Geopolitics and its impacts on international business decisions: A framework for a geopolitical paradigm of international business

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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, international business

Introduction

While much emphasized 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, 1993; Quraishi, 1996). In the international business literature specifically, Dunning (1977; 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).

The role of geopolitics in international business operations: An overview

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, regionalization, 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, 1995; Dunning & Narula, 1996; Mabogunje, 1977; Morrison et al., 1991). However, the emphasis given to these variables is exiguous. 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.

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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 (see Table 1). It is important, therefore, for the international business firm to monitor these changes and to respond to them accordingly and in a timely manner.
References


Figure 1. A Possible Geopolitical Paradigm of International Business

Table 1. The Time Dimension

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<th>Period until the World War II</th>
<th>Cold War Period</th>
<th>Post-Cold War Period</th>
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Source: Dunning & Narula, 1996, p. xx