Countries: Institutions, Political Risk and National Competitive Advantage

Day 2

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International Business and Finance

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Where we are: the week

Mon 20	Day 1	The multinational **firm**: theories, frameworks, entry
Tue 21	Day 2	**Countries**: institutions, political risk, national advantage
Thu 23	Day 3	**Strategy**, organisation, market structure
Fri 24	Day 4	**Pricing** and strategic interaction

Yesterday the unit of analysis was the **firm** and its FSAs. Today it is the **country** — the L in OLI and the CSA column of Monday's matrix, opened up.

Same method as Monday: a framework, then the country data that tests it.

What today is actually about

Douglas North: institutions are “the rules of the game.” Every border decision prices three questions.

- **Will contracts hold?** Courts, property rights, legal origin.
- **Will the state take, tax, or rewrite?** Expropriation, sanctions, regulation.
- **Do we understand each other?** Language, norms, culture.
- Then invert: what makes a country a good *home base*? (Diamond.)

This afternoon: who *measures* the rules — and the index that got cooked.

Roadmap for the whole lecture

I. **Institutions and political risk** — how we (mis)measure countries, and how the state prices risk: expropriation, sanctions, trapped cash.

II. **Legal systems and corruption** — legal origins and where finance is deep; the FCPA (the US anti-bribery law with worldwide reach); what firms actually report about bribes.

III. **Culture** — Hofstede's cross-country culture dimensions, "cultural distance", and why the number is fragile; institutional voids.

IV. **National advantage** — Porter's (single) diamond and Rugman's (double) diamond: what makes a country a home base.

Two of these blocks end in a regression you run this afternoon.

Reading

- **Textbooks**
  - Chapter 4, 5, Simon Collinson, Rajneesh Narula, Alan M. Rugman and Amir Qamar, *International Business*, 9th Edition, Pearson Education, 2024
  - Chapter 2, 3, and 4, John D. Daniels, Lee H. Radebaugh and Daniel Sullivan, *International Business, Global Edition*, 17th Edition, Pearson Education, 2021
  - *Chapter 2 and 3*, John J. Wild and Kenneth L. Wild, *International Business: The Challenges of Globalization, Global Edition*, 10th Edition, Pearson Education, 2023

Part I

Institutions and political risk

Emerging Economies of the World:

https://www.msci.com/market-classification

Source: MSCI Emerging Markets Index. Retrieved January 22, 2020, from https://www.msci.com/market-classification

Assessing Economic Development, Performance, and Potential

Ways to measure an economy

- Monetary
  - GNI (Gross National Income)
  - GDP (Gross Domestic Product)
  - GNP (Gross National Product)

Improving economic analytics

- Rate of economic growth
- Population size
- Purchasing Power Parity
- The shadow economy

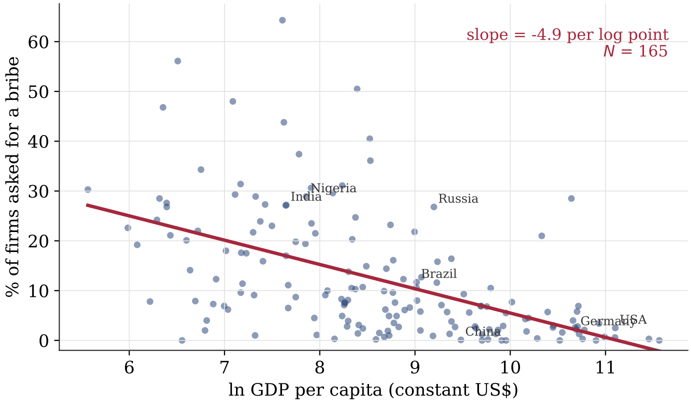
Country indices, in one slide

Heritage/Fraser, WGI, EIU, Doing Business †$\rightarrow$ B-READY. Three warnings:

- They are **bundles** — reweight components and rankings reshuffle.
- They correlate with income — "institutions cause growth" needs identification.
- They are *produced by* institutions — rankings create incentives for ranked and ranker.

Exhibit A this afternoon: the index that was manipulated, and what replaced it.

Institutions and income: the correlation is enormous



Corruption is one readable slice of "the rules". Across 165 economies, each log point of income comes with ≈**5 points** fewer firms asked for a bribe. But does clean government *cause* growth, or does wealth buy clean government?

Why the scatter can't settle it — and what does

The regressor is endogenous: income and institutions move together.

- Reverse causation (rich $\rightarrow$ clean), omitted variables (geography, human capital), measurement error.
- **Acemoglu, Johnson & Robinson (AJR, 2001)**: instrument institutions with *settler mortality* having both exogeneity and relevance — where Europeans could not survive, they built extractive states whose institutions persist.
- Caveat (David Albouy): the mortality data are fragile. Identification is never free.

This afternoon you run the naïve cross-section, then see why it isn't the answer.

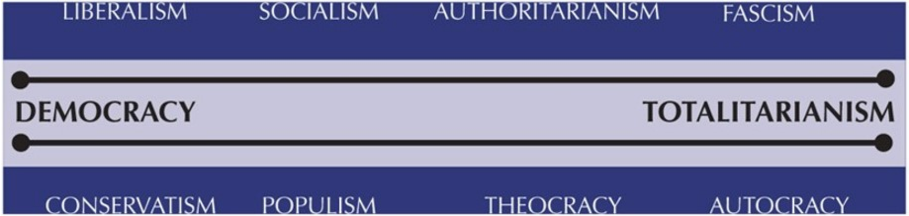
Political risk changed shape: from taking the firm to rewriting its terms

Expropriation waves peaked in the mid-1970s — then collapsed to near zero.

- Why: mobile capital + **2,500+ investment treaties**, ICSID arbitration, WTO.
- The modern form is *creeping*: windfall taxes, forced partners, licence rewrites, sanctions.
- 2022: Russia — the classic tail returning inside a treaty-era world.

The question shifted from “will they take it?” to “under what rules may we keep it?”

The Political Ideology Spectrum



Political ideologies and economics

An ideology: integrated beliefs and doctrines directing a society — always entangled with an economic philosophy.

- **Democracy**: citizens decide, directly or via elected officials.
- **Totalitarianism**: one party or person; rivals suppressed.
- **Communism**: the state owns property and directs production and distribution.
- Theocratic and secular-military variants: total power held by clergy or army.

For the MNE these are regimes of *policy risk*, not labels — the next slides price them.

The distribution of democracy (1 of 2)

Type	Characteristics[46]	Examples
Full Democracy	• Mature political culture promotes and protects political freedoms and civil liberties. • Government discharges responsibilities transparently. • An effective system of checks and balances regulates politics. • The judiciary is independent, its decisions are impartially enforced, and the rule of law predominates. • Media are independent, vigilant, and diverse.	Australia, Austria, Costa Rica, Denmark, New Zealand, Norway, Switzerland, Uruguay
Flawed Democracy	• The State respects basic civil liberties. • Free and fair elections regularly occur but experience fraud or media restrictions. • Governance problems and low political participation make for a weak political culture. • Leadership and policy change occur frequently.	Brazil, Estonia, Hungary, India, Indonesia, Mexico, Senegal, Singapore, South Africa, South Korea, United States, Taiwan

The distribution of democracy (2 of 2)

Type	Characteristics[46]	Examples
Hybrid Regime	• Electoral irregularities undermine freedom and justice. • The state limits opposition parties and candidates. • Judicial bias favouring the “man” undermines the rule of law. • Political culture, public administration, and political participation struggles. • Corruption is extensive, civil society fades, and media are regulated.	Bangladesh, Cambodia, Honduras, Kyrgyzstan, Nigeria, Pakistan, Tanzania, Thailand, Ukraine
Authoritarian Regime	• Political pluralism is absent or repressed by the state. • Democratic institutions may exist but the state uses them to legitimate single-party rule. • Elections, if they do occur, are neither free nor fair. • The state systematically disregards civil liberties. • There is no independent judiciary and the rule of man predominates. • Media are typically state-owned or controlled by groups connected to the state. • Censorship suppresses criticism of the state. • Propaganda promotes the state ideology.	Afghanistan, Belarus, China, Gabon, Kuwait, Nicaragua, Mozambique, Russia, Saudi Arabia, Zimbabwe

Freedom Struggles: Freedom in the World: Gains and Declines by Country

Source: "Freedom in the World 2019: Democracy in Retreat".

- See data `https://freedomhouse.org/explore-the-map?type=fiw&year=2024`

Classifying Political Risk: Classes and Characteristics

Scale	Class	Type	Outcome
Micro		Financial Anomalies	Regulatory policies that make it difficult for the company to get credit or arrange overseas loans.
	Systemic	Competing Perspectives	The host government's policies on, for instance, human rights, labor conditions, or environmental sustainability, create public relations problems for a foreign company at home.
		Unilateral Breach of Contract	The host government repudiates a contract negotiated with a foreign company or approves a local firm's doing the same.
	Procedural	Tax Discrimination	A foreign company is saddled with a higher tax burden than a local competitor.
		Restrictions on Profit Repatriation	The host government arbitrarily limits the amount of profit that a foreign company can remit from its local operations to the home office.
	Distributive	Destructive Government Actions	Unilateral trade barriers, often via local-content requirements, interfere with the distribution of products to local consumers.
		Harmful Action Against People	Local employees of a foreign company are threatened by kidnapping, extortion, or terrorist actions.
	Catastrophic	Expropriation/Nationalization	The host government or a political faction seizes a company's local assets. Compensation, if any, is usually trivial. Resurgent totalitarianism and resource nationalism increase this risk.
Macro		Civil Strife, Insurrection, War	Military action damages or destroys a company's local operations.

Trump's reciprocal tariffs (2025): a deficit-driven formula

Despite the name, it targets the bilateral goods deficit — not other countries' tariff rates.

- **The rule (USTR, Apr 2025):** the headline rate is the goods deficit as a share of imports, then *halved* (a political "discount"), with a 10% floor:

$$t_i = \tfrac{1}{2} \times \frac{\text{deficit}_i}{\varepsilon\,\varphi \times \text{imports}_i}, \qquad \varepsilon \approx 4,\ \varphi \approx 0.25 \ \Rightarrow\ \varepsilon\varphi \approx 1.$$

- **China, 2024:** deficit \$295 bn, imports \$439 bn $\Rightarrow \frac{295}{439} \approx 0.67$, halved $\Rightarrow \approx$ **34%**.
- **Why it's contested:** a bilateral deficit reflects comparative advantage and saving–investment gaps, not "cheating"; and with tariff pass-through, *domestic* buyers bear much of the tax (Day 4).

For the MNE this is modern political risk: the state rewrites the terms of trade (Price of EX/Price of IM) *after* the supply chain is sunk.

Absolute vs comparative advantage

Absolute advantage: who is more efficient. Comparative advantage: who gives up less.

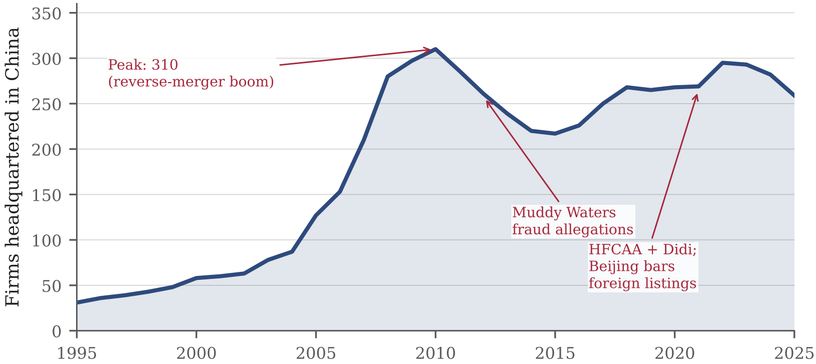
- **Absolute** (Smith): make a good with *fewer resources*. **Comparative** (Ricardo): make it at lower *opportunity cost* — what you forgo elsewhere.

Hours / unit	Wheat	Cloth	**Cost of 1 cloth**
Country A	1	2	$2 \div 1 = \mathbf{2}$ wheat
Country B	3	4	$4 \div 3 \approx \mathbf{1.33}$ wheat

A is absolutely better at *both*. But a cloth costs A **2** wheat and B only **1.33** wheat (hours for cloth ÷ hours for wheat) ⇒ **B** has the comparative advantage in cloth, **A** in wheat. Each specialises where its opportunity cost is lowest, and *both* gain — though B is worse at everything.

Trade follows *relative*, not absolute, efficiency — "they're better at everything" is no reason to close the border.

Political risk in one series: Chinese firms on US exchanges



Nothing about these firms' *economics* explains this line. Politics does: fraud scandals, the HFCAA audit ultimatum, Didi, then a partial 2022 accord.

Own calculations, Compustat quarterly; firms headquartered in China.

Sanctions Imposed on Russia

- Russia became the most sanctioned country globally (13,000 restrictions as of 2023), surpassing North Korea, Iran, and Cuba combined.
- Key sanctions imposed by USA, UK, EU, Japan, Canada include:
  - Ban on secondary trade in Russian government bonds.
  - Ban on economic interactions with Russian banks.
  - Ban on exports of key technologies to Russia.
  - Travel bans for Russian elites.
- Sanctions also targeted Russia's Central Bank, freezing access to foreign reserves held abroad.
- Major impact: isolated Russia from technologically advanced economies and disrupted international business ties.

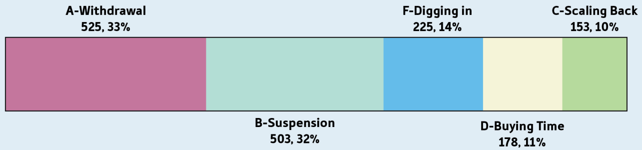
Russia Sanctions

- **How has Russia been affected by the sanctions placed on it by other countries?**
- **Why has the economic impact of sanctions on Russia been less significant than we might expect? Could this change over the longer-term?**
- **How have MNEs, with investments already in Russia, reacted to these sanctions and the broader political tensions, and why have they changed their approach to Russia?**

Reduction in Russian equities 2018–22

Source: Moscow Exchange, accessed via Haver Analytics. Deloitte insights. Collinson et al (2024)

Proportion of MNCs leaving vs staying, 2023



A. WITHDRAWAL : Companies making a clean break/permanent exit from Russia or and or leaving behind no operational footprint.

B. SUSPENSION : Companies temporarily suspending all or almost all Russian operations without permanently existing or divesting.

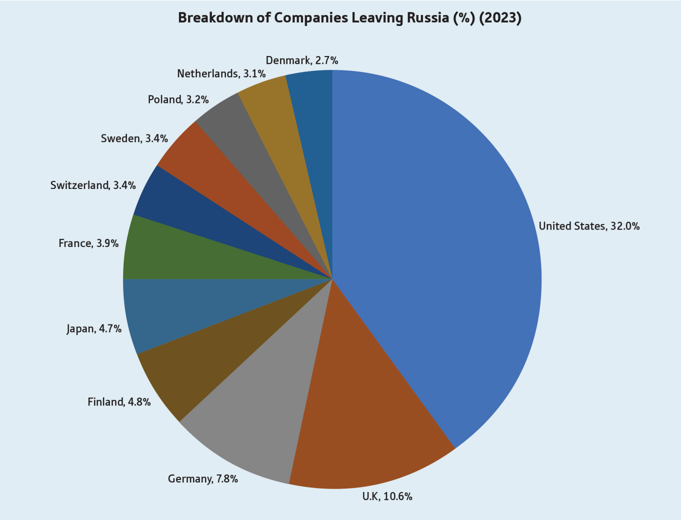
C. SCALING BACK : Companies suspending a significant portion (but not all) of their business in Russia.

D. BUYING TIME : Companies pausing new investments/minor operations in Russia but largely continuing substantive business in Russia.

F. DIGGING IN : Companies defying demands for exit or reduction of activities largely doing business-as-usual.

Source: `https://fortune.com/2023/07/11/the-feckless-400-these-companies-are-still-doing-business-in-russia-funding-putins-war-sonnenfeld-tian/`

MNCs fully leaving Russia, 2023



Source: `https://fortune.com/2023/07/11/the-feckless-400-these-companies-are-still-doing-business-in-russia-funding-putins-war-sonnenfeld-tian/`

Sanctions on Russia

- **How has Russia been affected?** Heavy sanctions imposed: trade bans, financial restrictions, and asset freezes. Russia responded with capital controls and interest rate hikes, cushioning short-term impacts. Long-term effects (e.g., reduced investment, higher prices) are emerging.
- **Why limited impact so far?** Russia's energy exports and high global prices offset shocks. Limited trade interdependence beyond energy. But future effects may be more severe as Europe reduces dependency and financial isolation deepens.
- **MNE reactions:** Many MNEs suspended or exited operations due to sanctions and reputational risks, reducing investment and impacting future Russian growth.

Weaponised interdependence: networks as leverage

Globalisation built hubs — dollar clearing, SWIFT, chip tools. Hubs can strangle flows.

- **Finance**: cut off from dollar correspondent banking = an island (Russia 2022; Iran before).
- **Tech**: Oct-2022 chip controls — touch US technology anywhere, inherit US law.
- **Secondary sanctions**: choose the sanctioned market *or* the dollar system.

Compliance is the new tariff. Firms answer with de-risking: parallel chains, optionality over efficiency.

Farrell & Newman (2019), *International Security* 44(1).

Why Governments Intervene in FDI

Home Country: Promoting Outgoing FDI

- Increase Long-Term Competitiveness
- **“Sunset” Industries:** Are those that use outdated and obsolete technologies or those that employ low-wage workers with few skills.

Government Policy Instruments and FDI

Host Countries

Promotion

- Financial incentives
  - Low or waived taxes
  - Low-interest loans
- Infrastructure improvements
  - Better seaports, roads, and telecom networks
- Insurance on assets abroad
- Loans and loan guarantees
- Special tax treaties
- Tax breaks on profits earned abroad
- Persuade other nations to accept FDI

Restriction

- Ownership restrictions
  - Prohibit investment
- Performance demands
  - Local content requirements
  - Export targets
  - Technology transfer
- Higher taxes on foreign income
- Sanctions that prohibit investing in certain nations

Political risk is priced — you met the machinery last week

Everything on the last slides has a market price.

- **Sovereign spreads / CDS** $\rightarrow$ a country risk premium in the discount rate, or a cash-flow haircut — one, never both.
- **Insurance exists**: MIGA, export credit agencies, private cover for expropriation, transfer blocks, war.
- **Structure pre-prices it**: local partners, offshore incorporation, treaty arbitration, project finance.

Yesterday's -13% cross-listing Tobin q discount is one of these prices, on 38,735 firm-years.

The quiet political risk: you earned it — can you move it?

Expropriation is rare. Trapped cash is routine.

- Airlines are the canary: billions in ticket revenue blocked — Nigeria, Argentina the chronic cases.
- Argentina's *cepo* (capital controls): layered FX rates; peso profits $\neq$ dollar profits.
- Firm answers: dividends in kind (corporate dividend paid to shareholders in the form of non-cash assets), transfer-pricing routes, blue-chip swaps at punitive rates.
- Accounting shadow: repeated Venezuela/Argentina write-downs.

The modal event: the money is safe — it just cannot leave.

Part II

Legal systems and corruption

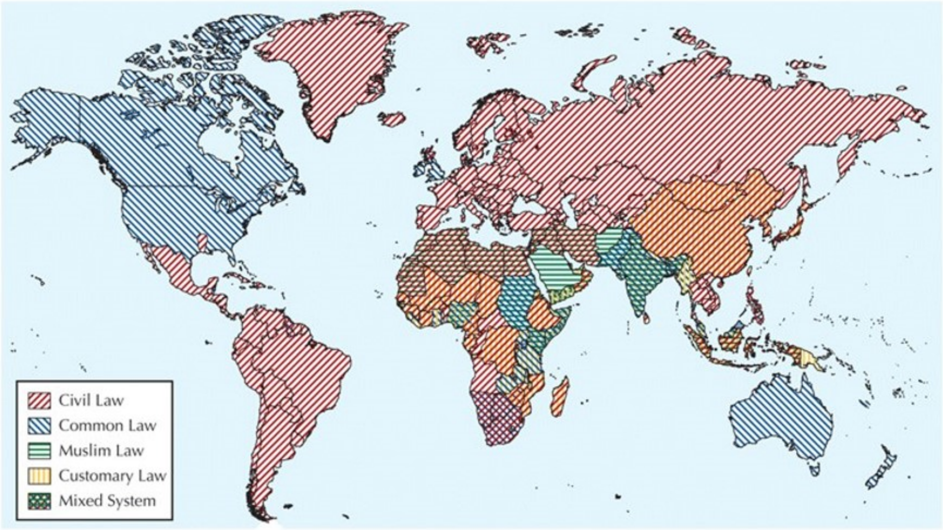
Legal Systems

- **Legal System:** Set of laws and regulations, including the processes by which a country's laws are enacted and enforced and the ways in which its courts hold parties accountable for their actions.
- A country's political system also influences its legal system.
- Legal systems are frequently influenced by political moods and upsurges of nationalism.

Do you know the legal system of your country?

Click link to see: `www.juriglobe.ca/eng/index.php`

Types of Legal Systems

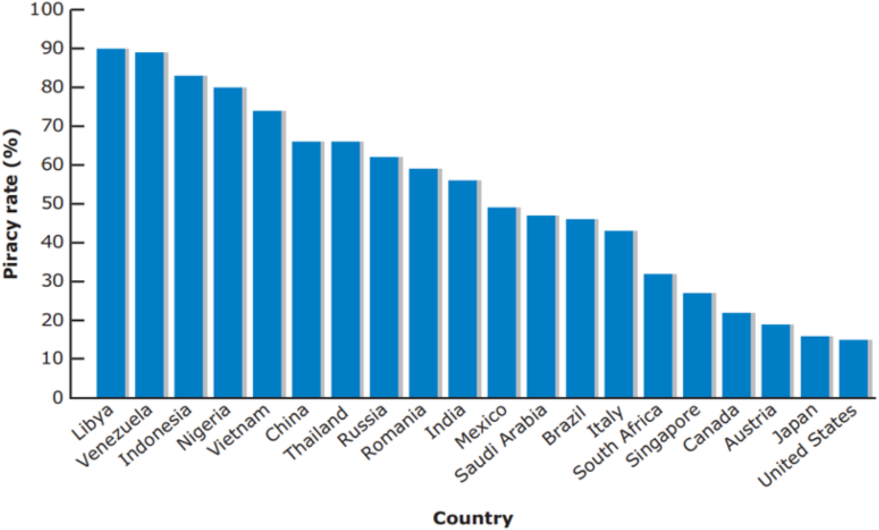


Source: University of Ottawa, "World Legal Systems," retrieved January 15, 2020, from www.juriglobe.ca/eng/index.php

Global Legal Issues

- Intellectual Property
  - Property Rights
  - Industrial Property
    - Patents (granted to the inventor of a product or process that excludes others from making, using, or selling the invention)
    - Trademarks (property right in the form of words or symbols that distinguish a product and its manufacturer)
  - Copyright (property right giving creators of an original work the freedom to publish or dispose of it as they choose)
- Product Safety and Liability
  - Responsibility for damage, injury, or death
- Taxation
  - Income, sales, consumption, and VAT
- Antitrust Regulations
  - Prevent market sharing, price fixing, and unfair advantage

Business Software Piracy



Source: Wild (2023)

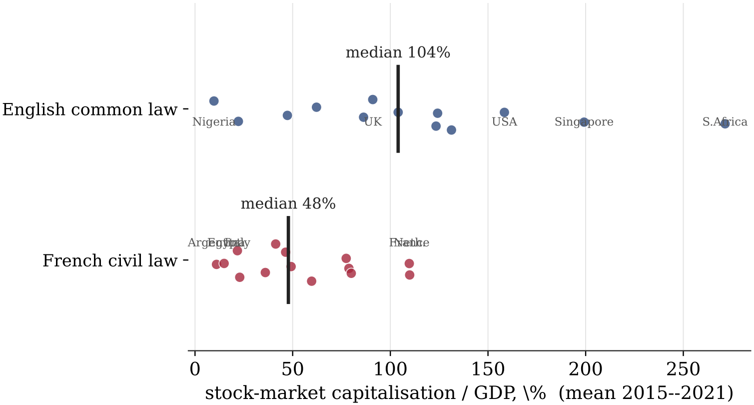
Legal origins: the finance result inside the legal environment

Legal systems were transplanted — common law by Britain, civil law by France.

- **LLSV** — La Porta, Lopez-de-Silanes, Shleifer & Vishny: common-law countries protect outside investors more → deeper markets, more listed firms.
- Chain: legal origin → investor protection → external finance → firm growth.
- Monday's cross-listing wave = firms *renting* a legal system (bonding).
- Contested: politics and endowments move both law and finance (Rajan–Zingales).

Where an MNE can raise money is partly a 19th-century transplant fact.

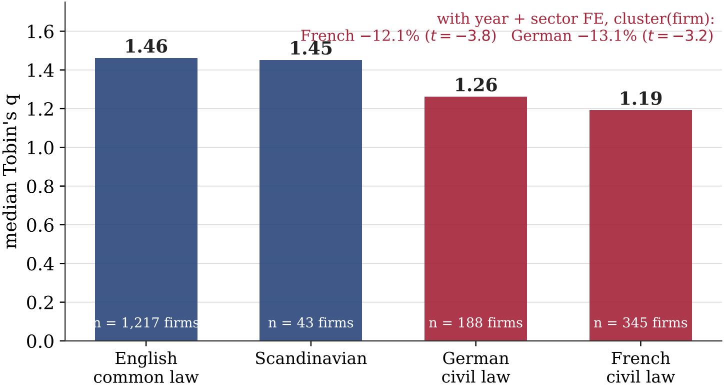
Legal origins, in the data: common law → deeper equity markets



Median stock-market capitalisation is roughly **twice** as large (relative to GDP) in common-law countries as in French-civil-law ones — the LLSV pattern, still visible today. Spread is wide *within* each family, so this is a tendency, not a law.

World Bank Global Financial Development (via FRED), mean 2015–2021; each dot a country.

Same result inside this week's panel: legal origin at the firm level



Foreign firms cross-listed in the US, 2010–24 ($N = 13{,}345$ firm-years). Firms from **civil-law** home countries trade at a **12–13% Tobin's-q discount** to common-law peers — surviving year and sector fixed effects. Scandinavia's premium is real but rests on 43 firms.

Own calculations, Compustat via `ib_panel.dta`; LLSV origin classification. You test this yourself in Practical 2.

Ethics and Social Responsibility

Corporate Social Responsibility (CSR)

- The practice of going beyond legal obligations to actively balance commitments to investors, customers, other companies, and communities; includes activities such as giving to the poor, building schools in developing countries, and protecting the global environment.
- Traditional Philanthropy
- Risk Management
- Strategic CSR

Key Issues

- Bribery and Corruption
- Labor Conditions and Human Rights
- Fair Trade Practices
- Environment
    - Carbon footprint

Four answers to "whose ethics travel?"

- **Friedman**: maximise profit within the law; critics reply the question is *how* to meet social responsibility, not whether.
- **Cultural relativist**: adopt local ethics — "when in Rome".
- **Righteous moralist**: export home-country ethics everywhere.
- **Utilitarian**: whatever maximises good outcomes for all affected.

The Foreign Corrupt Practices Act (FCPA), two slides on, settles part of this debate by statute.

Ethics, environment, MNEs and the civil society

- **The civil society** is a group of individuals, organisations, and institutions that act outside the government and the market to advance a diverse set of interests, including opposition to global business.

- **Non-governmental organisations (NGOs)** are private sector groups that act to advance diverse social interests.

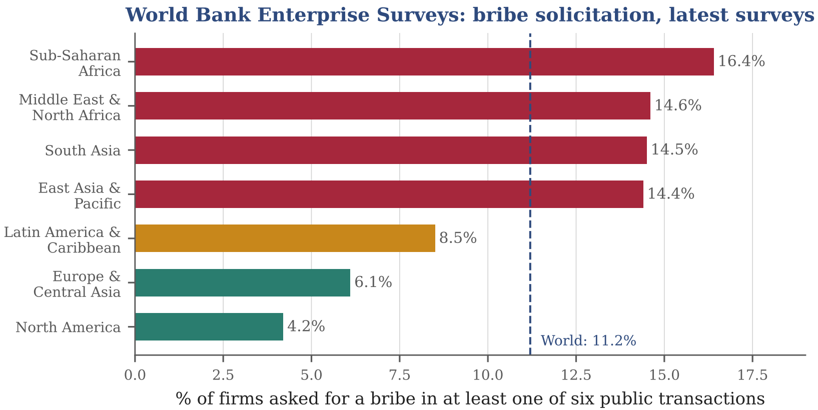
Good or bad for business? Thoughts?

FCPA (1977) and UK Bribery Act (2010) turned the ethics slides into hard law.

- **Siemens 2008**: ∼\$1.6bn US–German penalties; birth of the compliance industry.
- **Odebrecht 2016**: multi-billion settlement; governments fell in its wake.
- **Airbus 2020**: ∼EUR 3.6bn across FR/UK/US — via deferred prosecution.
- Hook: use dollars, US wires, or a US listing *anywhere* — US law attaches.

Third-party due diligence is now a priced input to every entry mode.

What firms report: bribe solicitation by region



Not perceptions — firms asked about six specific transactions. This afternoon we regress it on income, and then learn to distrust it properly.

World Bank Enterprise Surveys, latest wave per economy; >219,000 firms, 159 economies.

Part III

Culture

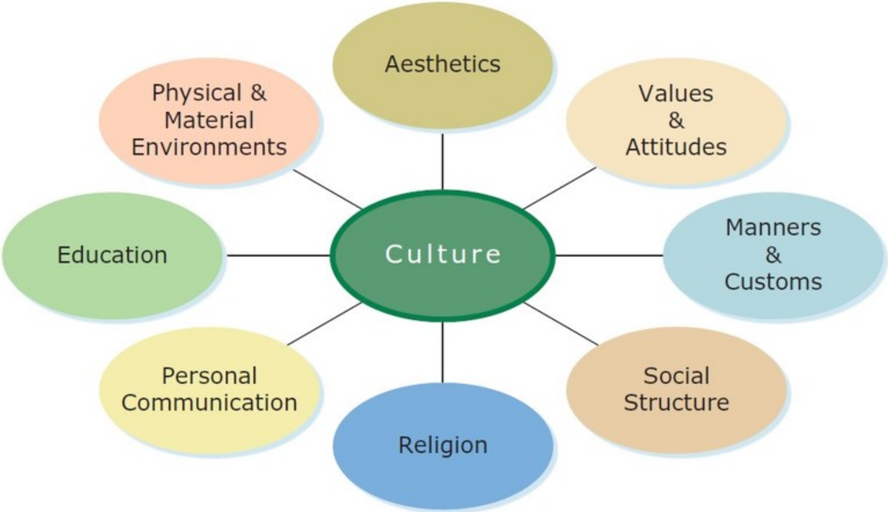
- What is culture?
- The importance of culture in different business contexts
- National stereotypes and key dimensions of culture
- Cross-cultural management
- Culture embodied in national institutions.

What is Culture?

- **Culture**: "The sum total of the beliefs, rules, techniques, institutions and artefacts that characterise human populations" or "the collective programming of the mind."
- **Socialisation Process**: The process of enculturation or the adoption of the behaviour patterns of the surrounding culture.

Can you name a few components of culture?

Components of Culture



Corporate Culture

- **Corporate culture** is a term used to characterize how the managers and employees of particular companies tend to behave.
- Corporate culture is also used by human resource managers and senior management in their attempts to proactively shape the kind of behavior ("innovative", "open", "dynamic", etc.) they hope to nurture in their organizations.
- Promoting a distinctive corporate culture is also expected to enhance the sense of community and shared identity that underpins effective organizations.

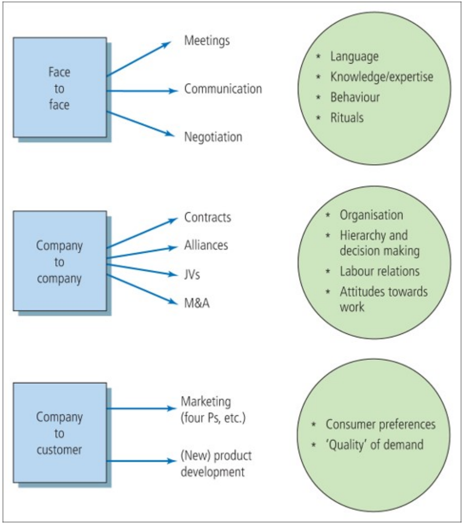
Influences of culture on international management

- **Work attitudes**
  - for example, work ethics, organization commitment, etc.
- **Achievement motivation**
  - the desire to accomplish objectives and achieve success.
- **Time and future**
  - for example: punctuality, decision-making time constraints, time expectations on implementation of plans, etc.
- **Ethics**
  - standards of conduct and morality.

Culture and Strategic Management

- Cross-cultural management issues arise in a number of situations, including:
  - **Within a firm:** Work attitudes, achievement motivation, time and future, ethics, etc.
  - **Between firms:** M&As, joint ventures, alliances, buyer–supplier relationships.
  - **Between a firm and customers:** Dealing with customers.

Compare this discussion of cross-cultural management issues to issues that arise when dealing with national institutions (e.g., regulatory bodies, governments, etc.), which may raise different or related cultural challenges.



Cross-cultural business contexts

Culture at two levels

- Two different approaches to looking at culture:
  - **The psychic or psychological level,** which focuses on the “internalized” norms, attitudes, and behavior of individuals from a particular culture;
  - **The institutional level,** which looks at national (or group) culture *embodied* in institutions (government, education, economic institutions as well as in business organizations).

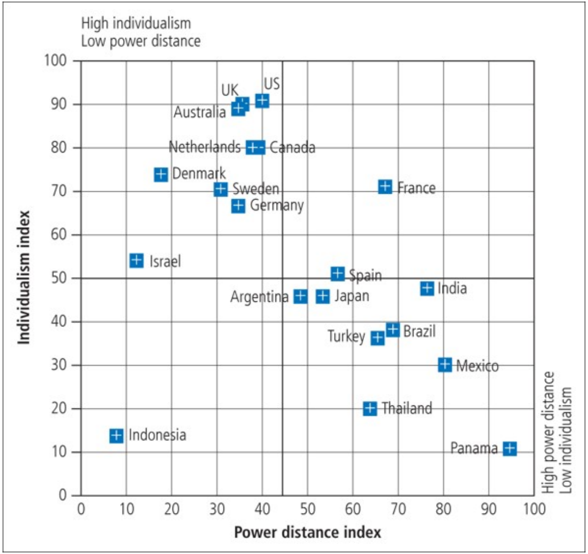
Hofstede's four dimensions of culture

Four measured dimensions of national culture.

- **Power distance**: acceptance that power is distributed unequally.
- **Uncertainty avoidance**: how threatening ambiguity feels; institutions built to avoid it.
- **Individualism vs collectivism**: self and immediate family vs loyalty to wider groups.
- **Masculinity vs femininity**: assertiveness, success and material goods vs relationships and quality of life.

Scores from one firm's 1970s workforce — powerful idea, fragile decimals (next slide).

Hofstede's four dimensions of culture (Continued)



Hofstede's power distance against individualism for 20 countries

Excerpts from Trompenaars' cultural attitudes survey

(1) People's role within companies

A. An organization is a system where functions and tasks are conducted in an efficient way. Individuals are employed to fulfil these functions.

B. An organization is a collection of people working together. Individuals have social relations with other individuals and the company. The functioning of an organization is reliant on these relations.

US	CAN	BEL	NL	AUS	SWE	UK	IT	GER	SIN	FRA	JAP
74	69	68	61	59	56	55	46	41	39	35	29

A ⟷ B

(2) The role of companies within society

A. The main goal of an organization is to make a profit.

B. Besides making profits an organization should attain the well-being of their stakeholders (e.g. customers, suppliers, employees etc.).

US	AUS	CAN	UK	IT	SWE	NL	BEL	GER	FRA	SIN	JAP
40	35	34	33	28	27	26	25	24	16	11	8

A ⟷ B

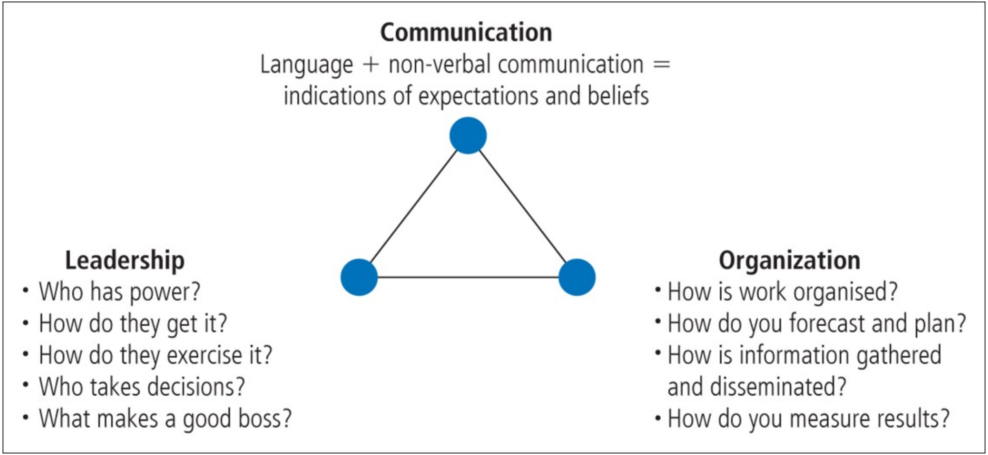
Source: Adapted from C. Hampden-Turner and F. Trompenaars, The Seven Cultures of Capitalism: Value Systems for Creating Wealth in the United States, Britain, Japan, Germany, France, Sweden and the Netherlands (New York: Doubleday, 1993).

Cross-cultural management: The top drivers of retention across eight countries

Top drivers of retention matrix

Ranking	Global	Brazil	Canada	China	Germany	India	Mexico	UK	US
1	Career Development	Career Development	Career Development	Career Development	Leadership	Career Development	Career Development	Career Development	Career Development
2	Leadership	Pay & Rewards	Leadership	Leadership	Pay & Rewards	Leadership	Pay & Rewards	Pay & Rewards	Leadership
3	Pay & Rewards	Leadership	Empowerment	Pay & Rewards	Career Development	Pay & Rewards	Stress, balance and workload	Leadership	Empowerment
4	Empowerment	Empowerment	Pay & Rewards	Supervision	Performance Appraisal	Supervision	Leadership	Empowerment	Supervision
5	Supervision	Performance Appraisal	Competitive-ness	Efficiency	Benefits	Performance Appraisal	Supervision	Performance Appraisal	Pay & Rewards

Source: Cisco, "Transitioning to Workforce 2020," 2011; Towers Watson 2010 Global Workforce Stud.



Management dimensions of culture

Part IV
National advantage

From the rules of the game to national advantage

So far: institutions as constraints. Now invert the question — what makes a country a good **home base** for an industry?

Porter's diamond answers for large economies; Rugman's double diamond fixes it for everyone else. This is the CSA column of Monday's matrix, opened up — and it is what you saw in Practical 1: Israel's bar full of Tech, Canada's full of Materials.

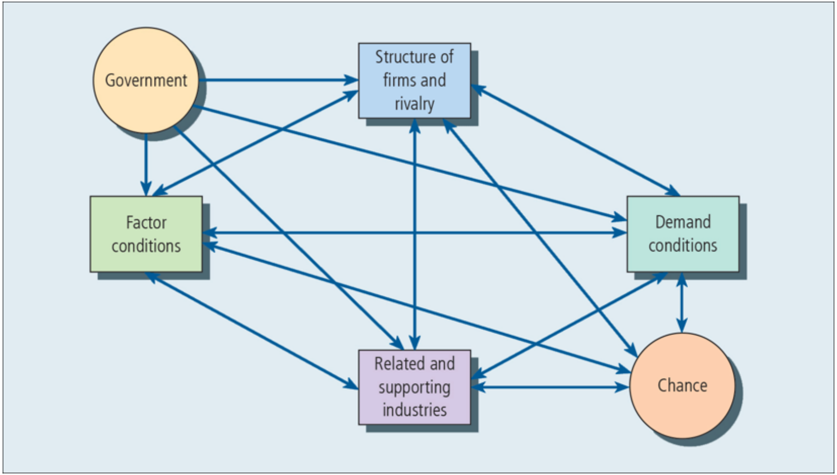
Corporate strategy and national competitiveness

- MNEs can no longer rely exclusively on the competitive advantage that they hold at home to provide them with a sustainable advantage overseas.
- Small countries realize that they must rely on export strategies to ensure the growth of their economies.
- In the future, many more MNEs from small countries are going to link into the economies of triad members.

- Determinants:
  - factor conditions
  - demand conditions
  - related and supporting industries
  - firm strategy, structure, and rivalry
- External variables:
  - the role of chance
  - the role of government

Porter's single diamond framework

The Porter model was constructed based on statistical analysis of aggregate data on export shares for ten countries: Denmark, Italy, Japan, Singapore, South Korea, Sweden, Switzerland, the UK, the USA and West Germany.



Source: Adapted from The Free Press, an imprint of Simon & Schuster Adult Publishing Group, from The Competitive Advantage of Nations by Michael E. Porter.

Porter's Diamond Model

4 Country-Specific Determinants

- **Factor conditions:** Skills, cost of labour; quality, access and cost of physical resources; infrastructure; capital and knowledge resources.
- **Demand conditions:** Home market size, growth, and sophistication; ability to anticipate global trends.
- **Related and supporting industries:** Competitive suppliers and related sectors providing inputs and coordination benefits.
- **Firm strategy, structure, and rivalry:** Management practices, firm goals, and intensity of local competition.

2 External Variables

- **Chance:** Unexpected events such as technological breakthroughs, wars, or financial crises that reshape competitiveness.
- **Government:** Policy instruments including subsidies, education and training, regulations, and trade policies that influence the diamond's elements.

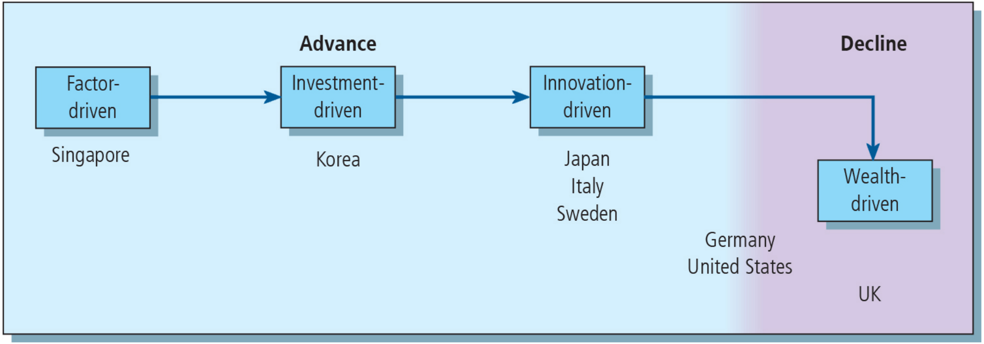
Critique and evaluation of the model

Key critiques of Porter's model:

- Based on affluent countries — less applicable to developing nations.
- Underestimates the critical role of government in shaping competitiveness.
- The role of chance is acknowledged but difficult to predict and manage.
- Relies on national-level analysis, but business success is often company-specific.
- Porter's stages of national development: factor-driven, investment-driven, innovation-driven, wealth-driven — may oversimplify reality.
- Focuses on outward FDI; dismisses inbound FDI as a solution.
- Reliance on natural resources is viewed as insufficient for competitiveness.
- Fails to adequately account for the role of multinational enterprises (MNEs).

The four stages of national development and the historical position of select nations

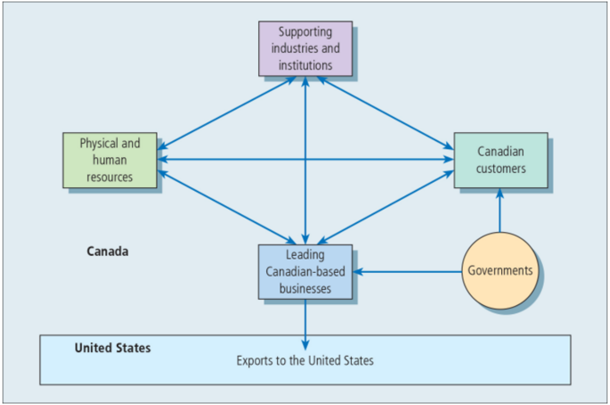
Reliance on natural resources (the factor-driven stage) is viewed by Porter as insufficient to create worldwide competitive stature. Countries like Canada and the oil producing nations have historically shown this to be questionable. It is likely, however, that natural resources will provide only temporary competitive advantage and countries need to evolve other forms of advantage to sustain growth.



Source: Adapted from The Free Press, an imprint of Simon & Schuster Adult Publishing Group, from The Competitive Advantage of Nations by Michael E. Porter

Canada and the single-diamond view

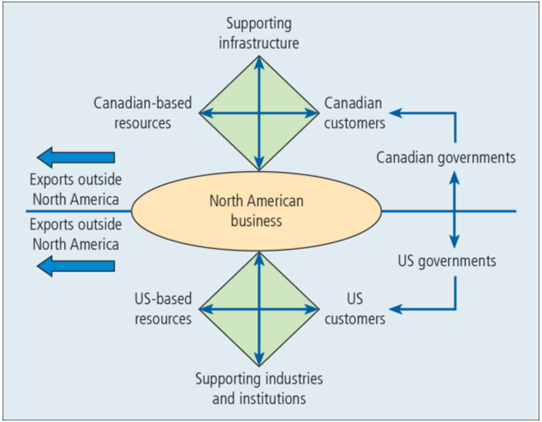
Historically, Canada followed a single diamond strategy emphasizing export promotion for its natural resource industries and import substitution for domestic manufacturing. Given its small domestic market, Canadian policy focused on scaling resource-based sectors for export—often supported by U.S. trade preferences—while protecting nascent industries at home through tariffs and subsidies. This inward-looking approach relied heavily on the country's rich natural resources as the foundation for economic development.



Source: Adapted from Alan M. Rugman and Joseph R. D'Cruz, Fast Forward: Improving Canada's International Competitiveness (Diane Publishing Co., 1991), p. 35

Canadian–US double diamond

Canada's strategic shift toward North American integration: through the USA–Canada FTA, Canadian firms gained scale, compete directly with US firms, and build **cross-border clusters** (Ontario auto: Magna, Bombardier) spanning both business environments.



Source: Adapted from Rugman & D'Cruz, 'The "Double Diamond" Model of International Competitiveness: the Canadian Experience', *Management International Review* 33 (1993), p. 32.

Recap — and where Thursday goes

Today, the country. We measured institutions (and distrusted the indices), watched political risk change shape from expropriation to sanctions and trapped cash, traced finance back to legal origins, quantified culture and then its fragility, and inverted the whole thing into national advantage.

Two numbers you will estimate this afternoon: bribery on income (the scatter), and the Doing-Business manipulation — measurement as the main event, not the footnote.

Thursday we go back inside the firm: strategy, organisation, and the market structure it competes in.

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