

Comparative advantages and disadvantages



With China being a market of more than 1.3 billion people, competition for this newly emerging market is rich. The following brands are competing in the Chinese market.

1.3 National comparative advantage

The theory of comparative advantage propagated by the classical economist David Ricardo proposes that a country's attractiveness to foreign investment is determined by its inherent natural factors such as land, natural resources, labor, and the size of the local population.

Michael Porter's Diamond of National Advantage extends the theory to propose that a nation can create new advanced factor endowments such as skilled labor, a strong technology and knowledge base, government support, and infrastructure. Kicker uses Porter's model here to determine the national comparative advantage.

1.3.1 Factor conditions

China can offer quality products because of its comparatively cheap labor. China has become the location of choice for global manufacturing. This is usually attributed to its low wages.

Chinese factory workers today earn 50 cents to \$2 an hour and often work long shifts, getting minimal time off for weekends and holidays. [Prosperity, 2005]

Competitive Labor: China's workers are not just inexpensive but literate, hard working, already reasonably skilled and desperate to be trained. There is also a sizable and growing cadre of university-educated technologists and professionals. For example, China is now graduating 330,000 engineers and scientists annually, as compared with 398,622 for the United States [Prosperity, 2005].

Abundant resources: Apart from competent and cheap human resources, China also boasts of huge natural resources. All the raw materials required for producing Kicker are easily available in China at very competitive prices.

1. 3. 2 Demand Conditions The demand for car audio is increasing rapidly in China, as already noted in a previous chapter. The demand has increased steadily, however, not from Kicker's current target market, which is the higher income earning group.

The demand for Kicker products will stagnate if it does not lower its price to suit the needs of the upcoming middle class group. Growing market

populations: China offers a huge market population of 1. 3 billion people. As seen earlier, the middle class car purchasing group, which is Kicker's new target group, is increasing phenomenally wing to national growth. 1. 3. 3

Related and Supporting Industries Kicker sources most of its raw materials from China, who are suppliers of global standard raw materials.

Kicker can benefit from the existence of its support industries in China. 1. 3.

4 Firm Strategy, Structure, and Rivalry Kicker is not a single player in the market. This is good because the existence of competition ensures that there is sufficient motivation for product innovation. It also indicates that the demand for foreign car audio exists in the market and has the potential to expand. All the factors together indicate that the time is ripe for Kicker to begin its operations in China. . 3. 5 Government attitude towards FED /

foreign firms The biggest advantage for China is its open policies on foreign direct investments. China is attracting multinational companies by improving relevant policies to attract multinationals to invest in China [China's

Absorption of Foreign Investment, n. D.]. The efforts are paying off well, as

<https://assignbuster.com/comparative-advantages-and-disadvantages/>

indicated earlier, the phenomenal increase of over 142% in foreign direct investment from 1999 to 2003.