

Geopolitics and its Impacts on International Business Decisions: A Framework for a Geopolitical Paradigm of International Business

ABSTRACT

Geopolitical elements constitute an important component of the external environment affecting international business operations. Together with other environmental variables, they are likely to influence a firm's decisions on its future or existing international business activities. However, there are few studies highlighting the geopolitical milieu that affects the international business domain. A framework for a geopolitical paradigm of international business is introduced with a particular focus on the time, place and demographical dimensions of geopolitics.

Key words: geopolitics, globalisation, framework

INTRODUCTION

While much emphasised in the literature on international politics (Brucan, 1978; Dougherty & Pfaltzgraff, 1990; Reynolds, 1980), the term ‘geopolitics’ is used sporadically, however, by the economic historians to explain international economic relations (e.g. Gordon, A., 1993; Gordon, S., 1993; Quraishi, 1996). In the international business literature specifically, Dunning (1977; 1979; 1986; 1988; 1995; 1998) for example, in explaining the location of international production, has mentioned a number of the political and geographic tenets as country-specific determinants of location-specific advantages. However, it seems that he did not consider these sufficiently significant to overly influence the structure of international production. In addition, he has given little emphasis to the changes that take place in the international political as well as economic orders, e.g., the impact of the Cold War and the implications of colonial legacies that influence international business dynamics. However, in international business, geopolitical variables are important considerations for companies when deciding on the *modus operandi* for their foreign investment (As-Saber *et al.*, 1999).

This paper does not purport to be comprehensive. It addresses the way in which geopolitical variables contribute to the decision making process of firms involved internationally. Initially, an attempt is made to define the term ‘geopolitics’ that will provide a better understanding of the issues at hand. This is followed by a discussion on the impacts of geopolitical variables along three dimensions: (a) the *time dimension*, highlighting the historical perspective, including such impacts as the colonial, Cold War and post-Cold War eras; (b) the *place dimension*, focusing on natural resources, strategic location, geographic proximity and regionalism; and (c), the *demographic dimension*, emphasising the role of population size, supply of labour, and various stakeholders such as environmental, ethnic and religious groups. Next, an attempt is made to contribute towards the establishment of a geopolitical paradigm of international business which focuses the impacts of geopolitics on international business decisions. A discussion on a possible relationship between the extent of globalisation and geopolitical variables follows.

‘GEOPOLITICS’ DEFINED

Geography has long been considered as an important aspect of international business. Location, being the thrust of this consideration, asks questions, such as, “... Why are things located where they are? How do different places relate to each other? How have geographic patterns and relationships changed over time?” (Baerwald, 1996: 23). Location-specific issues as mentioned in these questions are particularly relevant to international business. These also provide guidance towards revealing the pervasive nature of geography and its impact upon other environmental-specific variables, e.g., local politics and culture.

Nevertheless, there is no universally accepted definition of 'geopolitics' (Encyclopaedia Britannica, 1971). Etymologically, the word denotes location-specific factors that affect political disposition. According to Kristof (1994: 508), "... geopolitics studies the geographical aspects of political phenomena". However, since its first use by a Swedish geographer, Rudolf Kjellen in 1900, the study of geopolitics has been viewed, evaluated and contributed to from different perspectives. Kjellen (1917) used the term to describe the geopolitical basis of national power. Karl Haushofer, a German political scientist further expanded this idea as a relationship between political phenomena and geography. He considered that geographic variables had a direct bearing on national power (Haushofer, in Whittlesey, 1943).

During the inter-war period, the concept of geopolitics was used by Haushofer, Carl Schmitt and other German geopoliticians to develop 'geostrategy' as a military science. At that time, the importance of geographic location and size, and their impacts on the political power of a nation were at the core of the German geostrategy. This was reflected in the subsequent policy of expansionism by the Nazi Germany. Later, Harold Sprout and Margaret Sprout further advanced the theory of geopolitics. According to the Sprouts, geography affects all human and nonhuman, tangible and intangible phenomena. They believed that every political community had a geographic base that might affect most of the transactions among nations (Sprout & Sprout, 1968). They raised the issue of 'transactions' as a vital ingredient of the geopolitical domain making it easier to relate to the business literature.

Merritt (1969), in his study of territorially discontinuous polities, considered physical distance as an external environmental factor affecting the political relationships among nations. Accordingly, there is a likelihood of greater communication with neighbouring than with physically distant nations. Following the oil crisis of 1973, the emergence of a new set of geopolitical and geostrategic relationships was recognised by a number of political scientists (e.g., Kemp, 1977, 1978; Reynolds, 1980, Dougherty & Pfaltzgraff, 1990). Of special importance are "... resources and the increased vulnerability of oil supplies and vital raw materials to disruption either at their source or in transit from producer to consumer states" (Dougherty & Pfaltzgraff, 1990: 73). Hence, the control of resources and the resource-import relationship added a vital dimension to the study of geopolitics.

Another important dimension of geopolitics is that of regionalism. In essence, at the end of the World War II, the geopolitical scenario of the world substantially changed. The colonial control around the globe declined facilitating the creation of a large number of newly independent states. Consequently, the USA and the USSR emerged as two super powers. Both expanded their sphere of influence around the globe to contain each other geographically, economically and politically. This rivalry continued until the collapse of the Soviet Union in 1990. This long

span of time, popularly known as the Cold War period, crystallised the idea of regionalism in the geopolitical milieu.

During this period, the entire world was mainly divided into two groupings under the two super powers (Gottmann, 1971). Each of these formed a number of regional blocs in the form of security pacts and economic associations. Primarily, these were aimed at containing each other's expansion in different geographic regions (Liska, 1977). They were motivated more by the geographic importance of political interests than by other considerations. Nevertheless, the process of economic integration among regional economies began during this period. The end of the Cold War with the collapse of the USSR was followed by deeper regional integration in Europe, North America and Asia (Arndt, 1993).

In the context of the study of international business operations, the definition of the term geopolitics is not straightforward. Previously, it has not been defined from this perspective. Throughout this paper, the term refers to environmental geopolitics, and this emphasises physical, economic and historical geography seen as opportunities or limitations affecting the political domain, that, in turn, influences a firm's international business decisions. Kristof (1994) defined geopolitics from a somewhat similar perspective.

THE ROLE OF GEOPOLITICS IN INTERNATIONAL BUSINESS OPERATIONS

A host of geopolitical variables has been playing an important role in conditioning the international business environment. Apart from geographic distance and location, these variables include the consequences of colonial, Cold War and post Cold War outcomes, regionalisation, population characteristics, the distribution of the global population and their impacts on international business operations. Although not classified as 'geopolitical', scholars of international business have, nonetheless, mentioned many of these variables in their research (e.g. Baerwald, 1996; Chisholm 1977; Dunning 1977, 1979, 1988, 1995, 1997, 1998; Dunning & Narula 1996; Mabogunje 1977; Morrison *et al.*, 1991). However, the emphasis given to these variables is exiguous.

Despite the perceived importance of these variables, studies relating the various geographic factors to international business, in general, are relatively sparse. In discussing the spatial dimension of organisational economic activities in a global context, Dunning (1997: 55) noted, "...for the most part, scholars – including some of the most recent contributors to the debate – have given little attention to the ways in which the geography of value-added activity and markets may affect optimal governance of resource allocation." The emphasis of the present

discussion is on the impacts of geopolitical variables as these influence international business decisions. Specifically, attention is given to the influence of geopolitics on the motivation for, and structure of, international business operations. In light of the above discussion, the various geopolitical phenomena may be grouped along three dimensions that might form a geopolitical paradigm of international business. As indicated in Figure 1, along with firm-specific variables and other environmental-specific variables (apart from geopolitics), geopolitical variables tend to influence international business decisions.

[Insert Figure 1 here]

Time Dimension

The international distribution of power among states shifts continually as one historical period gives way to another (Wallerstein, 1980, in Dougherty & Pfaltzgraff, 1990). The international geopolitical environment has been changing constantly (Cohen, 1963) affecting international business dynamics. Any specific change in this environment at a particular point of time may influence the operations of international business within, as well as beyond, that time frame. It is important, therefore, for the international business firm to monitor these changes and to respond to them accordingly and in a timely manner.

However, there is little comprehensive research investigating the importance of this time dimension within the domain of international business studies. Although there is mention of one or more of these time periods in some studies (Ball & McCulloch, 1993; Buckley & Casson, 1981; Czinkota & Ronkainen, 1990; Dunning, 1995, 1997; Garnaut & Drysdale, 1994; Hadjikhani, 1997), their roles in influencing firms' decisions to expand internationally has not yet been systematically explored. Dunning (1997) attempted to portray a "bird's-eye view" of the evolution of the economic organisations commencing from 1770. However, his focus primarily was on explaining the change in organisational designs, not on the catalytic forces of the shifting geopolitical environment affecting international business operations. The following discussion attempts to unravel the major time frames in a sequential manner that have long been affecting international business. Figure 2 lists the various time frames discussed in this section.

[Insert Figure 2 here]

Period Until the World War II

From the reign of Henry IV of France at the close of the 16th century until the First World War, the political components of power, external to the nation states, mainly comprised of their relationships with colonies and trusts. With the emergence of the Soviet Union and the formation of the British Commonwealth of Nations (at the outset of the decolonisation process), this relationship pattern began to change structure and objectives to embrace more extensive and varied territories than before (Cohen, 1963). However, the colonies and colonial legacies remained core to these relationships until the end of the Second World War. For the present purpose, the colonial period will be extended up to the 1940s. Despite the existence of a few colonial territories beyond that period, these may be considered insignificant in comparison to the situation prior. This time frame may also be recognised as the pre-World War II period.

Within the colonial setting, any international business was primarily performed between the colonial powers and the territories controlled by them. The control of resources and the 'resource-import' relationship were the two most important determinants of international business. At that time, business operations outside the colonial relationship were likely to be very limited. Most of the international investments were restricted to the colonial territories and were performed primarily to benefit the colonial powers. The economic rationale of the British and Japanese colonial expansions may be explained from this perspective. There were significant levels of British investments in India and Japanese investments in Korea during the colonial rules (Franko, 1976; Petri, 1994). Because of the apparent lack of local entrepreneurship, it was difficult at that time to find local partners within those territories to form IJVs, for example.

During this period, the English, Dutch, French and Danish companies (known as the East India companies) were vigilant in the East Indies. The geographic region formerly known as the East Indies denotes the south-eastern region of Asia, encompassing the Indian subcontinent, the Indo-Chinese peninsula, and the Malay Archipelago. These companies commenced their foreign involvement in the name of trading, which to a significant extent, was a means to establish political control by their colonial masters over this region. They competed and often fought against each other for economic as well as political control in the region. There was considerable international investment by the colonial powers and other developed economies, the extent of which depended on geographic proximity to the home country and political relationships. For example, during the late 19th and early 20th centuries, there had been a considerable number of foreign investments in the US by the Europeans and vice versa (Ball & McCulloch, 1993). It may be argued that the US's earlier colonial experience with a number of European countries might have influenced the establishment of such commercial relationships. In addition, physical geographic proximity mattered.

In the inter-war period, the emergence of the (British) Commonwealth of Nations made a major breakthrough in the history of geopolitical relationships among nations. The colonial legacies acted as the most important determinants for its emergence, and this redefined the international economic order. This is possibly one of the most important steps towards the formation of international cooperative frameworks (not as a mere security bloc). Although politically motivated, this grouping set the foundation for economic relationships among many independent countries. During this period, the need for raw materials, and trading of semi-finished and finished goods dominated the economic aspect of their relationships. To some extent, the Commonwealth was formed with a view to maintain and protect the interests of the previously established British investments in the newly independent countries and to preserve opportunities for the future British trade and investment.

Cold War Period

At the end of the World War II, the United States emerged as a major power with global interests and commitments (Dougherty & Pfaltzgraff, 1990). A pronounced division between the US-led Western alliance and the Soviet-controlled communist countries began to emerge as the new geopolitical landscape. The principal objective of the Western alliance was to contain communism, physically and economically. On the other hand, the Soviets sought to extend their sphere of influence around the world through ideological manoeuvring. This rivalry resulted in huge but wasteful military build-ups by both the blocs. It was a tense situation - a war of nerves.

Popularly known as the 'Cold War', this was a competition between the two blocs to outperform each other and to gain supremacy of military capability and economic performance. Initially, this 'war of nerves' resulted from a myriad of disagreements during a number of wartime conferences among the allied powers regarding the future restoration of the war-torn Europe to a condition conforming to their perceptions of an ideal world (Graebner, 1977). Basically, Soviet concerns about Western supremacy and the US and British interests to safeguard the West from the threats of communism led to a massive divergence in purpose that gradually disintegrated into the Cold War.

The ideological struggle between the Soviet communism and the Western democracy had enormous impact on the growth and patterns of international business for more than 45 years. Threatened by the Truman Doctrine and Marshall Plan, the USSR negotiated a number of restrictive trade agreements with the countries of Eastern Europe in 1947. In like manner, the outflow of the US goods and dollars in the form of world trade and investment created an international prosperity and an unprecedented American influence throughout the world (Graebner, 1977). As might be expected, a share of the Soviet and American aid to their

respective allies was used as investment capital in the receiver countries, and lay a foundation for subsequent international business operations.

The dynamics of international business were redefined reflecting this changing scenario. Regional security arrangements were established to contain each other's supremacy. The Western sponsored international trade and investment patterns, instituted during this period, reflected the freedom of decision making by different countries, and participation by both private and public firms. Under the Communist system, business decisions were largely State-determined. Nonetheless, during the Cold War period international trade gained momentum. By the early 1990s, the volume of international trade in goods and services measured in current dollars had surpassed US\$4 trillion (Ball & McCulloch, 1993). Alongside this growth in trade in the West, there was rapid growth of foreign investment during the first twenty years since the end of the World War II (Brooke & Remmers, 1970). This has been maintained (Hill, 2000).

A major development during this period was the significant increase of private investment and the rise of multinational corporations (MNCs). By the 1980s, the annual volume of sales of the 10 largest MNCs was greater than the gross domestic product (GDP) of 87 countries (Dougherty & Pfaltzgraff, 1990). This reflects the extent of cross-border trade and investment promoted by these multinationals. MNCs also established themselves as powerful international entities capable of influencing government policies in their favour. In addition, through their presence in trade and investment, Western MNCs have become useful instruments of development in the developing world. IJVs, at this stage, became popular among Western firms as a means of investing in the developing world (Tomlinson, 1970).

While there was the bipolar positioning of countries during the Cold War period, there also existed a number of countries that initially tried to uphold neutrality in world politics. Not being involved in the East - West rivalry, these countries attempted to maintain an equidistant position from both of the super-powers in order to safeguard their interests and self-respect. As early as October 1949, Nehru of India, for example, outlined his program of neutrality. He declared the main objectives of that policy as "... the pursuit of peace, not through alignment with any major power or group of powers, but through an independent approach to each controversial or disputed issue" (Nehru, in Graebner, 1977: 81). Nehru's spirit of neutrality was institutionalised under the banner of the 'non-aligned movement' in India in 1955.

A number of countries restrained themselves from formally joining either of the two major blocs. However, almost all had a 'tilt' towards one of the blocs. Many of the so-called non-aligned countries, including India, did not receive any special aid package under the Truman Doctrine or Marshall Plan, nor did they receive any substantial level of Western foreign investment. This positioning adversely affected these countries in their international business

standings. It had a considerable negative impact on their international trade outcomes as well as inward foreign investment. A classic example, in this respect, is India. Until the late 1980s, India's economy was burdened with a constellation of highly interventionist and inward-looking policies adversely affecting India's international trade and investment situation (As-Saber, 1999).

The Cold War also ushered in the era of regionalism. With its roots in the regional security arrangements determined by the Cold War rivals, the concept of economic integration was established. This created regional trading blocs based on the special provisions, and enhanced intra-regional trade and investment. Regionalism will be elaborated upon later in this paper.

Post-Cold War Period

The international geopolitical environment experienced a major shift with the collapse of the Soviet Union and the democratisation of Eastern Europe, putting an end to the Cold War. This event created enormous business opportunities for Western firms in these markets. This geopolitical shift impacted on many developing economies throughout the world. With the end of the Cold War, these developing countries realised the need to attract foreign investment, and accordingly, began to assign greater emphasis to economic liberalisation. India, in this respect, is illustrative. Once a Soviet ally, India began to liberalise its economy after the end of the Cold War. This new geopolitical order had significant impact on regional groupings. Now, geographic proximity, and national as well as regional economic and political interests constitute the core of their cooperation rather than ideological imperatives (as prevailed during the Cold War). However, in many of these groupings, the Cold War legacies still effect a significant role. Already established regional forums are in many respects reluctant to change their existing structure and are reluctant to include new members who were not previously included due to their strategic positioning. The European Community's reluctance to include many of the East European countries is illustrative.

The geopolitical environment continues to unfold. The recent Asian currency crisis highlights how changing geopolitics can impact the nature of international business dynamics. The Asian currency crisis primarily affected the heartland of the Asian business, and created a domino effect on regional economies and beyond. Players elsewhere in the world are now capable of influencing any particular regional or a country market. With the globalisation of markets and of production, an added complexity to the international business domain has been generated to increase the volatility of the present geopolitical context. Buckley & Casson (1981), some time ago, projected that firms will change entry and operational mode over time with changes in market conditions. It is argued that the changing nature of the global geopolitics will unite firms to share the risks and uncertainties of international venturing through the formation of international joint ventures, for example, while investing abroad, rather than 'going it alone'.

Place Dimension

From the geopolitical perspective, relationships among states are influenced by an area's strategic value (Cohen, 1963). This value, however, depends on the importance of an area in terms of its natural resources, size, proximity and future prospects in relation to other countries. For example, Australia's relationship with New Zealand bears more strategic value than its relationship with Sri Lanka. Because of the geographic proximity of Australia to New Zealand, their relationship in terms of each other's political, economic and security interests is more critical than Australia's relationship with many other countries. For a firm operating internationally, geographic proximity may be categorised as a component of location-specific advantage as enunciated by Dunning (1977, 1979).

In addition, the size of countries matters. Indonesia, one of the most populous countries in the world, and largest among Australia's neighbours is very important to Australia. In addition to its large population base, Indonesia is endowed with natural resources. However, geographically, Australia belongs to the larger Asia-Pacific region. Geographic consideration in terms of proximity, convenience and strategic directions such as long-term prospects and transactions cost factors are vital in explaining this regional setting. Based on the ideas of Sprout & Sprout (1968), Dougherty & Pfaltzgraff (1990: 67–68) have explained the place issue of geopolitics in a comprehensive manner:

... every political community has a geographical base. Each political community is set on a territory that is a unique combination of location, size, shape, climate and natural resources. Thus, most transactions among nations entail significant, even crucial, geographical considerations.

It is important to observe that their particular emphasis is on transactions among nations, which is the major thrust of international business decisions (Dougherty & Pfaltzgraff, 1990). Four major aspects of the place dimension - natural resources, strategic location, geographic proximity and regionalism are discussed now.

Natural Resources

Availability of natural resources is a significant geopolitical variable. The primary thrust of colonial excursions was to search for and exploit these resources. Dunning (1979; 1988; 1998) considers the availability of natural resources to be an important location-specific advantage that attracts above-average inward investment. Foreign companies find it convenient to invest in countries with these advantages because it significantly reduces their transactions costs of importing raw materials through the vertical integration (market internalisation) process. Resource-seeking multinationals tend to be highly vertically integrated firms.

Strategic Location

Location is likely to be a critical international business consideration. British political geographer Sir Halford MacKinder (1861–1947), in his famous “Heartland” theory (originally stated in 1904 and revised in 1919 and 1943) proposed that north-central Eurasia, because of its geographically strategic location and vast natural resources, would eventually be the heart of the world’s controlling political and economic power (Agnew & Corbridge, 1995). This theory crystallised the importance of strategic location. Singapore, exemplifies this case. As a tiny city-state, Singapore has positioned itself as one of world’s most dynamic economies. Singapore’s strategic location is said to be primarily responsible for its success. Given Singapore’s strategic positioning, it is known as an ‘entrepôt’ centre in that much of the country’s trade comprises the transshipments of goods produced in the region. Because of its strategic location, it also hosts most of the regional headquarters of the foreign multinationals. Considering its apparent geographic importance, in 1989, Singapore became a part of the Southern Growth Triangle (SGT) that also includes Johor Baharu of Malaysia and Indonesia’s Riau Archipelago (Lasserre & Schütte, 1999).

Geographic Proximity

Physical distance is generally considered to be one of the major factors that constitutes the core of the geopolitical dimension. It is likely that geographic proximity enables companies from neighbouring countries to engage in international business activities more frequently than their physically distant counterparts. According to Kaynak & Stevenson (1982), countries within a close proximity are considered to be psychologically ‘near’ to each other, facilitating trade and investment among themselves. That is, foreign companies often seek out business in countries that are within a close physical proximity.

For example, the largest and fourth largest trading partners of the US, viz. Canada and Mexico, are located on its borders. Many American plants are located on the Mexican side of the common border (Ball & McCulloch, 1993). These business arrangements incur relatively lower transactions costs, in that they confront fewer major changes of socio-cultural environments. The level of investment by Australian companies in New Zealand is often considered as a mere extension of Australian firms’ domestic operations. Market similarity allows Australian firms to adopt business strategies in New Zealand similar to the strategies they use in their home market. Considering the small size of the New Zealand market, these operations are sometimes short-term and ad-hoc. The Australian firms understand that if necessary, it should not be too difficult to retreat from the New Zealand market because their involvement is one of low transactions costs.

Geographic distance has an impact on the ownership structure of the international business operation. A study undertaken by Larimo (1993) explained geographic distance as an barrier to

expansion for firms willing to operate internationally. Due to the lack of familiarity with a geographically distant market, firms may attempt to reduce the riskiness and uncertainty of such a barrier through the formation of IJVs with a local partner. In addition, learning how to operate in other markets can be enhanced through the support of a local partner.

There are other factors that may influence these business relationships. For example, despite geographic proximity, in the post World War II Europe, relationships between the East and the West were primarily determined by ideological positionings. However, following the end of the Cold War, geographic proximity has been re-established as one of the most important factors in defining the relationship dynamics within that region. According to Donges & Wieners (1994), with the continuing reform process in Eastern Europe, the pre-socialist geographical and cultural links are likely to be revived and contribute to a new engagement among the traditional trading partners in the region. In the subsequent discussion, the role of geographic distance will be unravelled further while discussing other geopolitical issues such as regionalism.

Regionalism

Despite the reality that communication has overcome many of the restrictions formerly dictated by distance (Cohen, 1963), regionalism has gained momentum during recent years. Now, the boundaries of regional entities are more extensive than before, primarily a result of improved communication and transportation systems. Intra-regional trade and investments are becoming increasingly popular due to preferential trade advantages. For example, more than 95% of the world's recorded foreign direct investment (FDI) flows from countries that are members of the Organisation for Economic Cooperation and Development (OECD), and about three-quarters of this total is invested in other OECD countries (Spero, 1985; Hill, 2000). Because of special privileges for investors from within a regional forum, intra-regional FDI is also prevalent in the other regional forums, such as the Asia Pacific Economic Cooperation (APEC), European Union (EU) and the North American Free Trade Agreement (NAFTA) (Graham, 1997). Formalised regionalism does encourage foreign investment within the region, and firms are lesser inclined to invest in a country in a different and distant region, *ceteris paribus*.

Present day regionalism has its roots in the Cold War period which started with the formation of regional security blocs prompted by the super-power rivalry. Since the end of the Cold War, the US, no longer concerned with the geostrategic alignments, has been insisting on more favourable trading and investment relations, creating special post-Cold War tensions (Falk, 1995). This is a turning point in the regional and bloc approaches that has ushered in the new geopolitics of inter-regional relationships (Huntington, 1993). ASEAN was formed in 1967 as a group for economic, social and cultural cooperation, and was established as a tightly knit anti-communist group, effective mainly in security matters. However, in the post-Cold War

scenario, ASEAN is concentrating more on trade and investment matters within the region and has formed the ASEAN Free Trade Zone to enhance business relationships within the region. From the international business perspective, growing regionalism may be explained, at least in part, as a response to the possible adverse impacts of increasingly volatile global market forces. Because of the presence of preferential trade and investment agreements among the countries within a regional grouping, regional firms are able to avoid direct competition from their rivals outside the region. Falk (1995: 3) defined this as a process of "... containing negative globalism".

Demographic Dimension

Cohen (1963) has described population as a geopolitical variable. He considered its various characteristics, particularly the qualitative and ideological, as the major demographic factors that influence the geopolitical milieu. More recently, according to Baerwald (1996), the population characteristics of a country are important because the skills, educational qualifications, productivity and the cost of labour play a role in determining how a country fits within the global business environment. The ethnic and religious features of a population may affect the bilateral or international relationships of a country. The Tamil movement in Sri Lanka or the Jammu and Kashmir disputes in India may be explained from this perspective. Also, the size of a population matters. These demographic factors have been contributing substantially to the motivation for opting for a particular mode of international business operation. Discussions on these issues follow.

Size of the Population

The size of a population may be considered an important motivator for international business growth. With a population of around 18 million persons, Australian businesses have limited scope to grow domestically and this motivates many Australian firms to invest overseas (Edwards & Buckley, 1996). It may affect inward investment as well. The small population base of New Zealand (about 3.5 million) has been shown to be the primary reason for the limited long-term business growth and decreasing Japanese investment in New Zealand (Task Force on Japanese Direct Investment in New Zealand, 1991). On the other hand, the huge population base in India is a motivator for foreign investors to invest there on a long-term basis (Geissbauer & Siemens, 1996; Jacob, 1992; Vicziany, 1993).

Supply of Labour

The supply of labour is another demographic variable closely related to the population size. It is perceivable that a larger population will produce a larger supply of labour, which in turn, will create a competitive labour market and low labour costs. It has long been observed (eg.

Dunning, 1979), that countries with low labour costs are attractive locations for foreign investors. However, labour productivity is critical. In 1871, Ricardo (in Meier, 1998) identified labour productivity and wage rates as two determinants of a country's comparative advantage. Technologically developed countries have a pool of labour more productive than those of the developing countries, whereas, the labour force in developed countries tends to be more expensive than that of the developing countries (Fatehi, 1996). The human development index (HDI) developed by the United Nations provides an insight into the quality of life across the nations of the world. Based on indicators such as literacy rates, the number of inhabitants per doctor, infant mortality rates, life expectancy, calorie (food) consumption per capita, car ownership per 1000 people, and education spending as a percentage of GDP, HDI also reflects the quality of labour in a particular country (Hill, 2000).

For example, it may be argued that the availability of cheaper labour in India would make this country an attractive investment destination for Australian companies. Also, India has a large pool of technologically skilled people (Jacob, 1992). However, low productivity of the Indian labour forces has been a concern for foreign investors (East Asia Analytical Unit, 1994). In 1994, India had an HDI of only 31 which was much lower in comparison with Japan (98), Mexico (81), Malaysia (79), China (57) and Indonesia (51) reflecting the poor quality of its labour force (Hill, 2000).

Role of Environmental, Ethnic and Religious Groups

These are additional demographic factors that are likely to affect the international business environment. There are provisions in the World Trade Organisation (WTO) regulations that countries as well as organisations can institute restrictive measures provided these relate to "... the conservation of exhaustible natural resources and if such measures are made effective in conjunction with restrictions on domestic production or consumption" (Hill, 2000: 178). There are many environmental groups around the world attempting to safeguard their natural environments. Pollution control, through to the maintenance of natural habitats for endangered species are within the agendas of these organisations. These organisations campaign on various country-specific, regional and international fronts. The World Wildlife Fund (WWF), Greenpeace and many other country-specific and regional organisations are involved with such movements and these activities can impact international business decisions.

Ethnic and religious alignments are the two other major demographic factors. The conflicts between Serbs, Croats and Muslims in Bosnia-Harcegovina epitomises the effects of ethnic and religious conflicts on a national economy as well as the risks associated with doing international business in these economies. From some 180 nations in the international system, only a small number are ethnically homogeneous. A survey conducted by the Minorities at Risk Project (in Carment, 1994) indicated that, at the time, ethnic groups were currently involved in over 80

protracted conflicts throughout the world. Ethnic conflicts in a particular area may embitter relationships between the countries supporting the particular ethnic cause or opposing the particular cause. A classic example is the rivalry between Greece and Turkey over the ethnic conflicts in Cyprus with consequent adverse and long-lasting effects on business relationships between Greece and Turkey.

However, the ethnic population may also have positive effects on a country's relationships with others. It may help build business relationships among nations. The ethnic Chinese population in the US and South-East Asia are the major sources of foreign investment into China. A considerable share of foreign investments in India comes from non-resident Indians (Barnathan, 1995). The formal and informal contacts of the overseas Indians and Chinese immigrants with their countries-of-origin constitute the foundation of this business relationship. Cultural bondage is a major bedrock of this relationship pattern.

GLOBALISATION AND GEOPOLITICS

In recent years, the concept of globalisation has occupied a significant place in the international business literature (e.g., Levitt, 1983; Douglas and Wind, 1987; Dunning, 1993, 1997; Krugman, 1996; Radrik, 1997; Greider, 1997; Hill, 2000). However, thus far, no attempt has been made to relate globalisation to geopolitical aspects of international business. Here, an attempt is made to establish a set of relationships between the various geopolitical variables and the phenomenon, globalisation.

Despite the popular use of the term, it remains debatable as to whether extensive globalisation has been achieved across international production and across markets (Levitt, 1983, Douglas and Wind, 1987; Bartlett and Ghoshal, 1989; Hill, 2000). Although, the protagonists of globalisation, such as Levitt (1983) argued that the world has been becoming a global village, others differ. Scholars argue that despite some evidence of the globalisation of markets and of production, numerous country-specific and region-specific differences still remain (Douglas and Wind, 1987; Bartlett and Ghoshal, 1989; Greider, 1997; Radrik, 1997). They further argue that along with existing differences, new differences are continuously evolving within national or regional jurisdictions. In consideration of these divergent views, various clusterings of international business issues can be assembled according to the extent of globalisation using a continuum ranging from 'country-specific' variables through to 'global' (see Figure 3).

[Insert Figure 3 here]

Given this schema, geopolitical variables may be categorised on the basis of their respective levels of globalisation as measured through the 'Globalisation Continuum'. Figure 4 illustrates the frequency of globalisation categories with respect to the various geopolitical variables.

[Inert Figure 4 here]

The Time Dimension

Within the time dimension, the period until World War II (16th Century–1945) could be considered as an epoch without any considerable global focus. This period was dominated by colonial and country-to-country relationships. Although some international transactions occurred within various geographic regions, these happened on the basis of country-to-country understandings rather than on any systematic regional arrangements. No formal economic regional integration was recorded during this period.

The growth of regionalism began to evolve during the Cold War period (1945–1991). Most of the regional economic integration processes reported during this period originated from the various security arrangements endorsed by either of the superpowers (the US or the USSR). Country-to-country business relationships remained important during this period. Globalisation, in its true sense, was not achievable because of the Cold War rivalries.

The post-Cold War period (1945– present) has witnessed a surge of regionalism. In the five years between 1992 and 1996, 77 new regional arrangements came into being that account for over three-quarters of the operational regional agreements existing in the world today (Hill, 2000). In addition, in a changed global economic and political order, true global products and markets have become achievable. With the evolution of the GATT and the formation of WTO, many global issues, such as the reductions of tariff and non-tariff barriers across countries and regions have constituted global agendas. Many MNCs have capitalised on the opportunities created through the continually liberalising world marketplace through offering 'global' products. Despite advances made towards regional as well as global agreements on a multilateral basis, country-to-country bilateral business relationships have remained vitally important. Moreover, due to the disappearance of the Cold War relationship prerogatives, countries are now generally free to establish and develop bilateral ties with each other.

The Place Dimension

Within the place dimension, availability of natural resources may generally be considered country-specific, although there are some clusters of countries known to be regions rich in particular natural resources, e.g., the oil producing countries in the Middle East. Further, a

country or a region could be considered important from their strategic location within a region or the world generally. The strategic location of Singapore and Europe could be seen from this perspective. Geographic proximity may primarily be considered as a regional issue. However, it could well be a global or country-specific issue, depending on the nature of the business relationship, product-type and market. Regionalism is a factor which is clearly region-specific.

The Demographic Dimension

Within the demographic dimension, population size is primarily country-specific. However, a particular regional population may also be targeted by international business firms. The importance of a region or a country, in this case, depends on the total population residing there. The South Asian population of 1.4 billion and the Chinese population of 1.2 billion are considered to be very attractive target markets for multinationals manufacturing consumer products. The supply of labour is primarily country-specific. However, with the economic integration in Europe, labour, as a factor of production, has become mobile within the EU, suggesting it to be a region-specific variable.

Various stakeholders such as the environmental, ethnic and religious groups are generally country-specific, although they could also be region-specific. The Chinese ethnicity within South-East Asia and the dominance of Islam in the Middle East are two such examples. Some of these variables may also be considered as quasi-global (somewhat short of being global). For example, the overseas Chinese population, and non-resident Indians living throughout the world, maintain connections to their respective home countries that bring inward foreign investment to China and India. The role of the environmental groups might also be considered quasi-global. These groups have global agendas but their activities can be limited to a constrained number of countries.

CONCLUSION

Despite the impact of geopolitical variables on international business operations, little research has been forthcoming which explains the relationships between geopolitics and international business. The suggested geopolitical paradigm of international business indicates that along with firm-specific and other environmental-specific variables, various geopolitical elements have the potential to affect international business decisions. The notion of globalisation needs to be considered while discussing geopolitics in the international business context.

Observations of the current international business environment point to few geopolitical factors that could be considered as strictly global. Regionalism and country-to-country bilateral business agreements play a pivotal role in international business relationships. There are some

issues that may be considered as quasi-global. This paper has made an attempt to frame a relationship between the various geopolitical variables and the international business context. This proposed early attempt at a geopolitical paradigm of international business is tentative and requires development, but the fundamentals exist on which to advance this undertaking.

Figure 1: A Possible Geopolitical Paradigm of International Business

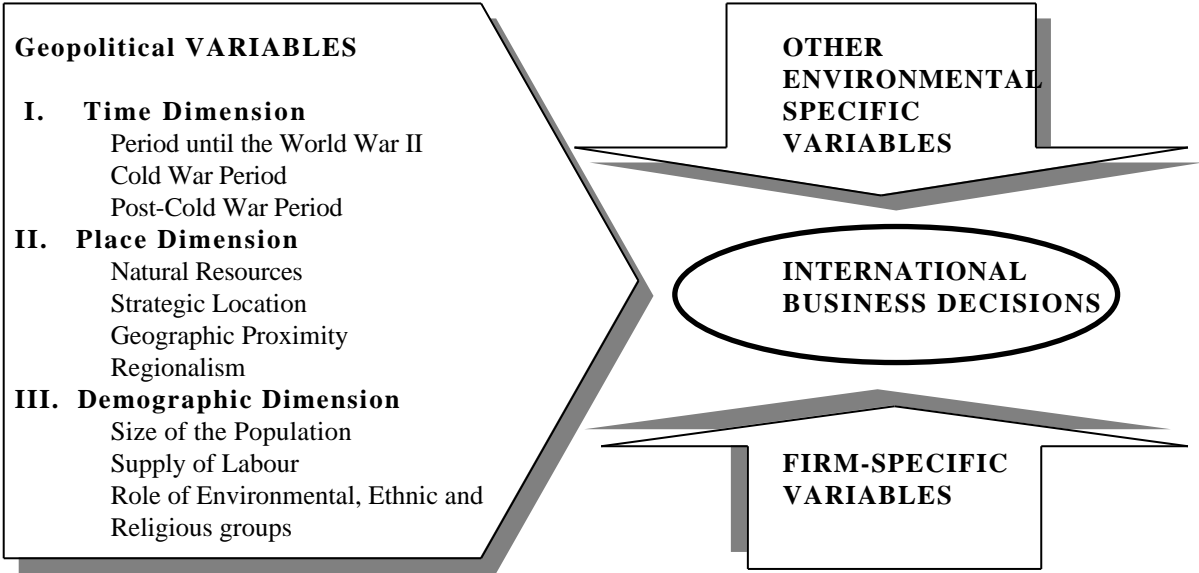


Figure 2: The Time Dimension

-
- I. Period until the World War II**
16th Century–1945
 - II. Cold War Period**
1945–1991
 - III. Post-Cold War Period**
1991–present
-

Figure 3: Globalisation Continuum

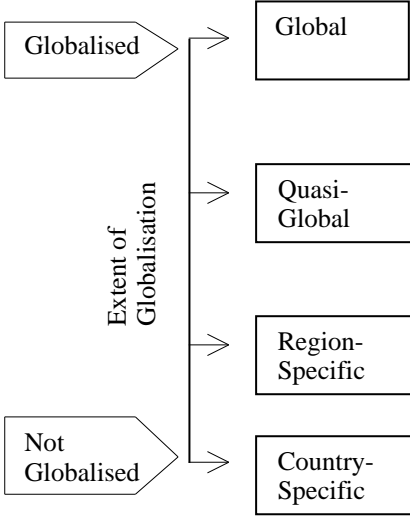


Figure 4: Frequency of Globalisation with respect to Geopolitics

GEOPOLITICAL VARIABLES	EXTENT OF GLOBALISATION (Primary Focus)
I. Time Dimension	
Period until the World War II	Country-Specific
Cold War Period	Region-Specific/Country-Specific
Post-Cold War Period	Global/Region-Specific/Country-Specific
II. Place Dimension	
Natural Resources	Country-Specific/Region-Specific
Strategic Location	Region-Specific/Country-Specific
Geographic Proximity	Global/Region-Specific/Country-Specific
Regionalism	Region-Specific
III. Demographic Dimension	
Size of the Population	Country-Specific/Region-Specific
Supply of Labour	Country-Specific/Region-Specific
Role of Environmental, Ethnic and Religious groups	Country-Specific/Region-Specific/Quasi-Global

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