In a global economic system marked by continuous changes, companies should adapt their strategies to successfully manage international activities. On one hand, strategic decisions play a key role in detecting and seizing international opportunities. On the other hand, global shifts have a strong impact on every type of company and organization, regardless of their size and degree of internationalization.
Focusing on the most relevant issues in the international development of companies, the book proposes theoretical models and managerial tools to successfully tackle global challenges. Each chapter relies extensively on figures and tables to make concepts accessible and is accompanied by a set of questions to review key notions and check learning outcomes. For this reason, the book is designed to be used at different levels, by different readers: from professors and students in undergraduate and post-graduate programs at universities and business schools, to managers and entrepreneurs aiming to internationalize their company and facing global challenges.

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Lucia · Valdemarin

INTERNATIONAL STRATEGY

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INTERNATIONAL STRATEGY

Managing Companies in the Global Economic System

Edited by
Maria Giuseppina Lucia
Stefano Valdemarin

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Stefano Valdemarin

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Introduction

In a global economic system marked by continuous changes, companies should adapt their strategies to successfully manage international activities. On the one hand, strategic decisions play a key role in detecting and seizing international opportunities. On the other hand, global shifts have a strong impact on every type of company and organization, regardless of their size and degree of internationalization, and the challenges of an increasingly complex environment can hardly be ignored by local enterprises as the global financial crisis and the COVID-19 pandemic have demonstrated in recent years.

In this context, the book aims to develop a comprehensive approach to international strategy by considering the main challenges that companies face in the global economic system from a cross-disciplinary perspective. Focusing on the most relevant issues related to the international development of companies, *International Strategy* proposes theoretical models and managerial tools to successfully manage global challenges.

This book is structured in 13 chapters, following step by step the international development of companies, discussing the main issues that may arise, and proposing tools adapted to different contexts. The first three chapters focus on the global economic system, which represents the environment in which companies operate. Of course, companies are influenced by global transformations, but they are also the main actors of globalization, shaping the environment in which they operate according to the strategies they develop. In line with this, Chapter 1 discusses the development and evolution of the global economic system since its origin to the present day, stressing the role that globalization plays on companies and on global value chains. Chapter 2 entails an in-depth analysis of the three main economic sectors. From agriculture to industry and from manufacturing to the development of the "servicing economy," this chapter discusses how each sector of the economy transformed over time both from an historical and a critical viewpoint. Chapter 3 completes the overview on global transformations by focusing on the financialization of the economy. Originally conceived to transfer resources from savers to organizations and companies that need to develop investments, the financial sector has assumed a growing importance and radically changed the way companies shape their strategy.

The following part includes three chapters and mainly concentrates on strategic decisions that companies should undertake before developing their international ac-

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tivities. Chapter 4 discusses the differences between local, international, and multinational enterprises; proposes an overview of the main internationalization strategies (exporting, contractual arrangements, and foreign direct investments); and discusses the different approaches to international development. Chapters 5 and 6, then, propose a set of strategic tools to undertake the most relevant international decisions. Chapter 5 illustrates a range of models to analyze the external environment and the main actors interacting with the company abroad in order to identify the main opportunities and threats on foreign countries. Chapter 6 proposes strategic tools to select the business to internationalize, to assess the international potential of companies by considering their resources and capabilities, to shade light on their position in the value network and value chain, and, finally, to identify their main strengths and weaknesses as well as the sources of their competitive advantage.

In line with the previous parts, the following section analyzes in a complete way the main entry modes in foreign countries. Chapter 7 focuses on the import–export business by both showing the most recent trends in international trade and focusing on international commercial terms (Incoterms) and export procedures to provide the readers with the main tools to negotiate and manage exporting contracts. Chapter 8 considers contractual arrangements, a set of entry modes including franchising, licensing, contract manufacturing, outsourcing, management contracts, and turnkey projects from the perspective of both the internationalizing company and its local counterparts. Chapter 9, then, sheds light on the most advanced entry mode: foreign direct investment. This chapter first analyzes the different forms of FDI (greenfield subsidiaries, cross-border acquisitions, and international joint ventures), then focuses on the trends of global investment flows, and finally proposes a set of recommendations to successfully manage investments abroad.

After analyzing the different entry modes, the volume pays attention to the way the activities of companies can be carried out in foreign countries. Chapter 10 analyzes the concept of embeddedness, looking at the progressive integration of enterprises in host countries, on the advantages and drawbacks of establishing links with a geographic area, and on the processes of territorialization. Chapter 11 focuses on the organization of companies abroad and discusses the different forms of relationship between the headquarters of the multinational companies and their subsidiaries abroad. Subsidiaries can be granted with different mandates and with different degrees of autonomy, thus, developing different behaviors and playing different roles within the group depending on the attitude of the headquarters. These attitudes mainly depend on the culture of the organization and, for this reason, Chapter 12 analyzes cross-cultural issues. The chapter presents the main dimensions of culture according to different models both from an individual and an organizational perspective. Finally, Chapter 13 analyzes the concepts of corporate social responsibility (CSR) and integrated communication. Indeed, companies establish activities both at the local and global levels and the way they develop their actions and image strongly influence their degree of performance.

International Strategy is a cross-disciplinary book, aiming to provide conceptual and practical tools to understand and manage companies' international development

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and evolution in the global economic system. Each chapter is developed with extensive use of figures and tables, making the book accessible to any reader, and proposes a set of questions that can be used to check the acquisition of key concepts and learning outcomes, with the answers provided on the companion website. For this reason, this book is designed to be used at different levels. First, it is designed for university or business school professors and can be used as a reference book for students in undergraduate and postgraduate programs. Second the volume proposes to researchers and specialist readers an exhaustive set of references to academic papers, books, and advanced database that can be used to acquire a deeper knowledge of specific topics. Finally, *International Strategy* is conceived to provide managers and entrepreneurs with a wide range of strategic tools to internationalize their company and face global challenges.

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1 Globalization and the New Organization of the Geographical Space

by *Maria Giuseppina Lucia* and *Piero Bonavero*

Globalization has been, at the same time, the cause and effect of the shifts of the internal organization of the enterprises as well as the strategies for dealing with the changed scale of competitiveness. Therefore, in this chapter, we focus on the process of globalization to reach a better understanding of the internationalization of the enterprises. In the first part, we focus on conceptual tools that explain the origin and evolution of the global economic system. In the second part, we analyze its current meaning, referring to the different opinions of scholars. Indeed, two approaches concerning globalization coexist: on the one hand, many scholars see this phenomenon as a positive event, while opponents attribute it to harmful effects, mainly referring to the widening economic gap between different countries of the world. In the third part, we develop an analysis of the spatial organization of production activities, starting from the first industrial revolution up to the present scenario characterized by a simultaneous spread and concentration of enterprises. Finally, we present the concept of the global value chain (GVC) as a useful tool to explain today's international division of labor.

1.1 The origin of globalization: The world system and the world economy

In recent decades, the decreasing level of customs tariffs, together with the development of transport and the enhancement of the Information and Communication Technology (ICT), has led to an ever more intertwined world economic system, whose main features are the dramatic growth in movement of capitals, goods, and people.

However, globalization is not a new and unique phenomenon of our historical age. It goes back a long way in time, and what distinguishes the event in our days is the speed and strength of relationships (Faulconbridge & Beaverstok, 2008).

The driving forces that have given rise to and gradually intensified the interdependence of the countries of the world have been investigated by Braudel (1949) and Wallerstein (1974), to whom we owe the concepts of the world system and the world economy. According to Braudel, the process of globalization began in the 15th century as a result of great geographical discoveries and the consequent expansion of the trade network to the New World. As a matter of fact, the trade between different geographical areas registered an extraordinary growth. In this respect, the world econo-

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my emerged and developed as an economic space organized in complementary zones with a dominant core, that is, a hierarchical geographical space structured by a dominant area around which semi-peripheral and peripheral areas are placed in a subordinate and dependent condition. This organization ensures the working of the world economy as a whole: the core assigns the peripheral areas the role of a reservoir of raw materials, agricultural resources, and a target market for finished goods. Preserving the divide—already existing since the middle of the 15th century—between rich and poor countries, it is believed to be the basis for the long-lasting status of the capitalist system (Braudel, 1949). However, the world economy is not unchanging. A dominant area, therefore, does not remain in this position forever; over the years, its role can be replaced by another country. Otherwise said, the space–time dynamics of the world economy—as we know from the European history—is a sequence of the phases of rise, crisis, and decay.

As Braudel (1949) notes, in the long 16th century, the core of the world economy moved from Venice to Antwerp and later then to Genoa and Amsterdam. Between the end of the 16th century and the beginning of the 18th century, London, with the expansion of the British Empire, ruled the world economic system until the end of the First World War, when the core of the capitalist world system shifted to New York. The United States holds this supremacy to date, even if the ever-increasing rise of China's economic and political power could be a clear sign of the shift of the world center toward the east. And new regional trade agreements (for instance African Continental Free Trade Areas), along with the changing of the traditional ones, outline new geographical and geopolitical scenarios.

The discussion on the beginning of the process of globalization should be expanded with a few remarks on the conceptual framework of Wallerstein, who based his studies upon the assumption that the social and economic fields of any geographical space are always affected by what occurs in the larger socio-territorial context. This means that the development of any country is not autonomous but rather hinges on the dynamics that take place in the "world system."

Wallerstein identifies two main categories in economic and social organization: subsistence economies, characterized by mutual family relationships and referred to as mini-systems, and world systems, these latter distinguished in world empires and world systems. Subsistence economies, or mini-systems, are closed entities, self-contained, and culturally homogeneous, but they do not last long over time. The world empires, as political entities with highly centralized power, have been the most politically steady organizations for a long time. In the path of history, as Wallerstein points out, countless mini-systems and numerous world empires have followed one another, but only one world economy—the European world economy—has survived until the present day, thanks to the domain of workforce and the draining of the surplus from the subdued geographical areas.

In fact, between the end of the 15th century and the beginning of the 16th century, geographical discoveries and the resulting colonization have guaranteed a huge flow of resources from the dominated countries, bringing about—as already stated by Braudel (1949)—the emergence of capitalism which was definitively consolidat-

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ed between the second half of the 18th and 19th centuries, when the first industrial revolution began in Great Britain (Wallerstein, 1974). With the industrial revolution, the first wave of the process of globalization in the meaning of our day started by the beginning of the spread of large companies in foreign markets.

1.2 The process of globalization and the divergent opinions on the phenomenon

The process of globalization attracted the attention of scholars from many disciplines in the 1990s when the intensity and speed of interdependencies between countries, integration between markets, and the related economic, political, and social transformations became more evident. However, due to the multidimensional nature of the phenomenon, the definitions of globalization are numerous and vary among the different scientific disciplines.

Nevertheless, all scholars agree on the features of interdependence between the countries of the world, openness of political boundaries, and space–time compression, that is, the annihilation of geographical distance as a result of the decrease in time and cost of movement of goods, information, capital, and people. Notably, economists emphasize the integration of world markets and the strengthening of the interaction of domestic and global economy, while territorial sciences stress the dissimilar speeds and unique characteristics that the process of globalization has undertaken in different geographical areas.

Considering the primary role of the features of any territorial context, empirical research in this disciplinary field highlights two topics: the different policies adopted by each territory to interact with the world economic system and the strategies enhanced by enterprises to deal with global competitiveness (Dicken, 2015). From this perspective, globalization can be considered as "the qualitative transformation of economic relationships across geographical space" (Dicken, 2015, p. 6).

To complete this analysis, we may also analyze the ideological view of globalization that has led to opposite opinions and ethical judgments. Those who consider the phenomenon positive assert that globalization has spread opportunities and well-being to many countries of the world and to a large amount of the population. The free trade of goods and capitals has increased the total world wealth (from 113 trillion at the beginning of the third millennium to 241 trillion in 2013) and lowered poverty, according to the World Bank's statistics. Especially, the number of people living below the extreme poverty line ($1.25 per day), which in 1990 represented almost 43% of the world's population, has settled at 21% in 2011. Besides, the supporters of globalization point out the improvement in school attendance, life expectancy at birth (from 65 years in 1990 to 71 years in 2013), and the decrease in child mortality (from 36% in 1990 to 19% in 2013). Globalization, moreover, has allowed the enhancement of international development of cooperation programs, while the greater knowledge of what is happening in various parts of the world allows for the achievement of increased awareness of infringements of human

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rights and crimes against humanity, corruption, and so on, with the chance to fight against them (World Bank, 2021).

Other scholars, in contrast, argue that globalization acts as a divisive force that deepens even more the economic unevenness worldwide and within individual countries, by concentrating wealth in the hands of a privileged few. Still, the detractors of globalization argue that competition at a planetary level raises uncertainty in the labor market and threatens the welfare state and the provision of efficient public services in advanced countries. Besides, the fast spread of financial and economic crises as well as the ever more dramatic pandemic of epidemiological contagion are considered as downside risks of globalization.

Scholars who regard globalization as a damaging phenomenon outline that trade liberalization has worsened the economic system of poor countries, making them disadvantaged in international competition. However, the most dramatic condition affects the exploitation of the job market (including child labor) with the aim to lower workforce costs.

For the reasons stated previously, there is a requirement for the development of proper and efficient global governance to manage critical issues and fairly distribute the benefits and advantages that globalization offers. The topic of global governance has been addressed in a burgeoning literature in different ways. In the perspective of the analysis carried out here, global governance can be conceived as a set of regulatory tools developed by global institutions that draw up global issues and guidelines that must be locally adapted and put into force by national governments.

1.3 Globalization and the spatial organization of the economic system

Crafts & Venables (2003) conceive economic globalization as a change in the costs of economic interactions through distance and the effects of these shifts on the geographical location of economic activities. Therefore, the following paragraphs consider the process of globalization with a particular focus on those factors that—playing a predominant role in that specific period—have imprinted peculiar features on the spatial organization of the enterprises. In fact, despite the opposing viewpoints, it is quite clear that globalization is an unavoidable phenomenon which over time has undergone alternate phases of fast growing and slowdown. As history shows, the deceleration has always been followed by rapid recovery and changes in economic and social organization. As stated by Donnan & Leatherby (2019), globalization is not dying, it's just evolving.

The first phase of globalization of economic activities in its current meaning, as previously said, started with the industrial revolution that spread from Great Britain in the second half of the 19th century to Germany, Belgium, and France. The most significant characteristics of this period were the extraordinary increase in international trade, supported by liberal policies, decrease in customs duties, and advancement and lowering the cost of communication technologies and transport systems.

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In fact, the trend in the growth rate of trade between the last decade of the 19th century and the first decade of the following century recorded an average annual rate of about 5%. In addition, to evaluate the degree of international openness of the countries, we have to consider the increase of international trade with respect to the gross domestic product that increased from 25% in 1870 to about 40% in 1914. Consequently, we can say that the expansion of international trade has been the main driver of globalization.

However, besides the development of the international trade, which represents a quantitative item of globalization, there are other components of a different nature that were looming in this period and that constitute the main drivers of globalization. We must once again remember the technological innovation and its applications in the fields of maritime transport (steam ships) and land transport (railways and waterways) and the resulting decrease of costs and journey time over a long distance. Moreover, the evolution of the communication facilities (the telegraph and then the telephone), the increased mobility of the population, and the development of capital flows and international financial networks all envisage a reorganization and structural transformation of the world economy.

At the beginning of the 20th century, many countries of the northwestern Europe and the northeastern coast of the United States were already characterized by a growing industrial system that other European countries and other central northern regions of the United States attained later. On the contrary, the rest of the world increasingly assumed a function of support for the development of the economic system of the industrialized countries. The outbreak of the First World War in 1914, however, marks the end of the first phase of globalization. The return of nationalist and protectionist policies, following the Great Depression of 1929, destroyed the results of international openness achieved until then.

Just after the Second World War reconstruction, there was a reversal of the trend with the beginning of a new and deeper wave of globalization—or reglobalization.[1] The Bretton Woods Agreements in 1944 outlined a new world order. International organizations—the International Monetary Fund, the International Bank for Reconstruction (now the World Bank), and the General Agreement on Tariffs and Trade (an agreement that, after the creation of the World Trade Organization in 1995, was replaced by larger agreements between countries) – were entrusted with the task of ensuring political and economic stability. The replacement of liberal policies allowed world trade to record positive trends and regain the levels reached before the first war.

However, the spatial organization of the economic system stayed unchanged until the turning point of the 1970s. High capital intensity and value-added production were located in Western countries and supplied by the flow of raw materials from

[1] The dramatic COVID-19 pandemic that began in 2019 has brought back onto the scene the debate on the nature of the effects of globalization and the characteristics that the phenomenon may assume. However, it is certain that the war of tariffs and the return of nationalisms suggest a slower globalization so that the term "slow globalization" has been coined.

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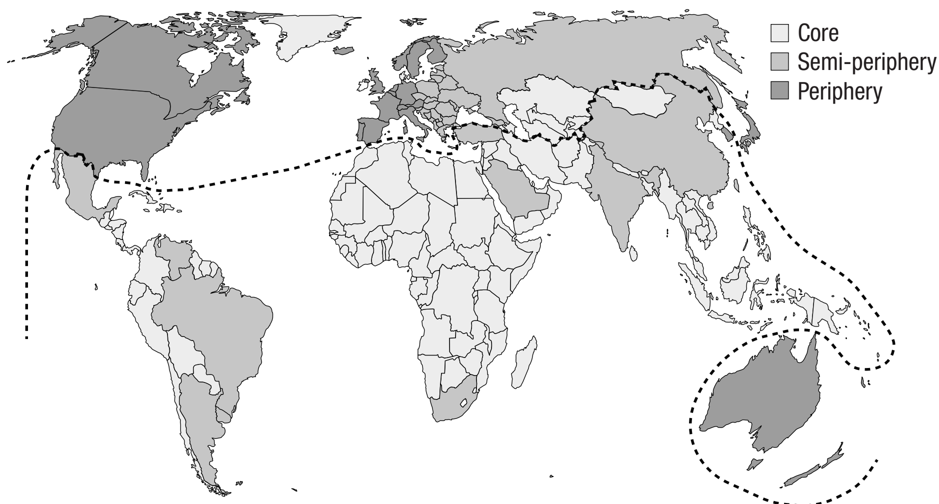
the peripherical areas endowed with natural resources but lacking in technology and know-how. With regard to the international trade, a double matrix was established, taking into account complementary exchanges between industrialized countries, which was made up for the most part of finished goods and substitute exchanges that occur between the underdeveloped areas and the Western world. In this system, the less-developed countries act as suppliers of raw materials and sales markets for the finished goods of the industrialized countries. In this way, the transfer of wealth from the south to the north of the world—already in place in the 16th century—pursues and grows stronger over time triggering the so-called great divergence of development between the various regions of the world (Pomeranz, 2012).

Between the end of the 1960s and the beginning of the 1970s, we can see changing features in the organization of the economic system, bringing about a geographical area of transition—the semi-periphery—including countries that moved from a condition of periphery to an intermediate position (as represented in **Figure 1.1**), thanks to the establishment of an export-oriented industrial system.
The rise of the semi-periphery is related to the following items: geopolitical events (energy market crisis), economic events (profit crisis of the Fordist system), social events (market saturation and new trends in consumers' behavior), and environmental problems. All of these mark the end of that era of great economic growth in the Western world known as the Golden Age (Crafts, 1995). Consequently, a different spatial organization of production activities takes shape. Labor-intensive industries with a low added value were first located in some peripheral countries and later fol-

Figure 1.1 The representation of the world divided into core, semi-periphery, and periphery.



Source: Adapted from Knox & Agnew (1996).

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lowed also by qualified sectors with a new standardized technology. The mobility phenomena of the countries in the periphery and semi-periphery categories are explained in relation to these processes.

A significant case of the two stages of delocalization is that of South Korea, Taiwan, Hong Kong, and Singapore (referred to as NICs—newly industrialized countries—or Asian Tigers). In the 1960s, they represented areas of localization of standardized production, and in the following decade, on the contrary, they began to host companies from advanced sectors, in particular the electronics sector. At the same time, manufacturing companies relying on resources and innovation from abroad and on standardized production relocated their facilities to Malaysia, Thailand, and Indonesia. The result is a different spatial organization of economic activities because some previously peripheral areas developed their industry very fast, with performances increasingly similar to those of countries in the core of the world, thus becoming dominant areas (leaders) of a periphery made up of countries receiving mature production (followers).

To explain the process of technology transfer and transmission of standardized know-how along a path from the most advanced to the economically backward countries, it is useful to consider the product life cycle model drawn up by Vernon (1966). The life cycle involves a phase of product introduction by innovative companies located in economic advanced areas. The next steps are represented by the development and maturity of the product and the standardization of the production process, meaning that the enterprise—no longer having the need for qualified professionals—can be located in other countries characterized by cheaper labor costs.

The model of the flying geese (Akamatsu, 1961, 1962), then, suggests that a country at the most developed economic stage spreads its knowledge to the less advanced countries that become, subsequently, a market for export. Japan (lead goose) played a key role in South Asian countries, recognizing the international trade and the opening of the market as the crucial driving forces in development of the national economy.

Even if these models do not explain, in an exhaustive way, the complexity of the location choices of large companies and the consequent organizational dynamics of the geographical space, to some extent, they have a theoretical value in order to understand the shift of countries from the peripheral to the semi-peripheral areas (Vanolo, 2010).

In the process of global shift described in the previously mentioned models, a leading role is played by the developmental policies implemented by states to attract foreign investments through tax advantages, reforms of the labor market, and measures to simplify bureaucracy and exemption from customs duties. Japan has been the first country to apply developmental policies that combined institutional intervention and protection of the private property, a strategy also adopted by other southeast Asian countries, South Korea, Hong Kong, Taiwan, and Singapore.

A special tool used by developing countries to attract foreign direct investments is the creating of free trade areas, that is, those particular areas where tax incentives and tax breaks are granted to attract foreign direct investment. Despite their common

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features, free trade zones can be divided into various types, such as special economic zones (SEZs), namely areas that benefit from tax relief and efficient infrastructure, and export processing zones (EPZs), that is, areas for processing raw materials or assembling components of goods for foreign markets.

At a closer look, the enhancement of the technologies that have allowed the disintegration and the displacement of the production processes configures, together with the decrease in transport costs, a more complex spatial organization of the economic system that escapes the theoretical schemes of the past. Therefore, to interpret the spatial organization of the new global economic system, it could be helpful to make some remarks on the location choices developed by different types of enterprises.

1.4 The geography of enterprises between spread and concentration

For a long time, studies on the spatial organization of the economic system have considered distance as a strategic pillar of the companies' location strategies. According to Weber (1929), location strategies are usually determined by geographical distance. Starting from the assumption that, for a long time, the cost of transport represented an important burden in the productive process, managing distance became one of the main concerns of companies. In other words, the location choices were closely linked to the choices concerning the so-called minimum transport point for raw materials and the final product.

Weber's model envisages a triangle with, at each apex, the location of raw materials, workforce, and market for finished goods. The enterprise will privilege that location that allows the minimization of the costs of transport. Thus, for instance, a heavy industry will get close to the raw materials it needs, while a company that produces finished goods will develop as close as possible to its markets. In the various revisions and implementations made on the model, Weber states that the cost reduction is achieved even when various companies operating in the same sector are concentrated in the same geographical area, thanks to the economies of agglomeration. Since then, the concepts of economies of agglomeration and economies of scale, have become the main conceptual tools to explain the spatial organization of the economic system.

However, the chance of producing each single component in different and very distant geographical areas and the consequent complexity of the spatial organization of the economic system entails the introduction of some variables that ignore the distance, giving more importance to the type of companies (Celant, 2017). The variables used are concentration, dispersion, integration, and autonomy. The merging of integration/concentration, a characteristic of the Fordist enterprises, has introduced into the organization of the geographical space the hierarchical principle and the internal functional division of large plants. The vertical integration of production and the specialization of workers' tasks is mirrored in the division of labor both on a global scale (core, periphery, and semi-periphery) and within the industrialized areas of the western world. In fact, the same principle of hierarchy referred to the entire

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geographical space operates on a national and urban scale, for instance, in highly industrialized cities (e.g., Detroit, Manchester, Lyon, and Milan). In these industrial cities, the search for low cost of land has led to the division between core and periphery in the urban areas. The most advanced functions have remained in their original location, while the standardized sectors of the production process have been progressively displaced to peripheral urban areas.

In the early 1970s, the crisis of the Fordist enterprise started and the dynamics of the spatial organization of the economic system were mainly related to the merger of integration/dispersion categories. A representative case in this context is constituted by the Ford's River Rouge plant (in the State of Michigan). During that period, the factory, which counted 256,000 workers, was involved in the crisis of the automobile market in the United States: a crisis even more worsened by the competition of Japanese industries. The number of workers decreased, while production was mainly externalized to small- and medium-sized companies, some established in the close proximity to the parent company in the same city or in the same region and others, instead, in the Sun Belt, the area between the United States and Mexico. Others were relocated to the countries of Latin America and the Asian continent, where the benefits of low-cost labor were available. The previous system, called the "assembly line" was replaced by a new system, known as the "computer network," referring to a network of companies located in different areas of the world but connected with each other, thanks to the development of ICT. Each company occupies a position of core, periphery, or semi-periphery, depending on their functions. It is clear that the period taken into account is the beginning of the great development of the multinational firms. In line with the principle of integration/dispersion, the multinational firms delocalize production process stages but exercise a tight control on all the operativity of the affiliates.

In recent decades, a new generation of multinational firms have emerged: the transnational corporations (TNCs), following strategies that can be interpreted with the combination of autonomy/dispersion (Bartlett & Ghoshal, 1998). This means that the parent company that relocates and invests in countries other than those of origin does not impose the same organizational models. In fact, the subsidiaries can produce not only components of the main activity but also finished goods in sectors unlike those of the parent company, expanding the production range. So, the economic system is definitely characterized as integrated production, and every product could be indicated with the term made in the world. In this context, the geographical space takes the shape of a network of complex flow of goods and information between the firms belonging to the same TNCs.

However, while considering the multifaceted aspects of location decisions, we should consider not only the principle of autonomy/dispersion, but also the combination of the variables autonomy/concentration. This dualism identifies the link with other organizations of the economic system in the same geographic area. It deals with industrial districts and clusters, characterized by agglomeration of small- and medium-sized enterprises in particular areas endowed with territorial capital, that is, a set of tangible and intangible components, such as rules, codes of conduct, institutions, and social relations.

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Although there is only a slight difference between districts and clusters, one can list the features that make the two different. On one hand, districts are marked by close relationships between actors, sharing technical and industrial culture, historically proven behaviors and practices. On the other hand, clusters are mainly made of high-tech firms with the capability to apply innovation. We can thus indicate as main distinguishing features, taken from the literature of the well-known Silicon Valley cluster, the presence of qualified universities and private and public research centers and the availability of capital in search of investment.

The areas of concentration of high-tech activities are indicated with various expressions: scientific parks, technology parks, technology districts, technology clusters, and valleys (such as the Silicon Valley). Scientific parks emerged in the 1960s in the United States, and in the following decades, they spread, although in different ways, not only to Europe (Cambridge in Great Britain; Sophia Antipolis in France) but also to Japan, India, and China. Today, due to the evolution of autonomy/concentration related variables in the global economy, Chinese clusters are potential competitors of the US Silicon Valley.

In short, we can say that the geography of the economic system is marked at the same time by the global and local dynamics that bring about a complex network of relationships between firms and territory. Indeed, the segmentation of the productive process allows the enterprises to relocate every phase of the production to a geographical area endowed with resources quite fitting for just that specific activity. So, for instance, labor-intensive assembly will be decentralized in a territorial context with a low-cost workforce and unprotected labor market, while the most qualified activities, such as design and all management functions, remain in the geographical areas that are equipped with research centers, advanced technological structures, and skilled workers (Dedrick, Kraemer, & Linden, 2011).

In recent years, the geographical space has been compared to a mosaic where each tile plays its own role in the creation of the whole picture. However, this role can change over time and the tiles of the mosaic take different places in the whole picture (Tadini & Cerruti, 2019). In line with this metaphor, every country (the tile of the mosaic) has a different role in the creation of the global value, and its place depends on the position it occupies in the GVC.

1.5 The role of countries in the global value chain

According to the Organization for Economic Co-operation and Development (OECD, 2013, p. 6), "a global value chain involves all the activities that firms engage in, at home or abroad, to bring a product to the market, from conception to final use." To better understand this concept, it can be useful to provide an example, by focusing for instance on the iPhone. Indeed, the activities of research, design, and marketing are located in the State of California, the production of components in South Korea and Japan that provide displays, memory cards, and microprocessors, while assembly takes place in China and India.

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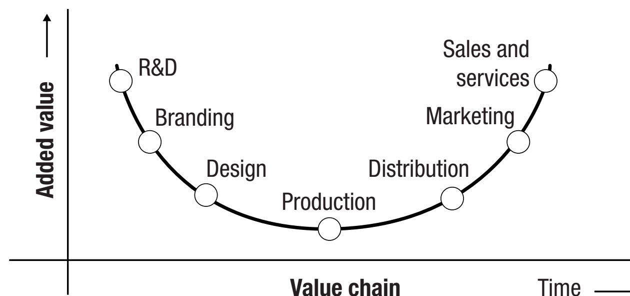
The largest percentage of the added value belongs to Apple (US), followed by Samsung from South Korea, and Toshiba and SK Hynix from Japan. Only about 4% of the value belongs to China (Dedrick et al., 2011). In this context the United States performs the most qualified and most profitable functions in the GVC, while assembly—the standardized and labor-intensive phase—puts the countries involved in this activity in the last position in the value chain.

To outline the position of a country in the GVC, Shih (1992) introduced the smiling curve (**Figure 1.2**). By looking at Figure 1.2, we can notice how in the production of a good or a service the various activities are placed on a more or less high rank of the value according to the respective qualification of their function, starting from the manufacturing that is located in the lowest point of the curve.

As we can see from the previous example (Apple), the concept of GVC is derived from studies in strategic management and supply chain (Porter, 1985). Companies can distinguish, within their organizational structure, between primary and secondary activities (see Chapter 6). Primary activities should be managed directly by the enterprise, as they are needed to develop the company's mission. Secondary activities, conversely, can be outsourced and managed by a supplier. In line with these theories, we can say that the creation of value involves not just one single enterprise but a multiplicity of companies. These activities can be established in various parts of the world, in fact determining, at the aggregate level, the role played by each country in value chains.

In that way, previously excluded countries have been encompassed in the global value chain, albeit with different functions and roles (Hernández, Martínez-Piva, & Mulder, 2014). An increasing number of countries have thus been able to integrate themselves into global production networks, primarily the large emerging economies such as Brazil, Russia, India, and China (BRIC), followed by the so-called Next Eleven (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea, and Vietnam) and several eastern European countries such as Poland, the Czech Republic, and Romania.

Figure 1.2 **The smiling curve.**



Source: Adapted from Shih (1992).

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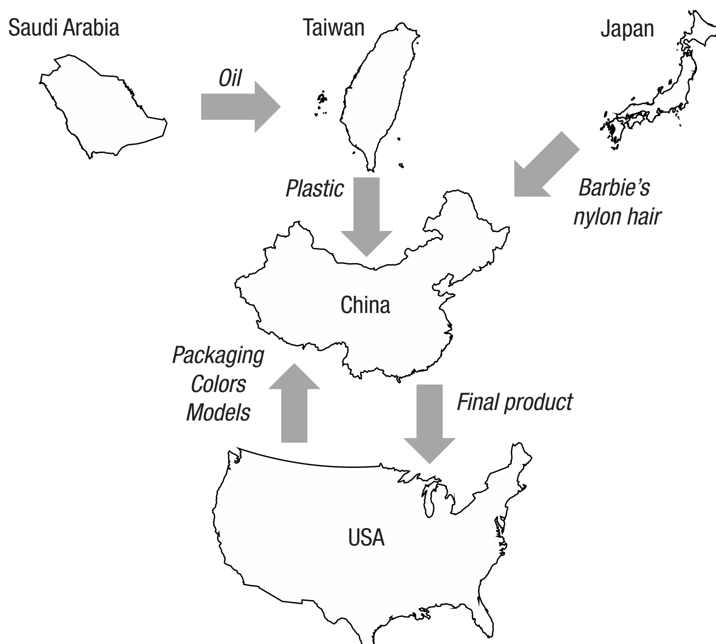
Another major feature related to the GVC is the different structures of trade flows that stand apart from the two models of complementary and substitute exchanges. Complementary exchanges take place between countries with different degrees of development. Substitute exchanges take place between countries with the same level of development, as elements of differentiation in the local offer of products or services.

All these elements have an impact on the international trade of goods and services, and, of course on trade balances. Considering the intricate network of relationship between trading partners, it is not always easy to distinguish the amount of value associated to a specific country. The balance of payments and other statistical indicators are naturally useful for comparing the performance between various countries, but they are less effective in clarifying the country's position in the international division of labor and as parameters to assess their competitive advantage. Indeed, a country may export raw material, which is transformed in a second country, perfectionated in a third one before returning in the first country as a final product, to be sold locally, and eventually re-exported to the country in which it was transformed. Trade relations, thus, appear as a complex interweaving because of the vertical disintegration of production. **Figure 1.3** provides an example of GVC's tangled webs in the production process of the Barbie doll.

Figure 1.3 The breakdown of the production process of the Barbie doll.



Source: Authors' elaboration based on Giunta (2017).

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From Figure 1.3, we can see that the United States exports design, colors, and packaging to China, which also receives plastic from Taiwan (made from Saudi Arabia's oil) and nylon hair from Japan. For its part, China produces the clothes, assembles all the components, and then ships the finished product (the doll) to the United States, to be marketed and distributed in several countries (Giunta, 2017).

Due to the development of tangled GVCs, international trade involves complex interactions between a variety of suppliers from all over the world, so that 70% of the world trade is made up of exchanges of raw materials, components, and services between enterprises located in different countries. Through this process, all the countries involved in GVCs retain a share of the value and benefit from the export of the final product. However, it should be specified that it is not easy to quantify this value by world statistical surveys that tend to assign it to the country at the end of the GVC, that is, the country that exports the finished good or service (OECD, 2013; Taglioni & Winkler, 2016).

Questions

1. Describe the concepts of the world system and the world economy developed by Braudel (1949) and Wallerstein (1974).
2. Explain the factors that lead to the creation of semi-periphery and the mobility of the countries from periphery to semi-periphery.
3. Explain the location strategies of companies on the basis of the principles of autonomy/dispersion and autonomy/concentration.
4. Provide an example of manufacturing through global value chains.

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