



**Steven Brakman,
Harry Garretsen,
Charles van Marrewijk,
Arjen van Witteloostuijn**

Nations and Firms in the **GLOBAL ECONOMY**

An Introduction to International Economics and Business



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Nations and Firms in the Global Economy

This accessible introduction to the world economy and to the theory and practice of globalization argues that key topics in international economics cannot be understood without a knowledge of international business, and vice versa. It reviews and combines insights from both literatures and applies them to real-world issues, clearly explaining the main concepts of international economics and business in a uniquely integrated approach. Written in a lively and accessible style, this innovative textbook covers all the main issues, including international trade, capital mobility, comparative advantage, foreign direct investments, multinational behaviour, financial crises and economic growth. It includes carefully selected international examples and case studies, and special interest boxes which clearly explain more challenging economic concepts. The companion website includes additional case studies, exercises and answers to exercises, data, illustrations and links to other useful websites.

Steven Brakman is Professor of International Economics at the University of Groningen.

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"This book is a remarkable achievement. It covers all the pressing international economic issues of our day in an accessible yet thorough manner. The authors adroitly combine illustrative data and essential theory to explain the how's and why's of trade and trade liberalisation, the delocation of firms and multinational activity, capital flows, currency and financial crises, and the role of international organisations such as the IMF and WTO. It is appropriate for students without an economics specialisation both at the undergraduate and non-specialists graduate level, e.g. MBA and Masters of Public Administration. The facts and real-world feel of the book make it interesting as a supplement for specialist students as well."

Richard Baldwin, *Professor of International Economics,
Graduate Institute of International Studies, Geneva*

"International trade and international business have hitherto existed in two separate worlds – a world of nations and a world of firms – in academic teaching and even in research. This book gives us a welcome integration of the two at the level of teaching. Students who use it will develop a unified vision that will benefit them in their future careers, whether in business, government, international institutions, or academic research.

Avinash K. Dixit, *Department of Economics, Princeton University*

"This is a fascinating book with a practical approach to international economics that enhances our understanding of the globalisation process."

Hans-Werner Sinn, *President of the Ifo Institute for Economic Research, Munich*

"This book offers a valuable integration of the economics and business aspects of globalization. The integrated approach makes the book a unique and valuable resource for students of international economics and business studies."

Prof. Dr. Joseph Francois, *Tinbergen Institute, Rotterdam, and CEPR, London*

"Understanding the enormous changes taking place in the world economy requires the perspectives of many different disciplines, of which international economics and international business are two of the most relevant. Yet until now these two fields have interacted very little. This new text does a superb job of combining the insights of these two complementary academic fields. The authors present a lucid overview of theories of international economics, with an emphasis on recent contributions such as imperfect competition, multinational corporations, agglomeration and financial crises. In addition they present a wealth of relevant and insightful case-studies from the international business literature which helps bridge the gap between theory and reality. Students in a range of courses will benefit from this integration of different approaches, and researchers who want an overview of recent work in fields outside their own will learn a lot too."

J. Peter Neary, *Department of Economics, University College Dublin*

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Preface

The title *Nations and Firms in the Global Economy: An Introduction to International Economics and Business* reflects our main motivations for writing this book. It contains the six core elements we address (i) introduction, (ii) the global economy, (iii) nations, (iv) firms, (v) international economics and (vi) international business. We briefly review these components and their interaction in this preface.

Introduction Our book is an introduction to the subject, indicating that our target audience consists of students interested in (international) economics and (international) business for whom this is the first structured encounter with the issues discussed, who wish to get acquainted with the facts and forces of the hotly debated globalization process. Depending on the background of the student and the type of programme (s)he is enrolled in, this first encounter could be in different parts of the curriculum, although it will usually be in the first or second year of an undergraduate programme. For other interested readers, this book offers an up-to-date introduction to what we know about globalization, its drivers and its consequences, particularly from an economics and business perspective. The preliminary requirements for a proper understanding of our book are limited. We assume that the reader has taken an introductory (micro and macro) economics course, and that (s)he has some grasp of elementary mathematics allowing him or her to understand simple graphs and equations. We also provide some technical material in boxes, as quick reminders of essential concepts.

The global economy We analyse the global economy—or, as it is more popularly known: the globalization process. As this is an introduction to the global economy, we define in chapter 1 what we mean by ‘globalization’ and what we will and will not analyze in the sequel. Throughout the book, we provide ample empirical information on the globalization process so that we may distinguish between fact and myth. In presenting the facts, we show longer time series than most textbooks or popular introductions. This enables readers to place current developments into their proper perspective, providing a better understanding of the developments giving rise to today’s complex structure of the international economy. We address all the major economic components of the globalization process, both real and monetary. We discuss international trade and capital flows, foreign direct investments (FDI), multinational firms, exchange rates, financial crises, outsourcing, economic development, location and much more. In doing so, the emphasis will be more on

international trade and capital mobility, and less on international labour mobility, which reflects the fact that in economic terms international trade and capital flows are much more important than international labour migration, as we shall show.

Nations A proper understanding of the globalization process necessarily looks at the role of nations, governments and international organizations.

- Why do nations specialize in the export of certain types of goods and services, and import others?
- Is specialization always beneficial, or are there winners and losers from the globalization process?
- If so, who are these winners and losers?
- Why do governments adhere to particular policies regarding exchange rates, trade flows and capital mobility?

And so on and so forth. We address these and other issues from both a theoretical and a practical point of view by giving many empirical examples and discussing numerous case studies.

Firms In many respects, the decisions by individual (multinational) firms produce the most important driving forces behind the globalization process, ultimately determining international trade, capital flows and FDI. Naturally, these firms react to the conditions of the economic environment in which they operate, which is determined to a considerable extent by governments and international organizations. Firms therefore both shape the global environment and are shaped by it. Throughout the book, we discuss the forces with which firms are confronted, the competitive forces they unleash and how the interaction of these powers influences the firm's organizational structure, human resource management (HRM), corporate governance and other issues internal to the firm. Here, our focus is on the multinational enterprise (MNE).

International economics To some extent, it could be argued that the international economics literature tends to emphasize the role of nations (and comparative advantage) rather than the role of firms in the globalization process. This is, of course, not entirely accurate as the role of the industrial organization and international business literatures, and thus the factors influencing the organizational structure of individual firms, is becoming increasingly important in the international economics curriculum. We argue, therefore, that it is becoming increasingly clear that the latter type of analysis complements the former. Compared to other introductory textbooks on international economics, the primary goal of our book is not to cover the whole field, but to focus on those theories and insights that help us to understand the economic causes and consequences of globalization, as well as the role played by both nations and (multinational) firms. To give just one example, monetary policy is discussed in our analysis of international capital mobility, but we do not dwell on issues such as the conduct of monetary policy or the theory of monetary

integration as such. We discuss such issues only if they are relevant within the context of the main theme of our book. This also means that when it comes to understanding the global economy, we cover a lot more ground than other introductory textbooks.

International business It could be argued that the international business literature tends to emphasize the role of firms (and competitive advantage) rather than the role of nations in the globalization process. This, too, is not entirely accurate as the international economic environment in which the (multinational) firm operates is an increasingly important part of the international business curriculum. Once again, the latter type of analysis complements the former, which is the reason we combine these perspectives throughout the book. After all, MNEs do not operate in a vacuum – on the contrary, they must take account of all kinds of issues related to international economics, from exchange rate fluctuations and capital market restrictions to fiscal policies and labour market conditions.

To complement the material presented in this textbook, there is a website available providing additional information and supporting material. Its location is: www.charlesvanmarrewijk.nl.

The website provides: (i) background information on the structure of the book; (ii) background information on the authors; (iii) additional illustrations and data material, such as all the figures and tables used in the book; (iv) different types of exercises for self-study, as well as answers to (a subset of) these exercises; (v) other self-study material; and (vi) updates, and links to useful other sources of information. The choice of posting questions on a website rather than including them in the book itself is motivated by the important advantage that it allows us to integrate and respond to recent developments in the global economics and business environment in the questions posed.

Parts of this book were written during a visit by Brakman, Garretsen and van Marrewijk to the Department of Economics at Princeton University in June–July 2003, and during a visit by van Marrewijk to the School of Economics at the University of Adelaide in 2004. We are grateful to Princeton University and the University of Adelaide for their hospitality. In particular, we would like to thank Avinash Dixit, Gene Grossman and Ian McLean for making these visits possible. Moreover, we are grateful for financial support from the University of Groningen (Brakman and van Witteloostuijn), Utrecht School of Economics (Garretsen), the Erasmus University Trust Fund (van Marrewijk), the University of Adelaide (van Marrewijk) and the University of Durham (van Witteloostuijn).

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