



The importance of geopolitics in firms' international location decisions: The Polish case



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ABSTRACT

Despite connections and common traits between geopolitics and International Business based on geography and location, literature on this matter is scarce. This study aims to contribute to this literature gap, by assessing the importance of Poland's geopolitical factors in FDI location decisions. By applying a hybrid methodology which combines qualitative and quantitative analyses we conclude that there is a connection between Poland's geopolitical factors (stable, variable and interactional) and the volume, origin and distribution of the FDI received.

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1. Introduction

Researchers have long ignored the ties between the fields of International Relations (IR), Economics and International Business (IB), which are frequently accepted as compartmented areas (Strange, 1970). This scenario has recently experienced some changes. From the perspective of IR, the emergence of disciplines such as Geo-economics (Luttwak, 1990; Correia, 2004) has contributed to the growth of the literature on the matter, by studying the international economic situation from the viewpoint of Geopolitics (Luttwak, 1990; Duarte, 1997; Correia, 2004; Vesentini, 2007). In the field of Economics and IB, the relevance of geography and location factors has garnered greater interest among academics (Hofstede, 1980; Kotler et al., 1997; Dunning, 1997, 1998, 2000; Holmes, 1998; Minifie and West, 1998; Buckley and Ghauri, 2004; MacCann and Mudambi, 2004; Peng, 2009), although in the past they have been somewhat underrated and circumscribed to the economic mainstream (Smith, 1776; Ricardo, 1817; Vernon, 1966; Knickerbocker, 1973; Krugman, 1991, 1998; Venables, 1998). However, literature related to the influence of Geopolitics on IB is almost nonexistent (As-Saber et al., 2001).

Thus, in the present work, we aim to test the application of geopolitical concepts to the analysis of international markets and their influence on Foreign Direct Investment (FDI). We intend to contribute to the existing literature on this matter and highlight the significance and meaning of the relations among IR, Economics and IB. More specifically, we also intend to provide answers to the following research questions: 1) How important is Geopolitics in international location decisions? 2) Which factors have relatively more impact on the volume of FDI received by a country and what is its influence (positive/negative) on it?

To answer these questions, the case study methodology will be followed, and hopefully our conclusions may contribute to the construction of an emerging field of study (Yin, 2004).

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The study is structured as follows. In Section 2 we review the literature related to Geopolitics, International Economics and IB. Section 3 explains the methodological options and Section 4 analyzes the case of Poland. Finally, the main conclusions are drawn.

2. Relations between geopolitics and international economics: a theoretical overview

Geopolitics arose at the beginning of the 20th century as a multidisciplinary approach that brought together political, strategic, geographical, historical and economic studies. Its conceptual field has been surrounded by a haze of ambiguity that has generally led to misinterpretations and unclear views about its definition (Tuathail and Toal, 1994; Correia, 2004; Drulák, 2006), vacillating between a historical and reconstructive science that aimed to explain geopolitical events that had already taken place in international setting, and a predictive science, that was able of anticipating and conjecturing States' geopolitical moves before they really happened (Retailié, 2000). The most accepted definition of geopolitics is that of Kjellen (*apud* Correia, 2004), who defines it as “the theory of the state as a geographical organism or phenomenon of space”. In other words, geopolitics studies the influence of space and location on human action and, consequently, on political action, supporting the argument of Defarges (2003) that geographical backgrounds frame and distinguish mankind's intrinsic ways of life.

Nowadays, there is a new group of authors arguing towards the decreasing importance of military power in relation to non-military means, such as commerce (Luttwak, 1990; Duarte, 1997; Fernandes, 2002; Couloumbis, 2003; Gagné, 2007; Mercille, 2008). In a truly Realistic¹ manner, Lacoste (1988) states that Geopolitics is, generally, a line of reasoning that aims to overcome adversity having in mind the circumstances and availability of resources and means. This reasoning is particularly analogous to the strategic and competitive action of multinational enterprises (MNEs) and, in general, to the dynamics of international economics. Hence, States and MNEs share a common purpose: strategic use of space as a way to achieve major influence in the international system and, therefore, leverage their power. Questions such as: ‘What is power?’², ‘Where is it located?’ and ‘Which factors increase the potential attractiveness³ of a certain location in relation to another?’ (Eva, 2000; Fabry and Zeghni, 2002) are at the very core of both the actions of States and MNEs (Correia, 2004). Thus, the methodological employment of Geopolitical Power Factors (GPFs) (stable, variable and interactional) (*cf.* Table 1), normally used to classify the power of a State, is justified in the analysis of an international market, in this specific case, that of Poland.

The geopolitical perspective of spatial understanding and its strategic use meets the economics literature which supports the significance of geography in MNE strategy (Porter, 1998b; Dunning, 1998, 2000; Daniels and Radenbaugh, 2001; Jiménez, 2002; Mellinger et al., 2003; Buckley and Ghauri, 2004). It also fits into the rationale of geopolitical Possibilism, which argues Man's ability to adapt to his geographical surroundings and his ability to use it advantageously, despite existing constraints and limitations (Lacoste, 1988; Correia, 2004). In a transposition to the economic literature, Schoenberger (2003: 322) follows the same line of thought claiming that “the earth is not merely a natural surface on which we play out our social and economic lives” but it is instead “a necessary background” where Man acts and intervenes actively. Schoenberger (2003) adds that the management of time and space is interconnected, becoming a key aspect of MNE strategy.

The geopolitical situation is also determined by time and space (As-Saber et al., 2001). Even though the Geopolitics-IB literature is almost inexistent, the articles by As-Saber et al. (2001) and Sethi (2007) provide a stimulus to academic debate on the matter. These authors discuss the literature gap on this issue, highlighting the lack of awareness of the connection between geopolitical changes and IB dynamics.

In the last twenty years, a new trend that underlined importance of location and space has emerged among academics, discussing new factors of influence on the action of MNEs (Hofstede, 1980; Kotler et al., 1997; Holmes, 1998; Wei, 2000; Kirkmann et al., 2006; Sanyal, 2008; Demirbag et al., 2010). This tendency is closer to Economic Geography (Dicken, 2003) which has a more comprehensive point of view, emphasizing social, political, cultural and institutional aspects, and contrasts with New Economic Geography, which attempts to integrate geography into the mainstream through economic models (Krugman, 1991, 1998; Venables, 1998; Bosker et al., 2010).

Dunning (1998, 2000), a contemporary author of location studies with his Eclectic Paradigm, stresses the relevance of the geographical dimension in internationalization processes, complementing the characteristics and macroeconomics of enterprises described as FDI determinants by the mainstream. Other authors (Porter, 1998a; Jiménez, 2002) position themselves in the same line of thought as Dunning, as they value a country's distinctiveness and place emphasis on location and the competitive advantage of the countries, that is, the strategic and unique characteristics of a country that provide it with an advantage over other countries.

In addition, and mainly in the IB literature, we found more wide-ranging authors who extend the factors that influence a country's competitiveness, such as: culture (Hofstede, 1980; Sivakumar and Nakata, 2001; Kirkmann et al., 2006), corruption

¹ Realism is a positivist perspective of International Relations Theory that argues that world political scenario is driven by competition and the pursuing of self interest. The main assumption of the realist's theory is the inexistence of an entity above States capable of regulating their interactions. International anarchy self imposes and State interrelations are managed by different levels of power. The pursuing of national interests becomes the main driver of States international actions and the objective and instrument of states participation on international setting, since no cooperation or alliance can endure or be trusted (Cravinho, 2006).

² To Correia (2004), power is today rooted in economy, at the global, state and business levels.

³ We can define a location's attractiveness as the “dynamic process that reflects both the ability of the host country to build and manage its attractiveness and the multinational enterprises' (MNEs) willingness to invest abroad” (Fabry and Zeghni, 2002: 292).

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