The international product life cycle model theory economics essay

The intent of Vernon, International Product Life Cycle model (IPLC) was to advance trade theory beyond David Ricardos static framework of comparative advantages. In 1817, Ricardo came up with a simple economic experiment to explain the benefits to any country that was engaged in international trade even if it could produce all products at the lowest cost and would seem to have no need to trade with foreign partners. He showed that it was advantageous for a country with an absolute advantage in all product categories to trade and allows its work force to specialise in those categories with the highest added value. Vernon focused on the dynamics of comparative advantage and drew inspiration from the product life cycle to explain how trade patterns change over time.

New products are manufactured, produced and consumed in the developed (inventing) countries. Then, other high-income countries import it. Production spreads to other advanced countries. The standardised product begins to be produced out of advanced countries into low-wage nation. Advanced countries import it from the low wage countries and Next generation product invented in the advanced countries.

Globalisation- Business Environment

The tremendous growth of international trade over the past several decades has been both a primary cause and effect of globalization. The volume of world trade since 1950 has increased twenty-fold from $320 billion to $6. 8 trillion. 1 This increase in the trade of manufactured goods exceeds the increase in the rate of the production of these goods by three times. As a result, consumers around the world now enjoy a broader selection of products than ever before. Additionally, a whole host of U. S. government agencies and international institutions has been established to help manage the ever-growing flow of goods, services, and capital.

Although increased international trade has spurred tremendous economic growth across the globe – raising incomes, creating jobs, reducing prices, and increasing workers earning power trade can also bring about certain kinds of economic, political, and social disruption.

Because the global economy is so interconnected, when large economies suffer recessions, the effects are felt around the world. Trade decreases, and domestic jobs and businesses are lost. In the same way that globalization can be a boon for international trade; it can also have a crushing impact(www. globalization101. org)

Offshoreing trend & lower wages

The shift of productive capacity from the advanced countries to poor countries can be viewed as a commonality of interest among advanced country business groups and Third World elites, who act in concert against workers both in the U. S. and in developing countries. It can also be viewed as a strategy to change the balance of power between Capital and Labour. By shifting production to jurisdictions which favour Capital, owners gain a larger share of revenue and power, while workers everywhere suffer

Multinational enterprises (MNEs) had provided huge number of the employment in countries like Indonesian, Vietnam. It not only solves the countries unemployment rate furthermore it will increase the country GDP and lead to the industrialization process of the country by learning the technical know-hows and other industrial automation process. Countries Foreign Direct Investment (FDI) flow will increase; it will improve the exchange and currency rates . Good Employment opportunities directs to better living standard and high purchasing power. Nevertheless, the poor wages, Vietnam and low wage nations can welcome the offshore trend and implement the foreign policies accordingly.

Over the last two decades, the advanced economies experienced a boom in off shoring and a doubling of imports of manufactured goods from low-wage countries. Over this same period, approximately 6 million jobs were lost in manufacturing and income inequality increased sharply. These parallel developments led many critics of globalisation to conclude that good manufacturing jobs were being shipped overseas at the expense of the domestic labour force, putting downward pressure on wages of American workers. Concern over these developments led the US Congress to pass the American Jobs Creation Act of 2004. Yet whether these changes in the US labour market are a result of rising import competition or relocation by multinationals to other countries (known as off shoring) is not clear.

Paul Krugman (2008) claims that we will never know. He asks How can we quantify the actual effect of rising trade on wages?, and then answers: The answer, given the current state of the data, is that we cant. Yet Krugman suspects that the dramatic increase in manufactured imports from developing countries since the early 1990s has contributed to increasing income inequality.

Earlier studies explained rising inequality as a result of technological change which favours skilled workers, a falling minimum wage, or weaker unions (Autor, Katz and Kearney 2008). Larry Katz and David Autor agree with Krugman, arguing that international trade and offshoring will be increasingly important rivers of wages in the future.

Theoretically capital mobility should result in higher wages for workers in the developing world, but often it does not. An egregious example of this phenomenon is Nike, the sports shoe manufacturer. Nike makes shoes by contracting with producers in Asian countries. Aggressively seeking the lowest cost, Nike recently moved production from Korea to Indonesia, a military dictatorship which violently represses union activity. The shoes you pay $80 for in the United States are assembled by Indonesian women, working in squalid factories, who receive approximately twelve cents per pair http://home. home. pacbell. net/jfcowan)

Benefits of relocating to poor countries

For certain occupations there is a greater availability of highly skilled and experienced employees overseas for example manufacturing skills in china and Information technology, Bangalore, India. Cost advantage Companies can save 30-50% compared to the cost of a U. S.-based employee for the same level of performance, and of ten times the offshore employees are more committed, grateful for the work.

By using an offshore employee, you eliminate the time you would normally spend on searching job boards, recruiting, interviewing, orientation, managing vacation time and absenteeism, career coaching, and managing employee morale and motivation. Employee issues can be time-consuming and can escalate into legal liabilities. Using offshore staff eliminates certain legal exposure to employment liabilities.

Flexibility Unlike traditional employee relationships, off shoring eliminates hiring and termination costs, allowing companies to quickly expand and contract their overseas staff in accordance with business needs.

Challenges and considerations

Before deciding the relocation plant, the firm has to address the key challenges with respect to cultural, Tax policy, cost savings. Different cultures have different life styles, different attitudes toward conflict resolution and simply different ways of getting work done. Offshore outsourcing is a politically charged issue nowadays, for example the current US government has passed the bill against outsourcing. Expected cost savings might not result from offshore outsourcing. The offshore staff might not turn out to be as productive as expected. Quality of the product also matters for the firm Brand equity.

Off shoring can lead to low production cost, if the firm can address all the above mentioned challenges. But, selling the large quantities of the new goods immediately in the poor and low wages countries are always uncertain and it is a risky process also. Every firm has their unique marketing plan and strategy of their products. But, in general poor countries Gross Domestic Product(GDP), Income per captia, and purchasing power of the consumers very less when compare with advanced countries like UK, USA, Germany, France. Canada.

Selling a new product in the market requires lot of marketing research and sampling. Due to the uncertain market environment, political disability and consumer behaviour firms are finding difficulties in implementing marketing plan and strategies for the poor countries. In my opinion selling the new goods in the poor countries requires deep understanding of local market and consumer tastes. As per the WTO and ILO reports, more than 3. 5 billion people are living in the poor countries. So, firms should understand the culture, life style, of the people to market and sell their products. The plant location and country alone cant decide the success of their products.

Findings and recommendations

Todays globalization and dynamic business environment has made Production life cycle Theory out of date. Global trade has increased significantly in the last 10- 15 years, thanks to the globalisation world but in the same time inequalities are also increasing. Shifting the production facility or off shoring the manufacturing jobs can increase the profit of the firm due to talent pool, low wages in the poor countries but to achieve this, it has to addresses the challenges of off shoring and draft the business strategies and plans effectively. But quality of the product /service and productivity are the major concern to be addresses by the off shore industry. GDP, income per captia, purchasing power, consumer behaviours are the major deciding factors for buying a new product in any part of the world. All poor countries above mentioned ratios are very less when compare to advanced countries . So launching a new product in poor countries is risky and uncertain even though the product is manufactured in the same country. Firms should analyze the marketing plans & strategy for the poor countries and apply in the poor counties with respect to the market and other demographic factors.

Conclusion

Globalisation phenomenon gaining across the globe. Trade and culture are exchanging rapidly, thaks, to the advance technology. Shifting the production jobs or off shoring the manufactured jobs has their own advantage and disadvantages. Off shoring has lot of benefits to their own or home country (capital abundant) and new host country (labour abundant) as well. in the same time it has to address the lot of issue in both host and home country with respect to culture, tax policy , environment and other factors. In the open market world firms have the rights to maximize the profits doing offshoreing if obey the terms and condition of the both own and host countries and it should be follow the framework of WTO and ILO