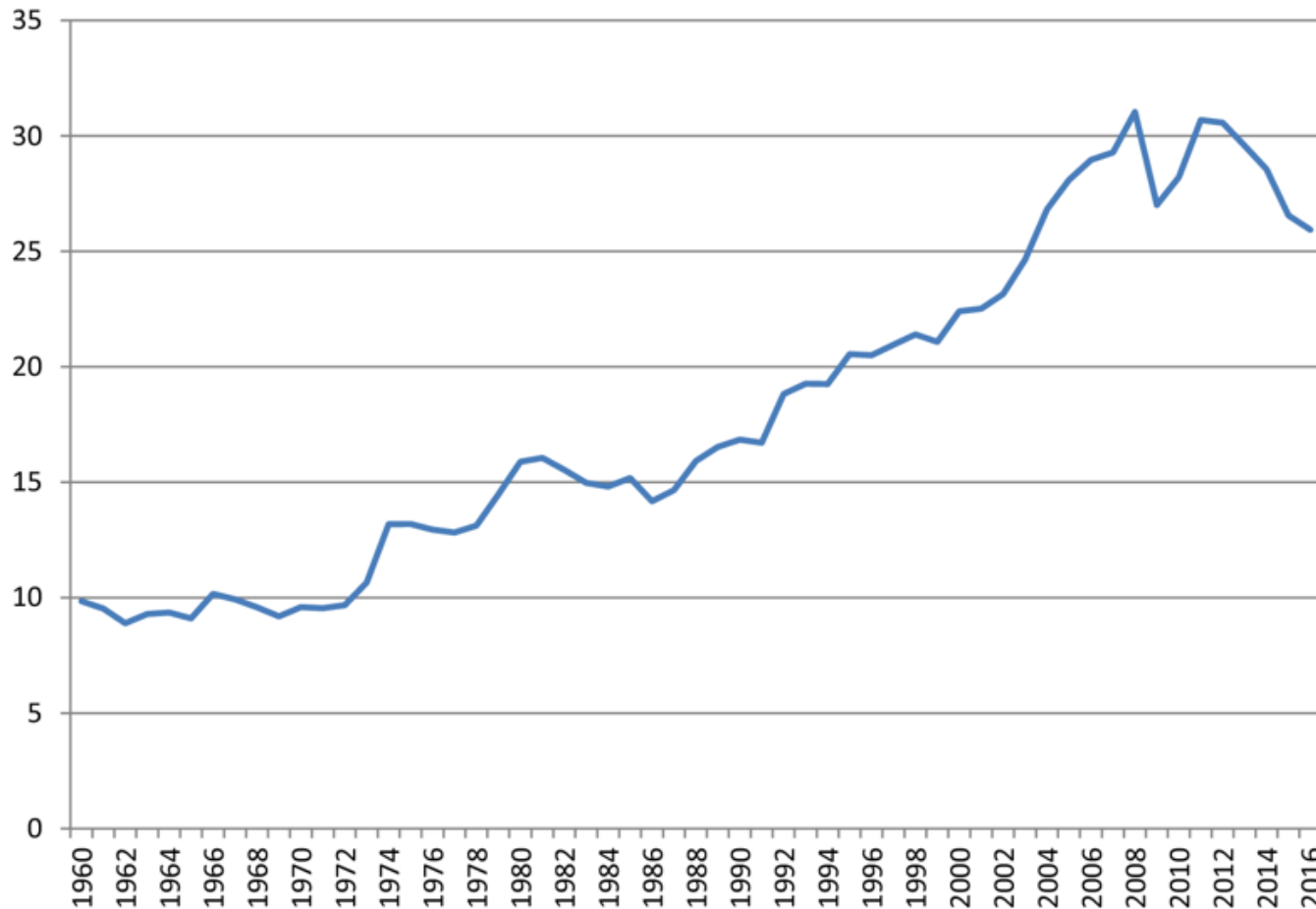
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# Structural reason behind recent de-globalization (less interdependency : World-wide import/GDP)?




De-globalization : Theories, predictions and opportunities in international business research, by,  
Journal of International Business Studies, 2019 50, 1053-1077

# Implications of de-globalization

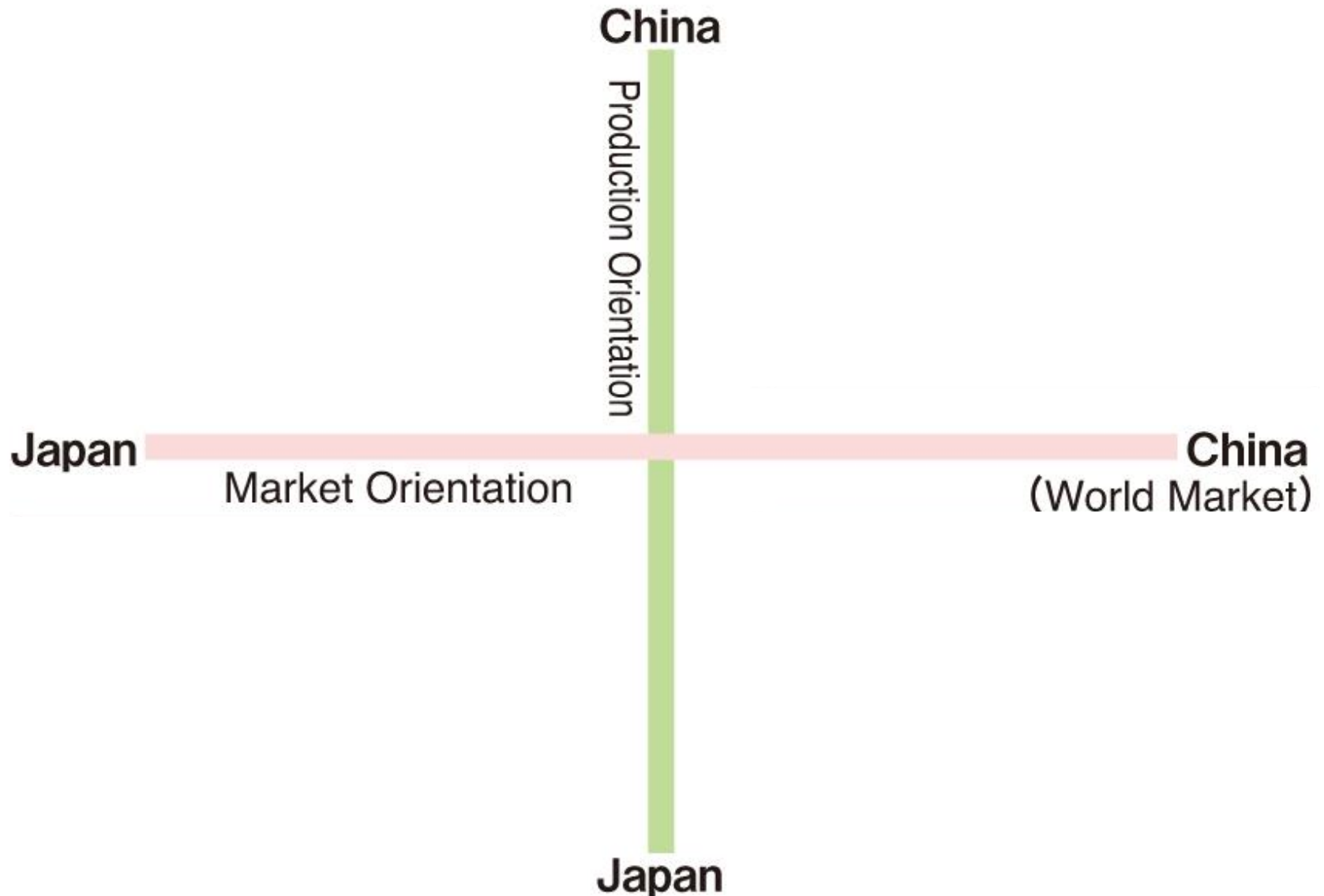
(in Michael Witt, JIBS paper)

- Liberalism School of Political Science :
  - Plus-sum by interdependency (trade theory) < Diverse national level interests (North-South disputes in WTO Doha round on IPR issues, Paris Treaty in global warming issues)
  - Regionalization, Economic Blocs
- Realism School of Political Science
  - Lack of world hegemony and instability (US -> China rise)
  - Bi-polar system (US market capitalism, and China state capitalism? -> extension of variety of capitalism theory)
  - GDP/Population as a nation's power (China, next to India?)

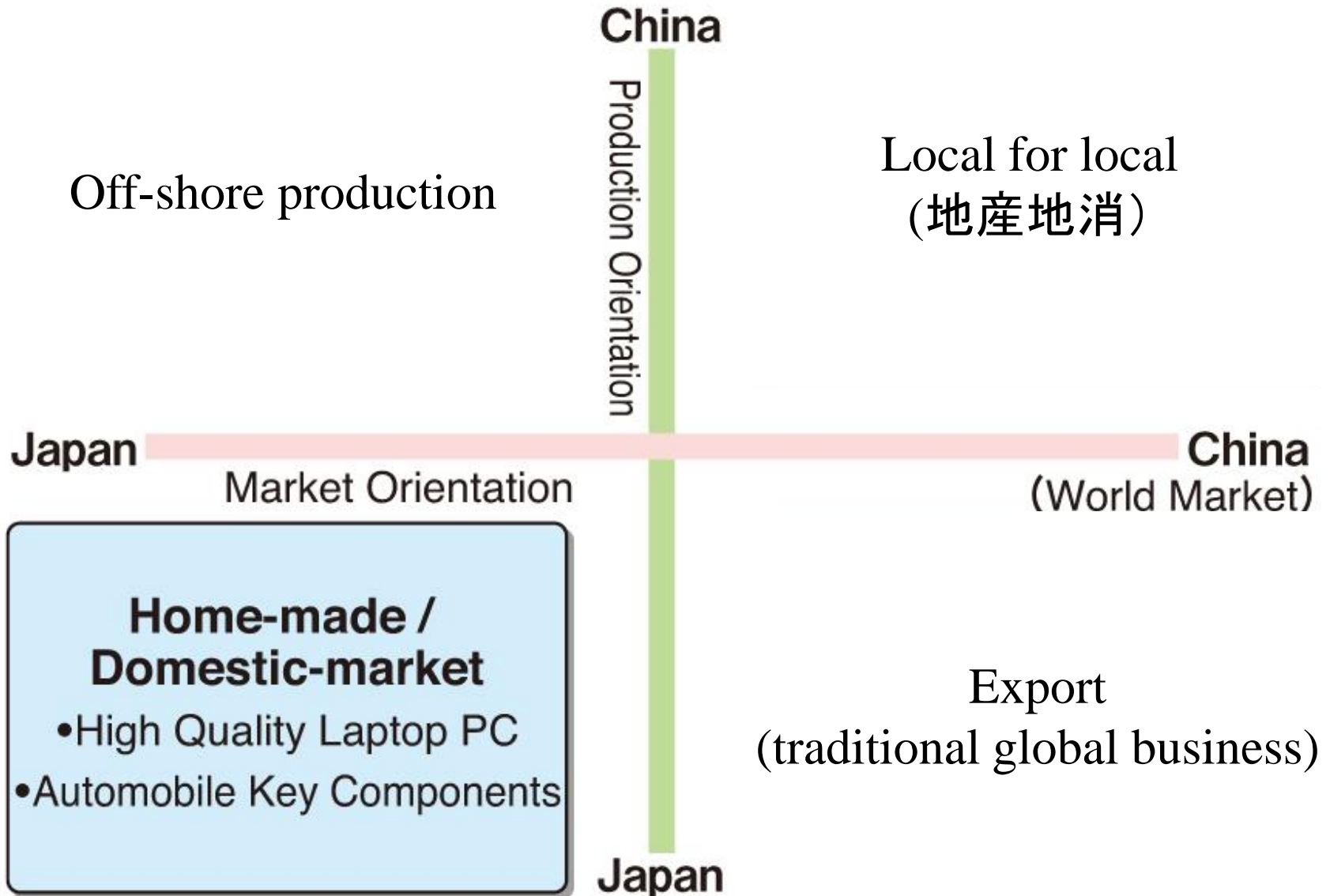


World becomes less flat, more important for global (international) perspectives of business development

# China is market or factory?



# China is market or factory?



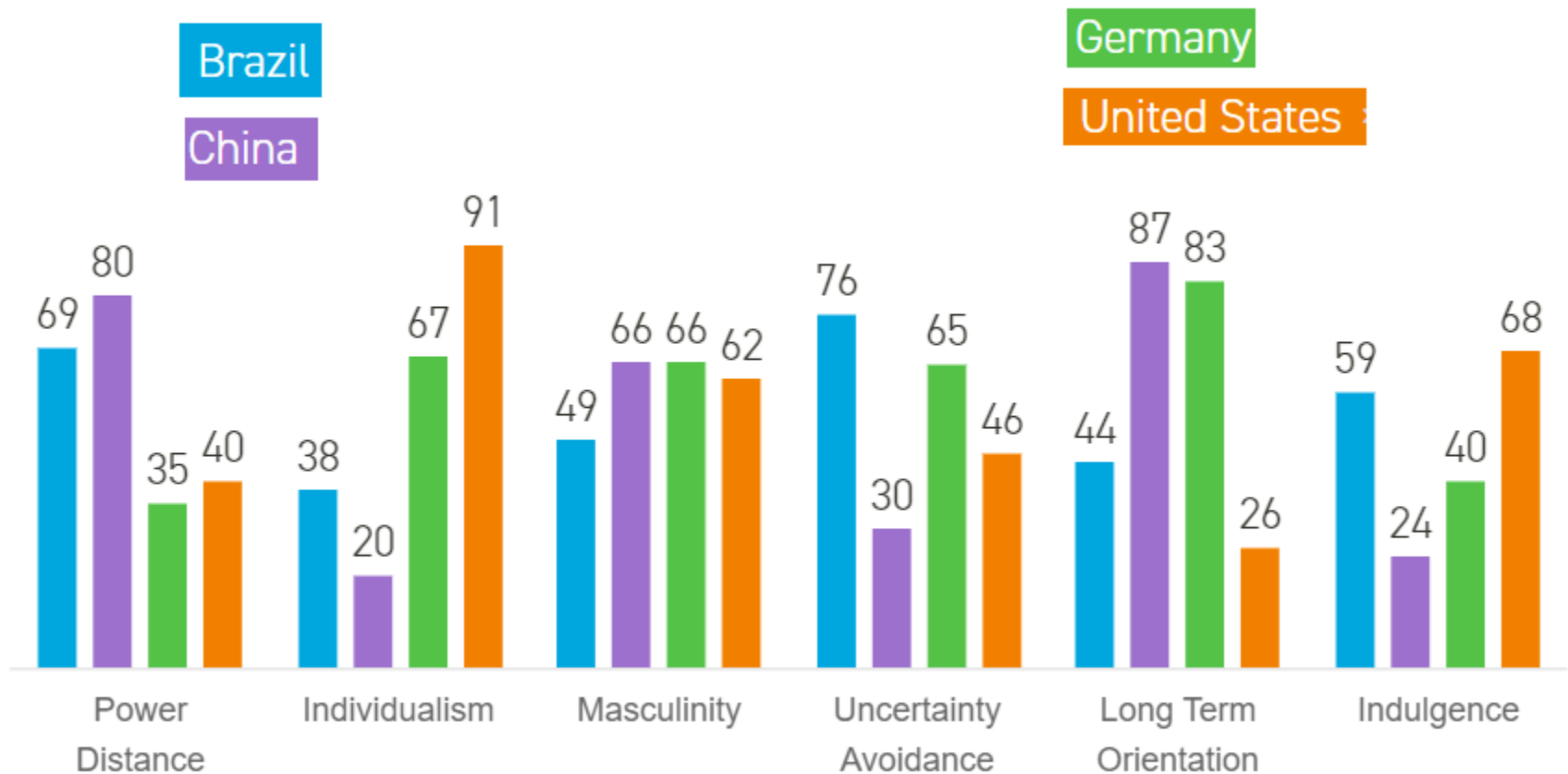
# CAGE framework

- Cultural Distance: language, customs, religion, cultures etc.
- Administrative Distance: regional integration administration (FTAs), currency, common suzerain state, political dispute
- Geographic Distance: physical distance, time zone, etc.
- Economic Distance: per capital GDP, wages, living costs

*Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter*  
by Pankaj Ghemawat (Harvard Business School Press)



# Hofstede measurement of cultural distance (6 dimensions)



From Wikipedia

# Institutional Distance

## “Variety of Capitalism (Hall and Soskice)”

Both **formal rules** (constituting administrative distance) and **Informal practices** are important as “Economic Institution”

LMEs (Liberal Market Economies)	CMEs (Coordinated Market Economies)
US, UK, Australia, New Zealand	Germany, Sweden, Norway, Japan
Short term labor contract	Stable employer-employee relationship
Responsive capital market	Patient capital
Market mechanism	Non-market mechanism
Flexibility	Relation specific asset investment
Disruptive innovation	Incremental innovation

# AAA: How to manage “distance”?

Adaptation : Customization of product or services to local market: McDonald’s vegi-burger in India, soundless and compact fridge in China (by Panasonic)...

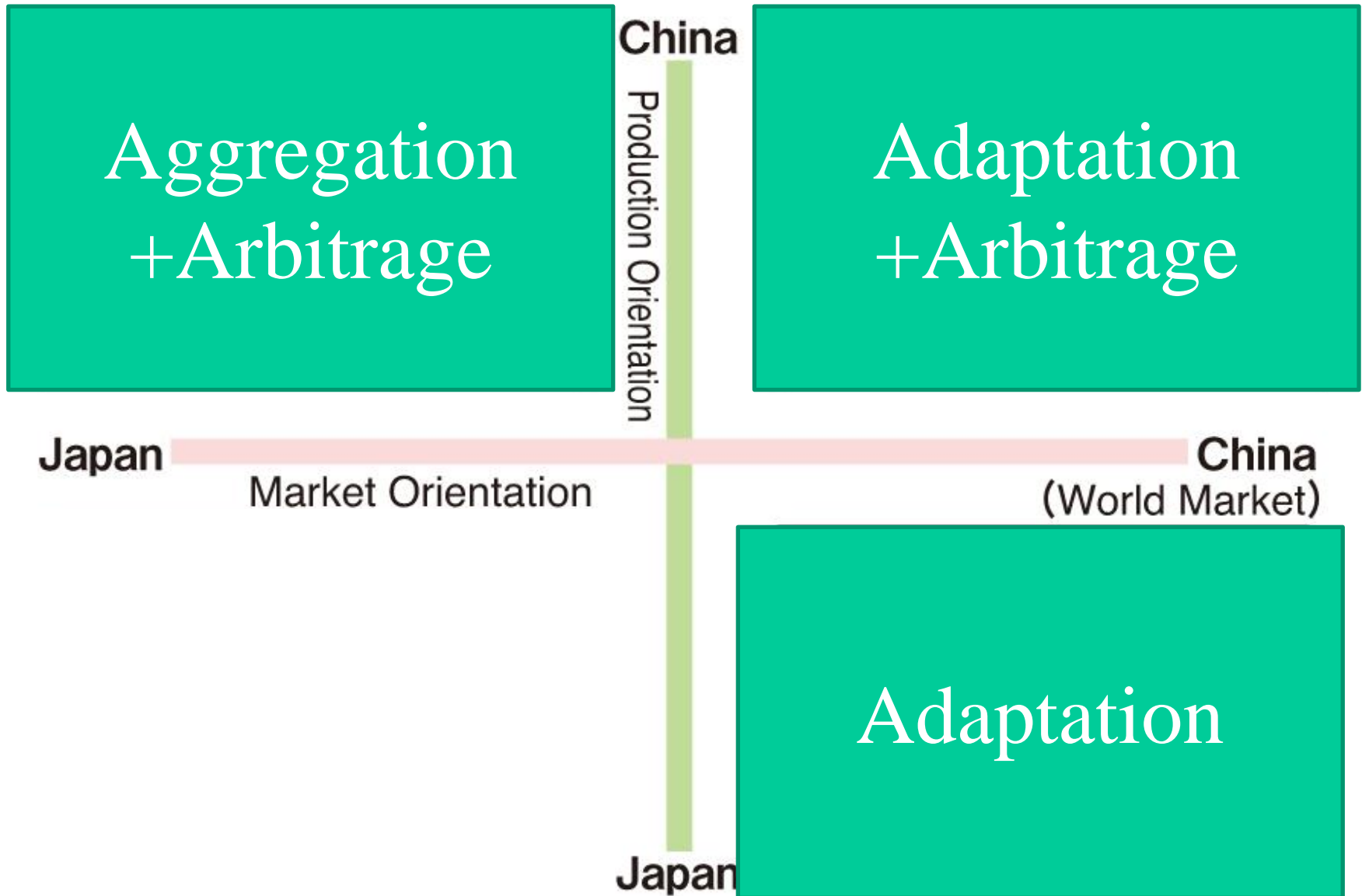
Aggregation : Globally (or regionally) standardized product and services: Toyota’s pickup trucks for SE Asia, Apple i-phone...

Arbitrage : Making profit out of distance : Infosys, UNIQLO....

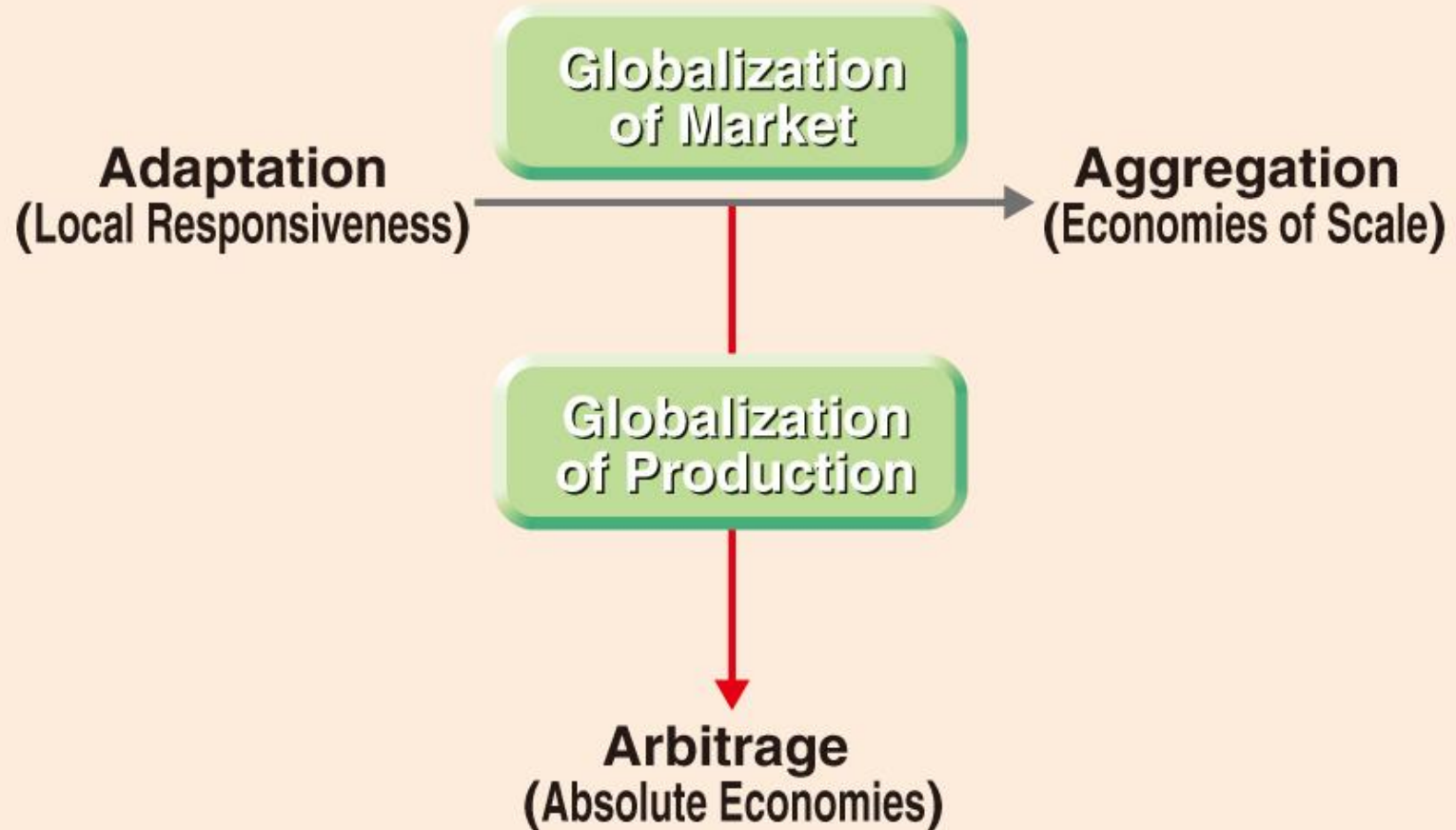
# India vs China from US viewpoint

	Cultural Attractions	Administrative Attractions	Geographic Attractions	Economic Attractions
<b>India</b>	<ul style="list-style-type: none"> <li>• English Language</li> <li>• Westernized Elites</li> </ul>	<ul style="list-style-type: none"> <li>• Common Colonizer</li> <li>• Common Law</li> <li>• Political Friendship</li> <li>• Lower Long-run Risk?</li> </ul>		<ul style="list-style-type: none"> <li>• Specialized Labor</li> <li>• Profitability</li> <li>• Firm Strategy and Upgrading</li> <li>• Soft Infrastructure</li> </ul>
<b>China</b>	<ul style="list-style-type: none"> <li>• Linguistic and Ethnic Homogeneity</li> <li>• Diaspora</li> </ul>	<ul style="list-style-type: none"> <li>• Ease of Doing Business</li> <li>• Enclaves</li> </ul>	<ul style="list-style-type: none"> <li>• Closer to U.S. West Coast</li> <li>• Superior Ports, Other Infrastructure</li> <li>• East Asian Production Network</li> </ul>	<ul style="list-style-type: none"> <li>• Larger Markets</li> <li>• Higher Income</li> <li>• Labor Inputs and Productivity</li> <li>• Capital Availability</li> <li>• Supply Chains</li> <li>• Foreign Companies as Export Bridges</li> </ul>

# AAA mapping to the quadrant

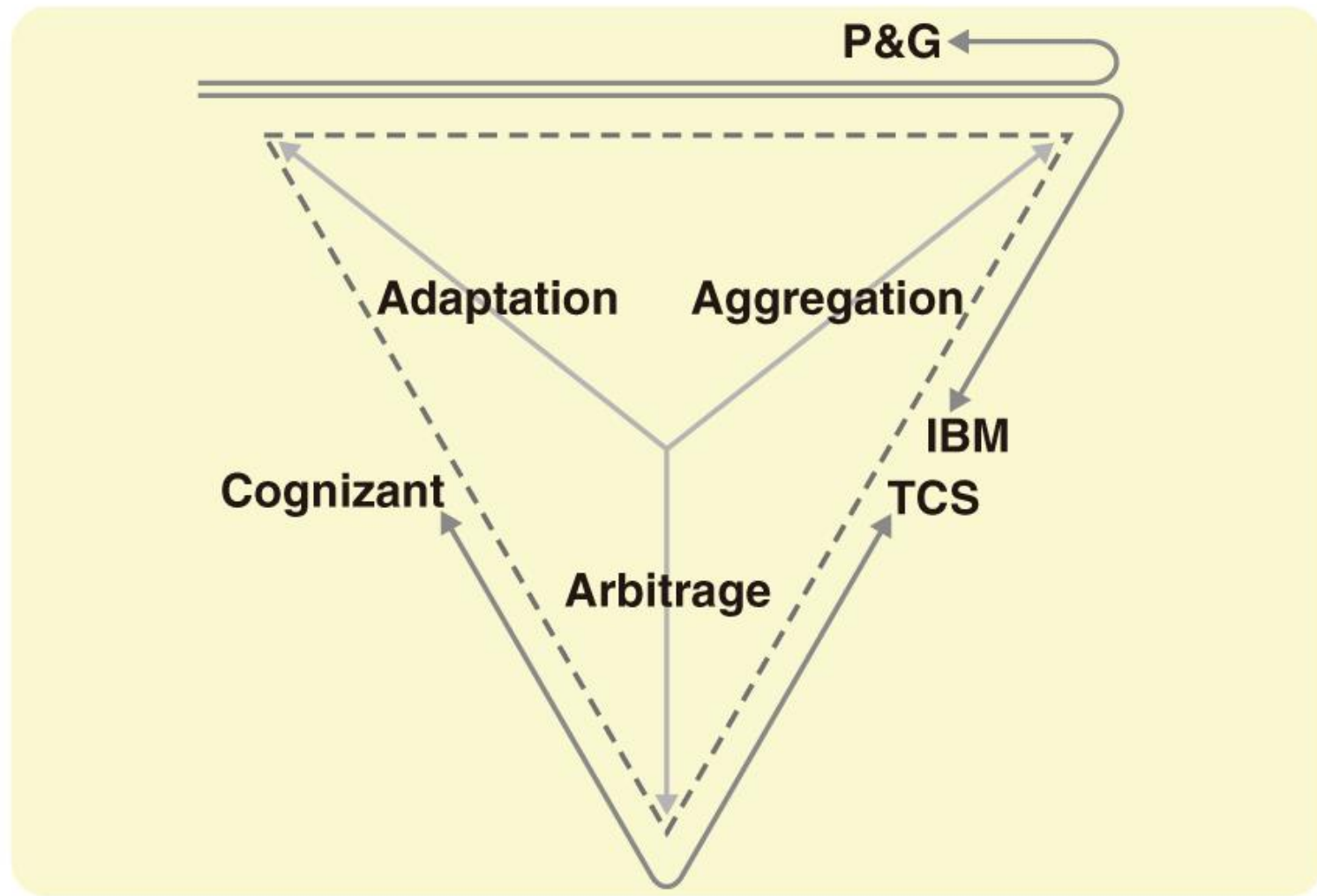


# AAA Triangle by P. Ghemawat





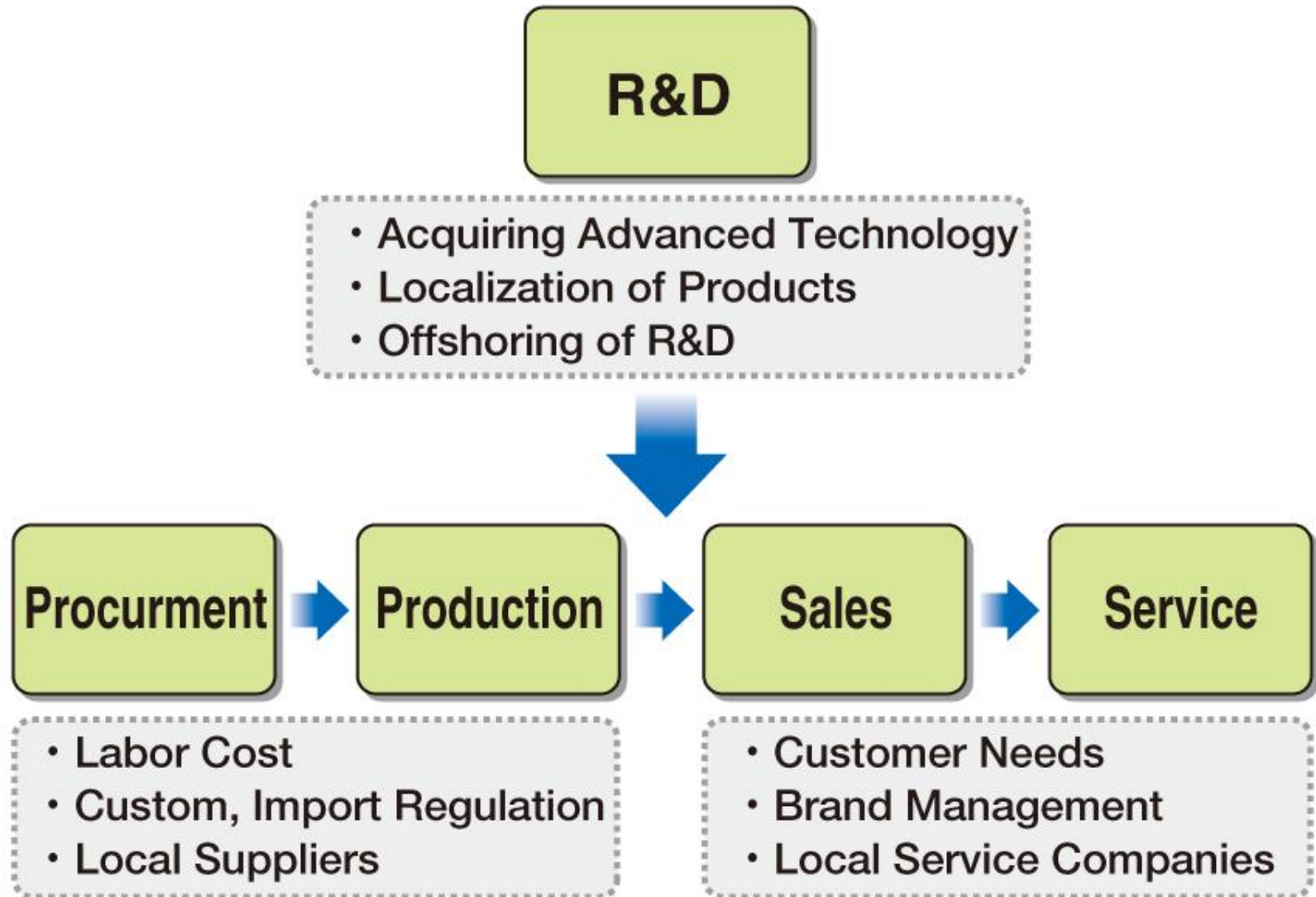
# Shift of global strategies



# Global Strategy Making

- Factory or Market?: Supply side story or demand side story or both?
  - Cost of local production  $\leftrightarrow$  benefit of distance
  - Arbitration is not only for manufacturing process but for various kinds of activities called off-shoring
- Aggregation or Adaptation:
  - Benefit of location  $\leftrightarrow$  Cost of localization
  - Marketing concept: market segmentation and targeting (or global market?)

# Value Chain and Global Strategy



# AAA and value chain

