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Internationalization, Globalization and Competitiveness: A Theoretical Review

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ABSTRACT: *The purpose of this paper is to theoretically review the conceptions of internationalization, globalization and international competitiveness. The study thus presents theoretical underpinnings behind the idea of international competitiveness. After a comprehensive review of international trade theories, the concept of internationalization, and a debate on the nation states the authors move on to elaborate the internationalist and globalist conceptions of international competitiveness. It is argued that international competitiveness cannot be referred to the ability of national firms to compete with firms from overseas for the share of global resource markets; rather it is defined as the ability of a nation to come up-to-mark in competition with other nations for the shares of footloose capital.*

Keywords: International trade theories, Internationalization, globalization, Competitiveness, Nation states, footloose capital.

There are three distinct challenges for economists, relating to cross-border trade issues. First challenge is to explain the pattern of trade among countries (Grünfeld & Moxnes, 2003). Second one deals with the intensity and nature of cost and benefit for the economy of a particular country (Baldwin, Francois, & Portes, 1997). The third challenge refers to the impacts of government policies related to trade on the economy of that country (Garrett, 1995). International trade theories generally deal with the first issue relating to the explanation of pattern of trade or trade flows among nations. The following section discusses the theoretical reasoning to this issue, in the shape of different international trade theories.

Classical Trade Theory

Classical theory assumes a country's trade with other nations to be related to the intensity of its imports and exports with them. Which means nations will be able to profit if they deploy enough means for the production of services as well as goods in which they have economic advantage (David, 1817; Smith, 1937). So, classical trade theory comprehensively explains the situation in which nation can produce products it keeps an advantage in, for the local utilization, and consequently exporting the surplus quantities. Subsequently, it is levelheaded for nations to import products in which they yield an edge. This edge can come from national variations in factors like resource bequest, labor, capital, technology or entrepreneurial skills. Therefore, this theory professes that the roots for cross-border trade may be traced back to discrepancies in manufacturing distinctiveness and resource endowments, that generally are based on indigenous variations in natural and developed economic edge (Watson, 2003). Nevertheless, overall with this type of broad reflection of international trade, classical trade hypothesis has offered an insufficient explanation as to how divergence in economic advantages is caused (Morgan & Katsikeas, 1997).

Factor Proportion Theory

This theory, unlike classical trade theory, is capable to give a clarification of the distinctions in advantage shown by trading nations. According to the theory of factor proportions, nations would tend to produce and export products that exploit great amounts of plentiful production factors that they acquire, whereas they would import products which need great quantity of production factors that may be comparatively limited (Heckscher & Ohlin, 1991). So, this theory promotes the idea of economic advantage by taking into account the bequest and costs of factors of production.

Product Life Cycle Theory

Above discussed trade theories were lacking in clearly explaining contemporary blueprints of international trade. New international trade theories were called for to give better explanation of the patterns of trade, particularly in the context of changing market circumstances after the advent of multinational companies during 1960s and 1970s. Moreover technological up gradation and progression also led to the need of new international trade theories (Leontief, 1956).

During this time period, the PLC theory was considered to be a more practical frame for the explanation of cross-national trade structures and also for the explanation of the rise of multinational companies. The product-life-cycle theory of cross-national trade proclaimed about the existence of a cycle of trade in which a good or service use to be produced initially by a parent company, followed by its overseas subsidiaries and lastly anywhere around the globe where it seems economical in terms of its cost of production (Vernon, 1979; Wells Jr, 1968). Moreover, PLC theory describes that how in specific cases a product may become an import of a country which was initially exported by the same country.

The core genre of international PLC is the fact that market progression and technology improvement are focal concerns in explaining structures and mechanisms of cross-national trade (Rink & Swan, 1979). That means technology is considered to be the key in the development of new goods and services, whereas market size along with its mechanism are considered to be the important factors in explaining the magnitude and form of international trade.

Although above theories of international trade are perceptive, there is a range of new international trade theories which has recently emerged while taking into consideration some other significant factors like government interventions and rules.

Nevertheless, it is still important to note that these theories have many suppositions that detract from their seminal importance and pertinence to international trade. For example, they suppose that (1) there are idiosyncratic factors of production for different nations (2) there exists a perfect knowledge about cross-national trade initiatives and (3) typical import and export practices are the only available structure for the flow of products internationally (Barry, Bradley, & O'Malley, 1999).

Foreign Direct Investment Theories

Some theorists have tried to deal with the deficiencies of classical theories; collectively they can be called FDI theories. In the following section selective FDI theories of international trade are discussed including market imperfections and production theories along with the theory of internalization.

Market Imperfection Theory

The theory of market imperfections professes that organizations continuously look for the opportunities and also that firms' decisions of investment in foreign nations can be considered as a tactic to take advantage of specific capabilities not common in rivals overseas (Hymer, 1970). The capacity or capability of an organization is always established due to the imperfect markets in terms of goods and services and also factors of production. Perfect competition theory claims that organizations generate uniform goods and services and get pleasure from the equal capacity in terms of their reach to the factors of production. Nevertheless, the essence of imperfect competition, highlighted in IO framework (Porter, 1981) explains that organizations acquire multiple forms of competitive edges but to varying levels. However, this theory does not justify as to why overseas production is seen as the most favorite way of exploiting an organization's competitive advantage in international trade?

International Production Theory

(Dunning, 1980) and (Fayerweather, 1960) discussed this subject and proposed another theory named theory of international production. This theory assumes that the possibility of an organization to start overseas operations largely depends on the particular appeals of its local country contrast to implications of resources and location advantages in the counterpart nation. Theory of international production explicitly describes that it is not merely differences in resources and firm advantages which determine international production activities, but overseas government behaviors may also comprehensively affect the gradual magnetism and entry circumstances for organizations.

International production theory can be related to a relatively newer idea of internalization; the one comprehensively examined by (Buckley, 1990).

Internationalization Theory

Internalization theory emphasizes the idea that organizations seek to create their own internal markets in case of lower transaction costs of the firm. Therefore, internalization encompasses a type of forward or backward integration involving novel activities and processes, previously done by middle markets, albeit under the command and authority of the firm.

The unit of analysis in this research has been the multinational firms at large, excluding the means that enabled the firm to reach this stage of international development. As a result, a more flexible, process-oriented viewpoint was demanded which called for credit of the internationalization of an organization. Contemporary research in the field of internationalization captures a great portion of the literature of international business.

The trade shortfall display of a country cannot often be determined by macro-economic events (Hayes & Abernathy, 1980). It has to be documented that the function of the capitalist plays a large part in determining the overseas business adventures of a country. Provided that a financial system may include quite a lot of industries obliging a collection of firms, it seems quite rational that the contribution of entrepreneurs within these firms can together play a considerable role in economic performance. Apposite to the international trade theories and also Foreign Direct investment perspectives, discussed above, the theories of internationalization seek to describe how and why an organization gets involved in international business activities and specifically how the changing nature of such actions can be theorized (Anderson & Blackhurst, 1993).

(Welch & Luostarinen, 1988) identified several paths an organization can adopt in internationalization. A wide range of perspectives and standpoints have influenced contemporary conceptualization of internationalization of firms. For instance, many econometric, organizational, and managerial frameworks have been proposed to explain the design and behavioral challenges fundamental to theory of internationalization (Dalli, 1994).

On the Concept of Nation States

Although discussion on the impacts of globalization for nation-state is going on since 1970s, predictions for the destiny of nation-state may be different. For instance, few accepting the existence of economic globalization argue that nation-state will sustain in contemporary form. Enunciation of "concurrency of differences" to globalization by Robertson cannot be taken as disregard of contemporary roots of globalization as the ideas like nation-state, individual, universality have been the gears of the grassland of globalization and stay alive with interface. For instance, Robertson's elucidation on the nation-state which is considered to be a significant part of modern time is that one does not have any justification to argue that the planned society and for the most part the states are about to vanish. On the other hand, as the progress of recent nation-state is heavily dependent on inter-state associations, the description of state has become more obvious in the process of globalization. In other words, globalization promotes the indigenous knowledge and coagulates “auto-awareness” instead of eradicating the nation-state.

On the contrary, in cold war conditions during ideological and political division between two parties let emergent nations to establish with the destruction of the Berlin Wall the intercontinental ideological contest has stopped and the reliance of these nations over developed states has risen. This, consequently, is more proficient on the states which have high foreign debt and largely restricts the functioning of nation-state economy. Reason being, a nation-state that could not experience financial rise are facing many social challenges. In short, nation-state loses its essential purpose and its task of national uprightness is running a great risk.

Internationalization, Globalization, and Competitiveness

The distinction among different notions about the economy of world may be precisely delineated as under. An ‘inter-nationalist’ notion entails a world economy illustrated by associations between comparatively independent and self-directed national economies, in which the chief private representatives’ i.e. multinational firms, and capital, at large, are indigenously embedded among nations. Whereas, a ‘globalized’ idea entails a world economy described by business associations that reside beyond and independent of national economies, and in which the primary agents which are transnational firms and also the capital over and above are ‘globally footloose’ (Hirst, Thompson, Bromley, & Press, 2009).

Inspired form the so called ‘inter-nationalist’ notion of the economy of world, international competitiveness believed to be the capacity of ‘national’ organizations to compete with organizations from overseas, where state was concerned merely about how to enhance firms’ ability to compete with firms from other countries (Dunning, 1994). However, reflecting from a ‘globalized’ notion of world economics, the issue thus described does not make good sense. While others have claimed the globalization of capital to make the conception of international competitiveness worthless in a result and no more being easy to idealize economic dealings on national grounds, and some have more interestingly redefined the nationalist differences among ‘we’ and ‘they’, and redrawn the conception of international competitiveness in relation to the one being static—like the aggregate of the labor force, general public, society, so on and so worth. With reference to ‘them’—proponents of globally footloose capital and transnational firms—the contribution of governments is just to behave as good landlords.

Envisaged with respect to ‘attractiveness’, cross-national competitiveness is not defined as the capability of ‘local’ organizations to have competition with firms from overseas for distribution of global commodity markets, but it is defined as the ability of a nation to come up to mark in competition with other nations for shares of footloose capital (Takahashi, Takatsuka, & Zeng, 2013). Which mean the fundamental focal points of the competition, for which the idea of cross-national competitiveness has been overwhelmingly used, are shifted from organizations to states (Porter, 1986).

According to this conception, the fundamental state issue for governmental decision makers is no more to build organizations more viable, rather to compose the state itself viable. It goes irrelevant of how a viable state can consequently be attributed to make its organizations more competitive. Instead of being ‘corresponding and counter dependent’, the two ideas of international competitiveness discussed here are becoming altogether different schools of thoughts.

In relation to the transformation oriented contribution of discussions of globalization with reference to both the terms and connotations of international competitiveness as a state problem, what is most important is not merely the intensity to which a globalist notion of the international economy mirrors the original shape of the international economy, but also the intensity to which the original shape of international economy is made significant in globalist perspective, and many contributors start to conceive and behave according to this perspective.

(Cerny, 1995) has outlined the significance of this as given under: “the spread of the [globalization] discourse itself alters the a priori ideas and perceptions which people have of the empirical phenomena which they encounter; in so doing, it engenders strategies and tactics which in turn may restructure the game itself”. This occurred in the context of business management with the starting of the discussions regarding globalization at the outset of 1980s and, with the stretch of globalization debate outside business management field, it has progressively happened also in the context of government.

Even though it is famous to argue that there is a ‘fine association’ among international competitiveness and globalization, this association is not actually as fine as people tend to suppose. According to what unquestionably appears to be the overriding view, apprehensions with international competitiveness may be thought of a nationalist rejoinder to economic globalization. But, globalization may also be considered as an outgrowth of apprehensions with international competitiveness in two distinctive ways like (1) globalization has been extended by business economists and government rulers similar as a plan by which local organizations can enhance their competitiveness and (2) the expedition for fair competition or a neutral or unbiased ground for local companies involved in international competition heightened not only to belligerent unilateralism.

Although it is fairly obvious that apprehensions of international competitiveness and globalization debate tend to feed mutually, it is pertinent to remember that the transformation from an 'inter-nationalist' to a 'globalized' conception of the world economy has contributed to transform both the meaning of international competitiveness and the terms of the international competitiveness problem.

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