Section 3:Internationalization forms

- Firms internationalize via

exporting, importing, foreign direct investment, licensing, franchising, and collaborative ventures

Exporting

Sale of products or services to customers located abroad, from a base in the home country or a third country.

Importing or Global Sourcing

Procurement of products or services from suppliers located abroad for consumption in the home country or a third country.

International investment

Transfer of assets to another country or the acquisition of assets in that country.

- ***International Portfolio investment*** (typically short-term): Passive ownership of foreign securities such as stocks and bonds, to generate financial returns.

- ***Foreign direct investment*** (FDI) (typically long-term): An internationalization strategy in which the firm establishes a physical presence abroad through acquisition of productive assets such as capital, technology, labor, land, plant, and equipment.

Dramatic Growth of FDI Since the 1980s

- September 11, 2001 interrupted FDI inflows, the longer term trend continues
- ***Developed economies*** = Australia, Canada, Japan, the United States, and most countries in Western Europe.
- ***Developing economies*** = Parts of Africa, Asia, Latin America, and the Middle East. Of particular significance is the growth of FDI into developing economies despite widespread poverty and less investment capital than advanced economies.
- The improved lives of billions are directly linked to world trade and investment.

International Collaborative Venture (ICV)

- Arrangement in which partners pool their resources and share the cost and risks of the new venture.
- Through an ICV, a focal firm can exploit partner’s complementary technologies and expertise, avoid trade barriers, connect with customers abroad, and configure value chains more effectively.
- A middle ground strategy between exporting and FDI

Two Types of International Collaborative Ventures

- ***Joint Venture***: One firm creates and jointly owns a new legal entity together with another firm. Advantages: share costs and risks; gain access to needed resources; gain economies of scale; pursue long-term strategic goals.
- ***Project-Based Collaborative Venture***: Firm collaborates with foreign partners on a project with a relatively narrow scope and a well-defined timetable, without creating a new legal entity. Often used to share the cost and risks of knowledge-intensive R&D projects.