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Course Title	**:**	**International Business Management**
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Note: Attempt all the questions and submit this assignment to the coordinator of your study centre. **Last date of submission for July 2022 session is 31st October, 2022 and for January 2023 session is 30th April, 2023**.

1. Discuss the evolution of globalization and the effects of globalisation.

2. What are the problems that companies face when they misjudge the cultural leanings of a country? Explain with relevant examples.

3. What are the pros and cons of various entry modes? Critically comment upon them from the current perspective.

4. Discuss the key drivers of international marketing.

5. Discuss the major challenges associated with appraisal of expatriate managerial performance. What should be the main objectives of a multinational firm with regard to its compensation policies?

6. Write notes on the following:

   a) Heckscher-Ohlin Theory.

   b) Foreign Investment.

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1. Discuss the evolution of globalization and the effects of globalisation.

ANS: EVOLUTION OF GLOBALISATION:

The phenomenon of globalisation is not new. Globalization as we know it now has evolved through several stages that date back to antiquity.

Humans have traditionally travelled from one location to another for trade. They interacted with other historical figures and traded goods, expertise, and ideas.

Eurasia has historically been one of the key commerce and communication routes connecting China. Today, this line or route is known as the Silk Road. People convey their knowledge, concepts, cultures, and beliefs through this route. Trader along with this road not only attached to trade but also intellectual and cultural exchange. Silk was a more expensive and luxurious product that was traded between east and west through this road. Besides silk, there were many products that were traded such as textiles, spices, grain, vegetables, and fruits, etc.

Spice Trade

Trade of spice was happened from the 7th to 15th centuries by the Islamic merchants in the Middle East. Islamic merchants traded spice from the Middle East to East Asia. The main purpose of that trade was to spread the Islamic religion. As a result of this initiative you can see a country like Indonesia where the most population is a Muslim majority.

The dominating product of Islamic trade was spice. Spice was traded mainly through sea and they were very much focusing on international trade in medieval age.

Age of Exploration

From the 15th to the 18th Century was the era of exploration. During this time the exploration of the Europeans connected the East and the West. Columbus's discovery of America is believed to have begun the journey of modern globalization.

First Phase in the History of Globalization

The first phase of globalization began primarily from the 19th century onwards and continued until the beginning of the First World War, which means 1914.

As a result of the industrial revolution, Great Britain influenced the world through their trade. Inventions such as steam engines, industrial weaving machines, and more accelerated trade worldwide. The global trade began in the true sense from this period.

Second and Third Phase in the History of Globalization

After World War II, another new chapter in globalization was launched under the leadership of USA and World trade has increased again. This time, Iron Curtain divided the whole world into two parts – the USA led on one end and USSR led on the other. But in 1989, the iron curtain was broken and globalization gaining a rapid boost.

The EU's Free Trade and USA's rapid increasing of trade at the beginning of the 1950 helped strengthen the global economy. On the other hand USSR increase their global trade in similar to USA but using centralized planning rather than free trade. This time, the world economy returns to its old rhythm. Export once again increase to 14% of global GDP which was achieved in the 1914.

Ever since the collapse of the Soviet Union, free trade has been rampant throughout the world. The World Trade Organization is created to promote free trade around the world.

Fourth Phase In the History of Globalization

The world we are living in now is actually the fourth phase of globalization. The two powers that govern the current world now are the USA and the other is China.

Now the Internet is the main driving force of globalization. Now we talk more about digital economy such as E-commerce, digital-services, 3D printing and so on.

EFFECTS OF GLOABLISATION:

POSITIVE EFFECTS

It would be rather difficult to discuss the extent of the positives that globalization has had on the world at large. But still, here are some of the positive effects of globalization and the positive impacts they have had on so many demographic segments of society.

Global market.

Most successful emerging markets in developed countries are a result of privatization of state owned industries. In order for these industries to increase consumer demand many of them are attempting to expand and extend their value chain to an international level. The impact of globalization on business management is seen by the sudden increase of number of transactions across the borders. In protecting yields and maintaining competitiveness, businesses are continuing to develop a wide range of their footprint as it lowers cost and enjoys economies of scale

Cross-cultural management

Globalization tend to be the realm of elite because in many parts of the world they are the only people who are affluent enough to buy many of the products available in the global marketplace.

Foreign trade

Globalization has created and expanded foreign trade in the world. Things that were only found in developed countries can now be found in other countries across the world. People can now get whatever they want and from any country. Through this developed countries can export their goods to other countries. Countries do business through international trade, whereby they import and export goods across the global.

Resource Imperative

Developed countries need natural and human resources of the developing countries while developing countries need capital, technology and brainpower of the wealthier countries. Developed countries' economies are increasingly dependent on the natural and human resources of the developing nations. Growing interdependence of nations and their activities on one another fostered by the depletion of natural resources; as well as overpopulation (Harris P.R.,2002).

Foreign investment

One of the most visible positive effects of globalization in India is the flow of foreign capital. A lot of companies have directly invested in India, by starting production units in India, but what we also need to see is the amount of Foreign Investment Inflow that flows into the developing countries. Indian companies which have been performing well, both in India and off the shores, will attract a lot of foreign investment, and thus pushes up the reserve of foreign exchange available in India. This is also one of the positive effects of globalization in US and other developed countries as developing countries give them a good investment proposition.

NEGATIVE EFFECTS

Globalization also have its side effects to the developed nations. These include some factors which are jobs insecurity, fluctuation in prices, terrorism, fluctuation in currency, capital flows and so on.

JOBS INSECURITY.

In developed countries people have jobs insecurity. People are losing their jobs. Developed nations have outsourced manufacturing and white collar jobs. That means less jobs for their people. This is because the manufacturing work is outsourced to countries where the costs of manufacturing goods and wages are lower than in their countries. They have outsourced to developing countries like China and India. Most people like accountants, programmers, editors and scientists have lost jobs due to outsourcing to cheaper locations like India.

FLUCTUATION IN PRICES.

Globalization has led to fluctuation in price. Due to increase in competition, developed countries are forced to lower down their prices for their products, this is because other countries like China produce goods at a lower cost that makes goods to be cheaper than the ones produced in developed countries. So, in order for the developed countries to maintain their customers they are forced to reduce prices of their goods. This is a disadvantage to them because it reduces the ability to sustain social welfare in their countries.

Market sector

Globalization of markets in developing countries is growing so fast. The emergence of global markets for standardized consumer products on a previously unimagined scale of magnitude. This brought benefits which are economies of scale in production, reduced world prices, distribution, marketing and management

2. What are the problems that companies face when they misjudge the cultural leanings of a country? Explain with relevant examples.

ANS: 1. Failing to adapt global business models to the local market

The attitudes and actions of consumers are greatly impacted by culture. Business models should be altered when a company enters a new market to take into account regional tastes, customs, and habits. For instance, adjustments should be made to the range of goods and services offered, the cost, and the marketing. Foreign enterprises have a significant likelihood of failure unless local cultures drive business strategies. Failure in a foreign market can come at a high cost: on average, multinational retailers suffer losses for seven years before closing shop or selling their business to a local rival. The "one-size-fits-all" approach to international business is flawed. International success requires a glocal mindset. Glocalisation refers to the interface of globalisation and localisation. Whereas globalisation involves standardised worldwide processes, products, and services, localisation involves processes and product offerings tailored to meet specific local markets. The hybrid of standardisation and adaptation is glocalisation, which involves the integration of local features and global ideas, products, or processes. Glocalisation recognises that economic synergies are limited by deeply ingrained cultural systems resistant to change.

2. Failing to identify regional and subculture differences

Cultural barriers may be just as relevant intranationally as internationally. Within emerging markets, there are significant regional variations in consumer preferences and market conditions, yet within-country differences are often overlooked—four-fifths of multinationals report that their offshore decision-making occurs at the country rather than the city level.

Subcultures are not limited to regional or ethnic variations. For example, consider the different consumer profiles of males and females in the United States. Although females account for 88 percent of retail purchases, marketing campaigns often overlook differences in male and female consumer behaviour and thinking. Moreover, female consumer habits and preferences vary across generational, ethnic, and occupational groups.

Companies that fail to recognise the cultural diversity of their markets risk missing important consumer segments.

Cultural barriers are amplified within a national context because they are assumed to be irrelevant: research on mergers and acquisitions shows that social integration is more problematic in domestic contexts than in international contexts.

3. Failing to understand local business practices

Cultural barriers don't only occur at the customer interface. International business success also requires an in-depth understanding of local business customs. Without a full appreciation of how business is done in a foreign market—including economic, political, regulatory, and cultural influences—new entrants can quickly find themselves on the back foot with stakeholders.

4. Failing to adapt management practices across cultures

Most, if not all, management theories, models, and practices are laden with culture-specific assumptions. No organisational theory is universal, yet the cultural assumptions underlying management practices are often unacknowledged. Ideas are transferred to other cultural environments without consideration of cultural variations. But when practices are translated across cultures without adjustment for cultural differences they can fail—and may even lead to losses.

5. Failing to identify new opportunities

Cultural barriers may result in missed opportunities. There are examples of well-established North American or European companies that have overlooked the potential of certain developing markets, failing to establish an early market presence and leaving them unable to catch up to other foreign companies or local competitors. Other companies have withdrawn from emerging markets prematurely, damaging relationships and leaving a legacy of weak commitment in the process.

6. Failing to understand local legal and ethical issues

Global companies face a complex web of legal and ethical issues. In 2012, Hermès lost a trademark case in China after a fifteen-year battle with a local firm Foshan. In 1995, Foshan had registered a Chinese-character trademark with similar pronunciation but a slightly different written form than the Hermès name in Chinese.

Another example from China is the custom of guanxi: the establishment of long-term reciprocal relationships via the giving of gifts. Guanxi is critical for establishing the trust that underpins successful business in China, but home-country laws (for example, the U.S. Foreign Corrupt Practices Act or the U.K. Bribery Act) may prohibit global organisations from engaging in this practice. When this is the case, foreign companies must seek alternative means of fostering trust.

7. Failing to adapt human resource management to local markets

Cultural ignorance may threaten a firm's ability to attract, retain, and leverage its pool of global talent. When foreign companies employ local staff, human resource policies need to be adapted to reflect the cultural profile of local employees. Factors that influence employee motivation, job satisfaction, and organisational commitment vary across cultures. In addition, conflict resolution and giving and receiving feedback differ widely across cultures, with significant implications for performance-appraisal.

8. Ineffective diversity management

Research shows that diversity is a double-edged sword. Diverse teams may either improve or detract from performance.

On the positive side, the successful integration of diverse perspectives fosters innovation and creativity, inclusive workplaces attract and energise top global talent, a diverse workforce can better understand and respond to the needs of varied customers, and employee diversity can increase access to new suppliers and other stakeholders.

3. What are the pros and cons of various entry modes? Critically comment upon them from the current perspective

ANS:1. . Export Entry Modes

Export mode is the most common strategy to use when entering international markets. Exporting is the shipment of products, manufactured in the domestic market or a third country, across national borders to fulfill foreign orders. Shipments may go directly to the end user, to a distributor or to a wholesaler. Exporting is mainly used in initial entry and gradually evolves towards foreign-based operations. Export entry modes are different from contractual entry modes and investment entry modes in a way that they are directly related to manufacturing. Export can be divided into direct and indirect export depending on the number and type of intermediaries.

1.1 Direct Exporting (Sell to Buyers)

Direct exporting means that the firm has its own department of export which sells the products via an intermediary in the foreign economy namely direct agent and direct distributor.

Advantages of Direct Export:

- Access to the local market experience and contacts to potential customers.
- Shorter distribution chain (compared to indirect exporting).
- More control over marketing mix (especially with agents).
- Local selling support and services available.

Disadvantages of Direct Export:

- Little control over market price because of tariffs and lack of distribution control (especially with distributors).
- Some investment in sales organisation required (contact from home base with distributor or agents).
- Cultural difference, providing communications problems and information filtering (transaction cost occur).

1.2 Indirect Exporting (Sell to Intermediaries)

Indirect exporting is when the exporting manufactures are using independent organisations that are located in the foreign country. The sale in indirect exporting is like a domestic sale, and the company is not really involved in the global marketing, since the foreign company itself takes the products abroad.

Advantages of Indirect Export:

- Limited resources and investment required.
- High degree of market diversification is possible as the company utilize the internationalization of an experienced exporter.
- Minimal risk (market and political).
- NO export experience required.

Disadvantages of Indirect Export:

- No control over marketing mix elements other than product.
- An additional domestic member in the distribution chain may add costs, leaving smaller profit to producer.
- Lack of contact with market (no market knowledge acquired).
- Limited product experience (based on commercial selling).

2. Contractual Entry Modes

Contractual entry modes are long term non-equity alliance between the company that wants to internalize and the company in target country for entry mode. There are many types of contractual entry mode namely technical agreements, Service contracts, managements, contract manufacture, Co-production agreements and others. The most use contractual entry modes are Licensing, Franchising and Turnkey projects which is going to be explained below.

2.1 Licensing

Licensing concerns a product rights or the method of production marketing the product rights. These rights are usually protected by a patent or some other intellectual right. Licensing is when the exporter, the licensor, sells the right to manufacture or sell its products or services, on a certain market area, to the foreign party (the licensee)

Advantages of licensing:

- The ability to enter several foreign markets simultaneously by using several licensees or one licensee with access to a regional market, for example the European Union.
- Enter market with high trade barriers.
- It is a non-equity mode, therefore licensor make profit quickly without big investments. The firm does not have to bear the development costs and risks associated with opening a foreign market.
- Licensing also saves marketing and distribution costs, which are left for the licensee.
- Licensing also enables the licensor to get insight of licensee's market knowledge, business relations and cost advantages.

Disadvantages of licensing:

- There is a risk that the licensee may become a competitor once the term of the agreement concludes, by using the licensor's technology and taking their customers.
- Not every company can use this entry model unless in possess certain type of intellectual property right or the name of the company is of enough interest to the other party.
- The licensor's income from royalties is not as much as would be gained when manufacturing and marketing the product themselves.
- There is another risk that the licensee will under-report sales in order to lower the royalty payment

2.2 Franchising

Franchising is a form of licensing, which is most often used as market entry modes for services such as fast foods, business to-consumer services and business-to-business services. Franchising is somewhat like licensing where the franchiser gives the franchisee right to use trademarks, know-how and trade name for royalty.

Advantages of franchising:

- Same as licensing above.
- Like with licensing, the franchisor gain local knowledge of the market place and in this case the domestic franchisee is highly motivated.
- The fast expansion to a foreign market with low capital expenditures, standardized marketing, motivated franchisees and taking of low political risk.

Disadvantages of franchising:

- Same as in licensing above.
- Since franchising requires more capital initially, it is more suitable to large and well-established companies with good brand images. So small firm get often problem to use this entry modes.
- Home country franchisor does not have daily operational control of foreign store. There is a risk that franchisees may not perform at desired quality level.
- more responsibilities, more complicated and greater commitment to foreign firm than licensing or exports.

2.3 Turnkey Project

In turnkey projects, the contractor agrees to handle every detail of the project for a foreign client, including the training of operating personnel. At completion of the contract, the foreign client is handed the "key" to a plant that is ready for full operation.

Advantages of Turnkey Projects:

- They are a way of earning great economic returns from the know-how required to assemble and run a technologically complex process, for example contractor must train and prepare owner to operate facility.
- Turnkey projects may also make sense in a country where the political and economic environment is such that a longer-term investment might expose the firm to unacceptable political and/or economic risk.

- Less risky than conventional FDI.

Disadvantages of Turnkey Projects:

- The firm that enters into a turnkey deal will have no long-term interest in the foreign country.
- The firm that enters into a turnkey project may create a competitor. If the firm's process technology is a source of competitive advantage, then selling this technology through a turnkey project is also selling competitive advantage to potential and/or actual competitors.

3. Investment Entry Modes

Investment entry modes are about acquiring ownership in a company that is located in the foreign market. In other word, the activities within this category involve ownership of production units or other facilities in the overseas market, based on some sort of equity investment. Several companies want to have ownership in some or all of their international ventures. This can be achieved by joint ventures (equity based), acquisitions, green-field investment.

3.1 Joint Ventures

A joint venture is a contractual arrangement whereby a separate entity is created to carry on trade or business on its own, separate from the core business of the participants. A joint venture occurs when new organizations are created, jointly owned by both partners. At least one of these partners must be from another country than the rest and the location of the company must be outside of at least one party's home country.

Advantages of a Joint venture:

- Joint venture makes faster access to foreign markets. The local partner to the joint venture may have already established itself in the marketplace and often will have already obtained, or have access to, government contacts, lines of credit, regulatory approvals, scarce supplies and utilities, qualified employees, and cultural knowledge. Upon formation of the Joint venture, the non-resident partner has access to the local partner's pre-established ties to the local market.

Disadvantages of Joint venture:

- Shared ownership can lead to conflicts and battles for control if goals and objectives differ or change over time.
- Joint venture can foreclose other opportunities for entry into a foreign marketplace.
- It can be difficult for a joint venture to independently obtain financing, particularly debt financing. That is, in part, because Joint venture are usually finite in their duration and lack permanence. Thus, the parents of a joint venture should expect either to adequately capitalise the entity up front or to guarantee loans made to the joint venture.

3.2 Strategic Alliances

Strategic alliance is when the mutual coordination of strategic planning and management that enable two or more organisations to align their long term goals to the benefit of each organisation and generally the organisations remain independent.

Advantages of Strategic alliance:

- Increased leverage – Strategic alliances allow you to gain greater results from your company's core strengths.
- Risk sharing – A strategic alliance with an international company will help to offset your market exposure and allow you to jointly exploit new opportunities.
- Opportunities for growth – Strategic alliances can create the means by which small companies can grow. By "marrying" your company's product to somebody else's distribution, or your R&D to a partner's production skills, you may be able to expand your business overseas more quickly and more cheaply than by other means.
- Greater responsiveness – By allowing you to focus on developing your core strengths, strategic alliances provide the ability to respond more quickly to change and opportunity.

Disadvantages of Strategic alliance:

- High commitment — time, money, people.
- Difficulty of identifying a compatible partner.
- Potential for conflict between the partners.
- A small company risks being subsumed by a larger partner.

4. Discuss the key drivers of international marketing.

ANS: The dynamic interplay of several driving and restraining forces shapes the importance of global marketing. Driving forces include market needs and wants, technology, transportation and communication improvements, product costs, quality, world economic trends, and recognition of opportunities to develop leverage by operating globally. International marketing is the application of marketing principles in more than one country, by companies overseas or across national borders. International marketing is based on an extension of a company's local marketing strategy, with special attention paid to marketing identification, targeting, and decisions internationally

Regional Values

Many times a country to which you would like to sell a product has extreme regional differences that must be accounted for when marketing. A perfect example of this is Canada; they have large French speaking populations around Montreal and Quebec that are culturally much different than the English speaking communities found throughout the rest of the country.

Per Capita Income

Of course a country's wealth is a huge factor when determining potential target market countries and how to market your product to those countries.

Relevant Class Structure

When you are marketing your product or service internationally you must also take into consideration class structure because it varies widely from country to country. Most countries have an upper, middle and lower class, but the numbers of people in these classes can be significantly different from country to country. An example of this are countries like the USA that have a very large proportion of their citizens located in what is termed 'middle class', as opposed to the Philippines where there is a very small middle class because the country consists mainly of a small percentage of upper-class individuals and many poor people.

Supply and Demand

Of course supply and demand will play a major role in trying to market your products anywhere in the world. These days a company has to take a deeper look at potential markets than ever before because just about anything will sell if you market it the right way and in the right place. Imagine how surprised the makers of Bali's Civet Cat Coffee (Kopi Luwak – made from the animal's poop) were when they took their product internationally and it soon grew so popular it became the world's most expensive cup of coffee.

Financial Transactions and Banking

Considering how you will get paid for the products and services you market and sell internationally is important too. In the more prosperous countries it is taken for granted that you can buy goods internationally and pay for them with such things as credit cards, debit cards, online payment processors and cash transfer businesses, but that is clearly not the case everywhere in the world. These types of financial realities will greatly impact your marketing strategy.

Environmental

Environmental factors will play a role in international marketing and they can have both a positive and negative effect on your international marketing strategy. If you manufacture a product that does not hold up well when constantly subjected to periods of high heat, you might want to consider that carefully before marketing your heat sensitive product internationally to such places as Saudi Arabia.

Product Adaptation

While a "one size fits all" marketing strategy may work in a fairly homogenous country like the US, this same type of strategy would most likely be a huge failure in countries like those in the Middle East that are separated by cultural, historical and religious divides. Any prudent international marketing strategy needs to take things like this into account.

5. Discuss the major challenges associated with appraisal of expatriate managerial performance. What should be the main objectives of a multinational firm with regard to its compensation policies?

ANS: major challenges associated with appraisal of expatriate managerial performance:

1. Culture Shock

The primary challenge of managing expatriates is culture shock. It's impossible to expect expatriates to acclimate quickly, if at all. Moving across the world and needing to adjust to a new culture, work environment, and social structure with no immediate support system is no small task.

Place yourself in the expat's shoes. Can you promise you would fit directly into your new world? That's an impossible question to answer because it's unpredictable. However, your company can take steps to help expatriates adjust.

2. Expatriation costs

It is a costly investment to fly an employee across the world but the cost of a flight isn't the main worry. If expatriates don't become long term employees, the cost of overhead now includes expenses to fill the position.

When managing expatriates on international assignments, expatriation costs can be especially challenging if the expat isn't able to stay for the required time in order to complete the assignment.

The costly challenges of managing expatriates can appear in other forms. Visa and health insurance costs should also be taken into consideration. With this comes the cost of time and depending on the country, the process of obtaining a work visa can be long and unforeseeable.

3. Language barriers

Depending on where your company is headquartered, or how wide your hiring radius is, language barriers can be a major issue in managing expatriates on international assignments.

Hiring employees who do not have strong skills in speaking the local language can pose a huge challenge to your company. These employees may have a longer adjustment period and take more time to increase their productivity.

If the issue is left unaddressed, they could be left feeling isolated both in and outside of the office, increasing the risk of them breaking their contract early or being uninterested in growing with the company beyond their term.

main objectives of a multinational firm with regard to its compensation policies:

- Companies have major needs in some international markets. ...
- Another objective is to enable seamless and easy movement from international locations to home and home to international locations such as subsidiaries. ...
- Maintain a consistent, explainable and justifiable relationship between HQ, affiliates, subsidiaries, and any other international location

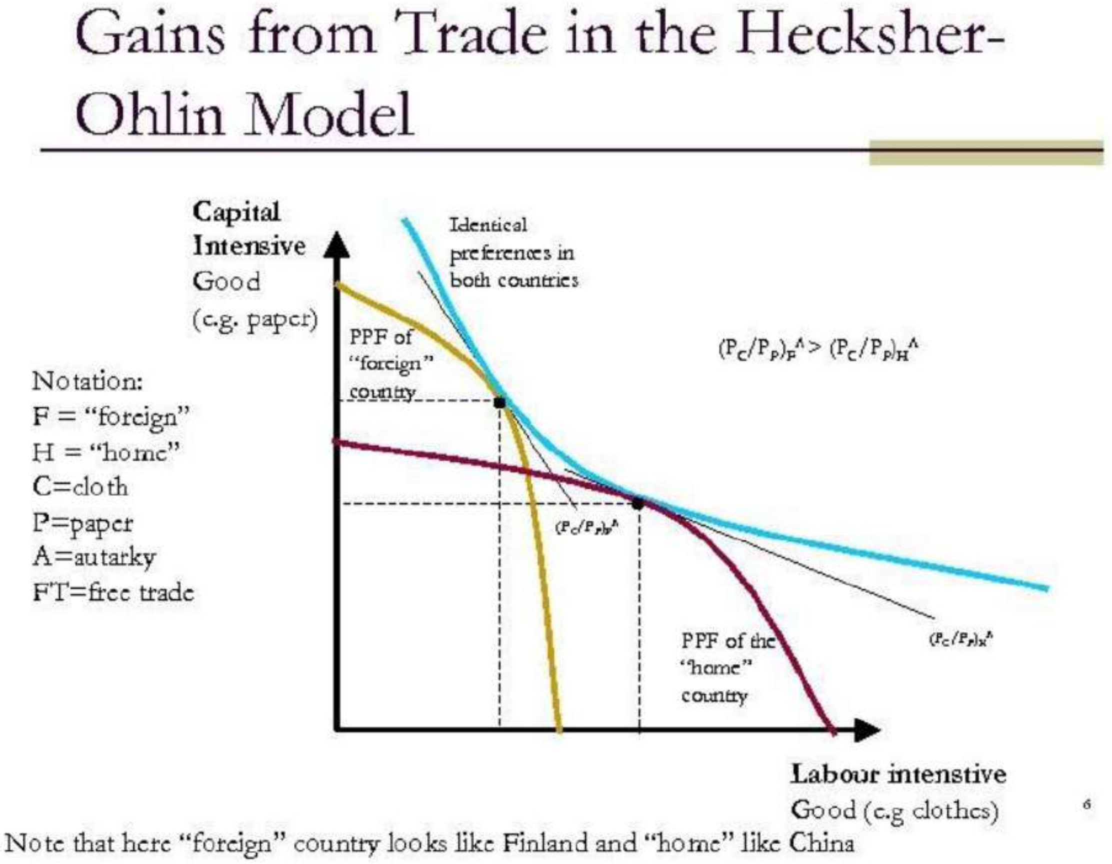
If an employee of a company only works in national areas, his or her remuneration is regulated by law and collective agreements. For employees who work at an international level, however, these legal and collective agreement regulations do not apply. For this reason, the company must make special arrangements for this. These regulations are defined and implemented within the company. An international remuneration system is of enormous importance for a multinational company. The system can ensure that employees who agree to a foreign assignment, as opposed to those who continue to work at a national level, are not disadvantaged. Therefore, special internal company regulations must be established for employees who are deployed internationally.6 An important factor here is the choice of a suitable remuneration model. It is important that this model fits the company and its strategy and considers the expatriate's performance and additional workload. In principle, the same criteria apply to an international compensation system as to the compensation system at national level.7 In times of increasing cost optimization, the focus is on profitability. It is also important for companies to be an attractive point of contact for performance- oriented specialists and managers.8 Throughout the company, it is ensured that uniform guidelines are in place for the main areas of salary determination. These include, for example, regulations on salary increases, bonus levels, additional benefits, and decisions on pay grades.9 The compensation model should provide sufficient incentives for the employee to be willing to accept the work assignment abroad and the additional expenditure involved. For example, insufficient remuneration of the expatriate could lead to dissatisfaction and therefore to a drop in performance. In contrast, the compensation model should motivate the employee to spend time abroad and prevent the employee from prematurely terminating the assignment abroad. However, not only the employee's incentives should be considered, but also, of course, the aspects of costs and benefits of the respective remuneration model.

6. Write notes on the following: a) Heckscher-Ohlin Theory.

ANS: Heckscher-Ohlin theory, in economics, a theory of comparative advantage in international trade according to which countries in which capital is relatively plentiful and labour relatively scarce will tend to export capital-intensive products and import labour-intensive products, while countries in which labour is relatively plentiful and capital relatively scarce will tend to export labour-intensive products and import capital-intensive products.

In the Heckscher-Ohlin theory, it is not the absolute amount of capital that is important; rather, it is the amount of capital per worker. A small country like Luxembourg has much less capital in total than India, but Luxembourg has more capital per worker. Accordingly, the Heckscher-Ohlin theory predicts that Luxembourg will export capital-intensive products to India and import labour-intensive products in return.

Despite its plausibility, the Heckscher-Ohlin theory is frequently at variance with the actual patterns of international trade. One early study of the Heckscher-Ohlin theory was carried out by Wassily Leontief, a Russian-born U.S. economist. Leontief observed that the United States was relatively well-endowed with capital. According to the theory, therefore, the United States should export capital-intensive goods and import labour-intensive ones. He found that the opposite was in fact the case: U.S. exports are generally more labour-intensive than the types of products that the United States imports. Because his findings were the opposite of those predicted by the theory, they are known as the Leontief Paradox.



b) Foreign Investment.

ANS: Foreign investment is when a domestic investor decides to purchase ownership of an asset in a foreign country. It involves cash flows moving from one country to another to execute the transaction. If the ownership stake is large enough, the foreign investor may be able to influence the entity's business strategy. Foreign investment is when investors purchase an asset in a foreign country, resulting in the cash flow consideration transferring from one country to the next.

Foreign direct investments (FDIs) are long-term physical investments, such as plants, toll roads, and bridges within foreign countries.

Examples of FDIs include financial institutions trading equity stakes of foreign companies on the stock exchange.

Foreign investments are often made by larger financial institutions hoping to diversify their portfolio or expand operations for one of their current companies internationally. It is often considered a move for scaling purposes or a catalyst to spur in economic growth.

For example, some companies may expand their offices worldwide to reach global talent and connections. Examples would include Goldman Sachs, J.P. Morgan, Morgan Stanley, and other large corporations. In other cases, some companies may open facilities or operations to capitalize on cheaper labor or production costs offered in specific countries.

For textile companies in particular, such as retail production, many factories are located in China and Bangladesh despite sales being focussed on North America – such as H&M or Zara – because material and labor are significantly cheaper there; thus, outsourcing would result in higher profitability. In other cases, some large corporations will prefer to conduct business in countries that have lower tax rates.