

International Economics and Business

Fully updated with the latest theoretical insights, data and statistics, this third edition combines the dual perspectives of international economics and international business to provide a complete overview of the changing role of nations and firms in the global economy.

International Economics and Business covers the key concepts of an introductory course on the global economy. It avoids complicated mathematical theory to ensure accessibility for all disciplines and includes contemporary case studies from the international business world.

The result is a practical guide to the world economy for undergraduate students in economics and business, also suitable for students in other social science disciplines. Supported via full suite of online resources including quizzes, data exercises, additional reading lists, lecture slides, as well as colour versions of over 150 figures, *International Economics and Business* is a lively and engaging textbook providing a complete and practical understanding of international economics and globalization through a uniquely integrated lens.

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International Economics and Business

Nations and Firms in the Global Economy

THIRD EDITION

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Preface to the Third Edition

International Economics and Business offers an integrated perspective on the role of nations and firms in the global economy. This third edition of the book is not only updated, but also substantially refocused compared to the second edition of 2013. Although most of the underlying ideas remain the same, the overall content and organisation of the book is more explicit in combining the fields of international economics and international business.

The update of the book means that we not only revisited and renewed existing theories and empirical examples, but also offer new insights and new examples that have come to light since the publication of the second edition. Based on actual developments in the global economy as well as on the feedback we received on previous editions, we decided to refocus our book more strongly on international trade, foreign direct investment (FDI) and the role of the international firm as a central actor in the global economy. This has resulted in new chapters on the nature of trade and FDI (Chapter 5), global value chains (Chapter 7) and the impact of crises on international firms (Chapter 9). Throughout the book, we now also pay more attention to the current backlash against globalisation. Our renewed focus means that we pay less attention in the new edition to aspects of international monetary economics.

This new edition is in three parts. As you go through the book, the focus gradually shifts from the global economy via the country- and sector level to the international firm. In Part I ('Introduction': Chapters 1–2) we familiarise the reader with the global economy and international firms. We also discuss basic tools and measurement methods to make sense of the modern economy and internationally active firms. Part II ('International Competition': Chapters 3–6) discusses and applies both well-established and more recent theories and insights to understand the workings of the global economy and the relevance of international firms. We gradually move from a sector- to a firm-level analysis that is essential in international business and is necessary to understand the workings of the global economy. In Part III ('International Organisation': Chapters 7–9) we look in more detail inside the firm by analysing the internal organisation and management of international firms, and the interaction with the environment in which these firms are operating.

What remains unchanged compared to previous editions is that our book is targeted at first- or second-year undergraduate students. We have written the book in such a way that students familiar with elementary mathematics concepts are able to understand the material we present. In terms of a typical economics or business curriculum, this means that you have probably had introductory courses on statistics and microeconomics. If you are a student enrolled in an economics programme, this book serves as an introduction to international economics, including

a discussion of the most essential theories of international business. Vice versa, if you are a student in a business programme, this book serves as an introduction to international business, including a discussion of the essentials of international economics.

Having successfully mastered the material we present to you in this book, an economics student may subsequently take an intermediate international economics course, while a business student may continue by taking an intermediate international strategy and organisation course. Our main aim is to provide common ground for both types of undergraduate communities.

Teaching Philosophy

This book is based on a teaching philosophy developed through decades of cumulative teaching experience in both international economics and international business, including a substantial number of years in undergraduate programmes. Over the years, we have become convinced of the need to focus on the explanation of the broader picture in international economics and business. Sure, one needs to learn about the intricate details of the balance of payments, internationalisation process models or trade theories, to mention just a few aspects, but in the end the added value of a course on international economics and business is the ability to *link* the different concepts and understand the relationships that allow you to ‘get the big picture’. Just as in the two previous editions of the book, our goal has been to provide this picture.

Instead of providing just another introduction on international economics or on international business as separate topics, we integrate these two fields of enquiry. While writing and developing the book, we tried to stick to the two educational principles listed below. The first principle is taken from Ed Leamer (2009), an econometrics professor at the University of California in Los Angeles. The second principle cannot be attributed to anyone in particular, although the Nobel laureate in economics George Stigler is sometimes mentioned.

1. People are pattern-seeking storytelling animals.
2. The plural of anecdote is not evidence.

The first principle relates to the need for human beings to structure the world around them in order to understand it. This is exactly what we offer you in this book; we structure the world of international economics and business in such a way that it helps you to understand the contemporary global economy. *Patterns* have a history, however, which means that in order to understand the contemporary global economy you need to have some historical knowledge because patterns in the social sciences tend to be path-dependent. The position of nations and firms today (at time t) is related to their position yesterday (at time $t - 1$). Throughout this book, we therefore discuss the relevant historical background, when appropriate.

We use a variety of instruments to clarify. First, we introduce a decision tree in the next section for a firm that considers going abroad and describe the different options this firm has. This decision tree is used in Chapter 2 when discussing types of multinational activity, and will also be used in the subsequent chapters to structure our discussion. Using the same instrument supports the integration and discovery process, and facilitates the learning process. Second, whereas international economics books tend to focus on nations and international business books on firms, we combine the two in one consistent framework. We do so by taking a bottom-up perspective in which trade and investment patterns emerge as firms make internationalisation decisions that are driven by their wish to generate value-added abroad, and by doing so affect both home and host countries. This perspective is also reflected in the decision tree used throughout the book.

The second principle implies that our book is *research-driven*. It is not a collection of anecdotes, but based on research in international economics and international business. What we present to you is not just a set of interesting examples or cases, but the combination of relevant insights and theories based on and derived from fundamental research. We think that cases and examples are helpful, but that they should not be the starting point for arriving at the larger picture. For that reason, we start from theory and use case insights as complementary pieces of information, thus balancing analytical reasoning and discussions on data and numbers. Related issues are discussed in additional boxes.

Organisation of the Book

To discuss international economics and international business in an integrated way, we use a decision tree as our starting point. Figure 0.1 depicts a set of choices for a firm considering going abroad, usually driven by the wish to generate additional value added. Even if a firm goes abroad for strategic reasons, it still has to do so in the most efficient and effective way. A firm may go abroad either to *sell* or to *buy* goods or services (see the first stage of the decision tree). If the firm decides to sell abroad it has two basic options, namely (i) to produce at home and export goods to serve the market in the other country or (ii) to start production in the host country and serve the foreign market from that production facility. In the second case, the firm becomes a (horizontal) multinational, that is a firm which owns and controls activities in more than two countries. If a firm decides to source from abroad there are also two options, namely (i) import from abroad or (ii) start local production in the host country and send these goods back to the home country for use in the local production process (intra-firm trade). In the second case, the firm becomes again a (vertical) multinational. This summarises the second stage of the decision tree in Figure 0.1.

The book is organised in three parts, largely in line with the flow of the firm's decision tree illustrated in Figure 0.1, including the consequences for nations and firms.

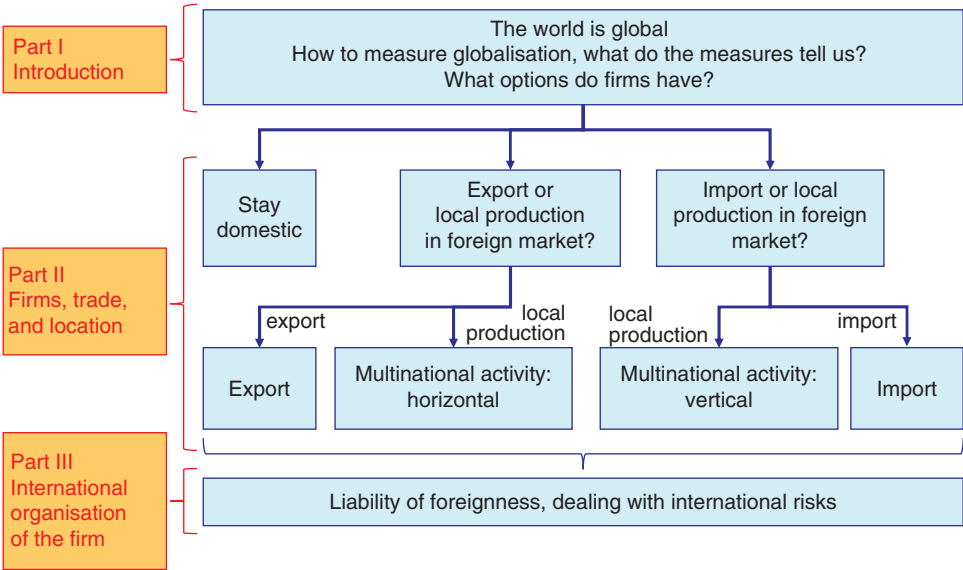


Figure 0.1 Firm decision tree and book overview.

Part I, ‘Introduction’, consists of two chapters. Chapter 1 discusses the history and structure of the globalisation process and introduces the global economy in terms of population, income, trade flows and capital flows. It also discusses the recent backlash against globalisation, a topic that will pop up in later chapters as well. Chapter 2 discusses the motivations for internationalisation and the data that are used to measure the resulting flows of international business activity at the country level (the balance of payments).

Part II, ‘International Competition’, consists of four chapters. Here, we elaborate on the core of the decision tree that can be used to explain international trade flows and multinational activity. Chapter 3 focuses on comparative advantages through technology differences and factor abundance, leading to competitive advantages and outsourcing. Chapter 4 focuses on the role of (heterogeneous) firms in modern trade theory based on economies of scale, leading to intra-industry trade, gains through love-of-variety and market size, and strategic advantages. The notion of firm heterogeneity is also relevant when discussing multinational firms as will become clear in Chapter 5, where we will analyse the structure of modern trade and FDI. Chapter 6 discusses how firms deal with all sorts of additional costs that they face when starting activities abroad, measured by geographic, cultural, institutional and linguistic distance.

Part III, ‘International Organisation’, consists of three chapters. The final part of the book focuses on the way the international firm is organised and managed. In Chapter 7 we zoom in on the international organisation of the production process via an in-depth discussion of the pros and cons of so-called global value chains. Chapter 8 then discusses how firms effectively and efficiently manage the firm-specific challenges they face in order to overcome the ‘liability of foreignness’

when going abroad. Finally, in Chapter 9, we show how international firms deal with the risks or crises associated with being a part of the global economy. The chapter ends with our take on the future of globalisation.

Supporting Website

We have made supporting material available on the website associated with this book (www.cambridge.org/beugelsdijk). In line with our educational principles outlined above, we provide review exercises and data exercises allowing students to familiarise themselves with the right numbers. We also make available all tables and figures used in the book.

The Authors

As already mentioned, all five authors have long and varied research and teaching experience. We have all taught courses at undergraduate and graduate levels, at major economics and business faculties in a wide range of countries (including Australia, China, the Netherlands, Russia, the UK and the USA). **Sjoerd Beugelsdijk** is Professor of International Business at the Darla Moore School of Business, University of South Carolina, **Steven Brakman** is Professor of International Economics at the University of Groningen, **Harry Garretsen** is Professor of International Economics and Business at the University of Groningen, **Charles van Marrewijk** is Professor of International Macroeconomics at Utrecht University and **Samuele Murtinu** is Professor of International Business at Utrecht University.

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