

## Examples of early spice trade

2600 BC – feed labors spices for strength  
600 BC – China Confucius use of ginger  
Ancient Egypt – cassia & cinnamon for embalming, also anise, marjoram & cumin  
Food preservation – salt with pepper; plague in Middle ages  
Mary Rose English ship sunk in 1545 – every sailor pockets contained peppercorns  
Romans – heavily used in food, wine, perfumes; saffron pillows  
Arab became middlemen in spice trade between Europe & India  
Search for sea routes to avoid high prices  
Portuguese and Spain frontrunners & rivalry in exploration to India



---

---

---

---

---

---

---

---

## Early developments in spice trade

Dutch muscled in and monopolized the spice trade and became distributors for N & W Europe  
Formed the Dutch East India Company – to reduce competition, share risk & realize economies of scale  
DEIC richest corporation in the world – annual dividend of 40%; 50,000 employees; 30,000 fighting men; 200 ships; extremely ruthless; trade New Amsterdam with English for Banda Islands for complete control of the netmeg trade



---

---

---

---

---

---

---

---

## Historical Developments in International Business

### ? The Commercial Era 1500-1850

- age of great explorers
- individual entrepreneurs seeking personal fortunes in distant lands
- trade in gold, spices, silk, and slaves
- close relationship between European monarchs and entrepreneurs
- formation of first MNEs - Dutch East India Co., Levant Co., British Royal American Co., Hudson Bay Co.



---

---

---

---

---

---

---

---

## Exploitative Era 1850-1915

- ? creation of industrial empire's based on industrial products rather than exotic goods
- ? secure cheap sources of raw materials overseas
- ? home govts. become involved in colonial rule
- ? colonies become dependent on imperial powers politically and industrially



---

---

---

---

---

---

---

---

## Concessionary Era 1914-1945

- ? western cos. become very powerful
- ? rise of nationalism & economic development
- ? countries try to seek independence & encourage local business



---

---

---

---

---

---

---

---

## The National Era 1945-1960

- ? increasing hostility towards western companies, antagonism towards foreign influence in local affairs
- ? desire for self-government & sovereignty
- ? imposition of restrictions on foreign cos.
- ? era of political instability
- ? many countries in Asia, Africa, and S. America become independent



---

---

---

---

---

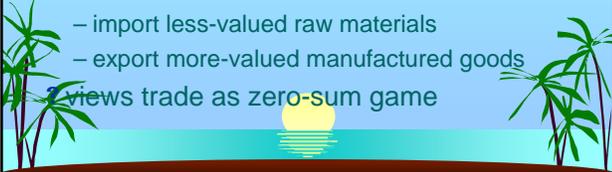
---

---

---

## Intl. Trade Theory - Mercantilism

- ? countries should export more than they import - balance of trade surplus - result in more gold & silver for governments
- ? trade conducted by governments led consolidation of power
- ? trade with colonies
  - import less-valued raw materials
  - export more-valued manufactured goods
- ? views trade as zero-sum game



---

---

---

---

---

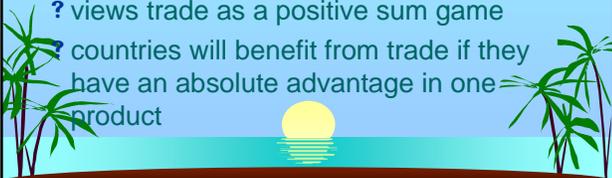
---

---

---

## Intl. Trade Theory - Absolute Advantage

- ? proposed by Adam Smith
- ? countries differed in their ability to produce different goods efficiently and should specialize in the production of goods they can produce more efficiently
- ? views trade as a positive sum game
- ? countries will benefit from trade if they have an absolute advantage in one product



---

---

---

---

---

---

---

---

## Intl. Trade Theory - Comparative Advantage

- ? even if a country has an absolute advantage in both products it should specialize in production of that good in which it has a comparative advantage
- ? proposed by Ricardo



---

---

---

---

---

---

---

---

## Assumptions Comparative Advantage

- ? Full employment
- ? 2 products and 2 countries only
- ? Ignores role of technology and marketing
- ? Perfect competition
- ? Mobility of resources
- ? Transportation costs ignored
- ? Max efficiency - countries produce goods for other reasons



---

---

---

---

---

---

---

---

## A Link Between Trade and Growth

Sachs and Warner: 1970 to 1990 study

- Open economy developing countries grew 4.49%/year.
- Closed economy developing countries grew 0.69%/year.
- Open economy developed countries grew 2.29%/year.
- Closed economy developed countries grew 0.74%/year.

Frankel and Romer:

- On average, a one percentage point increase in the ratio of a country's trade to its GDP increases income/person by at least 0.5%. For every 10% increase in the importance of international trade in an economy, average income levels will rise by at least 5%.



---

---

---

---

---

---

---

---

## International Product Life Cycle Theory

- ? Proposed by Vernon - 1960s
- ? Major role given to innovation
- ? As products mature, both the location and the optimal production location will change, affecting the direction and flow of imports and exports
- ? Valid for the time period 1950 to 1970s
- ? Criticized currently due to globalization and integration of the world economy



---

---

---

---

---

---

---

---



### The Leontief Paradox, 1953

- ? Disputes Heckscher-Olin in some instances
- ? Factor endowments can be impacted by government policy - minimum wage.
- ? US tends to export labor-intensive products, but is regarded as a capital intensive country.

---

---

---

---

---

---

---

---

### Heckscher vs Ricardo

- ? Economists prefer Heckscher on theoretical grounds but is a relatively poor predictor of trade patterns.
- ? Ricardo's Comparative Advantage Theory, regarded as too limited for predicting trade patterns, actually predicts them with greater accuracy.
- ? In the end, differences in productivity may be the key to determining trade patterns.

---

---

---

---

---

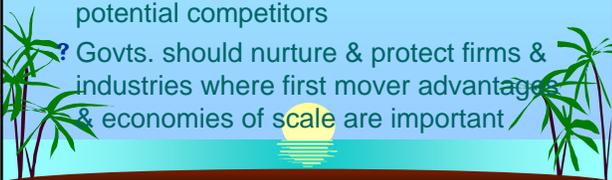
---

---

---

### Strategic Trade Theory

- ? In some industries there can exist only a few firms worldwide due to economies of scale and increasing returns to specialization
- ? Thus first mover advantages are critical as they create barriers to entry for potential competitors
- ? Govts. should nurture & protect firms & industries where first mover advantages & economies of scale are important




---

---

---

---

---

---

---

---

# Porter's Diamond (Harvard Business School, 1990)

- ? *The Competitive Advantage of Nations.*
- ? Looked at 100 industries in 10 nations.  
Thought existing theories didn't go far enough.
- ? Question: "Why does a nation achieve international success in a particular industry?"

---

---

---

---

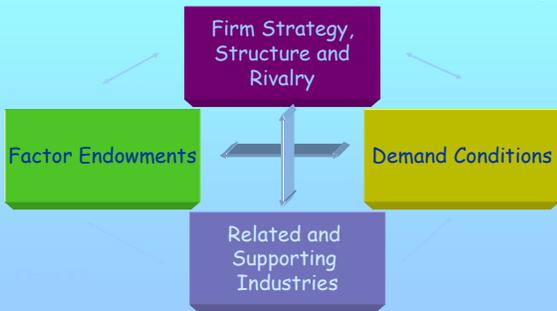
---

---

---

---

## Porter's Diamond Determinants of National Competitive Advantage




---

---

---

---

---

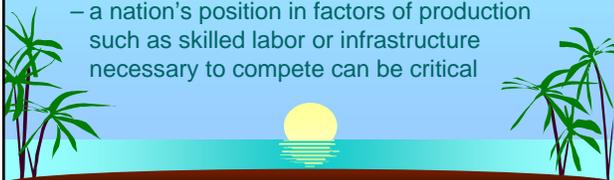
---

---

---

## Competitive Advantage of Nations - Porter's Diamond

- ? Factor Endowments
  - factors can be basic (natural resources, climate, location) or advanced (skilled labor, infrastructure, knowhow)
  - a nation's position in factors of production such as skilled labor or infrastructure necessary to compete can be critical




---

---

---

---

---

---

---

---

## Demand conditions

### ? Demand:

- creates capabilities
- creates sophisticated and demanding consumers



? Demand impacts quality and innovation



---

---

---

---

---

---

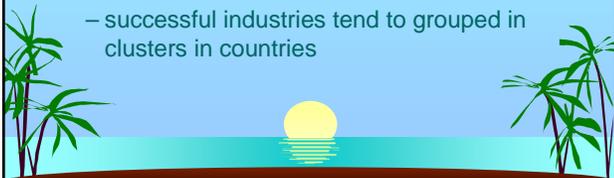
---

---

## Competitive Advantage of Nations - Porter's Diamond

### ? Related & Supporting Industries

- presence of supplier and related industries that are internationally competitive contribute to the competitiveness of other industries
- successful industries tend to grouped in clusters in countries



---

---

---

---

---

---

---

---

## Competitive Advantage of Nations - Porter's Diamond

### ? Firm Strategy, Structure & Rivalry

- conditions in the nation governing how firms are created, organized, and managed, and the nature of domestic rivalry impacts firm's competitiveness

? Government Policy - influences all 4 aspects of the diamond



---

---

---

---

---

---

---

---




---

---

---

---

---

---

---

---

---

---

---

---

### Evaluating Porter's Theory

4-39

? If Porter is right, we would expect his model to predict the pattern of international trade that we observe in the real world. Countries should be exporting products from those industries where all four components of the diamond are favorable, while importing in those areas where the components are not favorable.

? Too soon to tell.

---

---

---

---

---

---

---

---

---

---

---

---

### The Impact of Trade Policies

4-6

<p>? Ghana</p> <p>? 1970</p> <ul style="list-style-type: none"> <li>- GNP/capita</li> <li>- \$250</li> </ul> <p>? 1992</p> <ul style="list-style-type: none"> <li>- GNP/per capita</li> <li>- \$450</li> <li>- GNP Growth/year</li> <li>- 1.5%</li> </ul> <p>? Shift from productive uses (cocoa) to unproductive uses (subsistence agriculture).</p>	<p>? Korea</p> <p>? 1970</p> <ul style="list-style-type: none"> <li>- GNP/per capita</li> <li>- \$260</li> </ul> <p>? 1992</p> <ul style="list-style-type: none"> <li>- GNP/per capita</li> <li>- \$6790</li> <li>- GNP Growth/year</li> <li>- 9%</li> </ul> <p>? Shift from non-comparative advantage uses (agriculture) to productive uses (labor-intensive manufacturing).</p>
---	---

---

---

---

---

---

---

---

---

---

---

---

---