Competing in World Markets

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Learning Objectives

1. Explain why nations trade.
2. Describe how trade is measured between nations.
3. Identify the barriers to international trade.
4. Discuss reducing barriers to international trade.
5. Explain the decisions to go global.
6. Discuss developing a strategy for international business.
Why Nations Trade

- As domestic markets mature, so does economic growth
- As sales slow, companies can expand their markets in other nations
- Companies can seek growth opportunities in other nations
- More efficient production systems
- Less reliance on the economies of home nations
- **Exports**: Domestically produced goods and services sold in other countries
- **Imports**: Foreign-made products and services purchased by domestic consumers
Decisions to operate abroad depend upon:
- Availability, price, and quality of labor
- Natural resources
- Entrepreneurship
- Capital

Doing business overseas spreads risk

Different nations at various stages of business cycle or development spreads risk

If demand falls off in one country, it may enjoy strong demand in another
As developing nations expand into the global marketplace, opportunities grow.

Many developing countries have posted high growth rates of annual GDP:
- United States
- China
- India

Current GDP data
### The World’s Top 10 Nations Based on Population and Wealth

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>POPULATION (IN MILLIONS)</th>
<th>COUNTRY</th>
<th>PER-CAPITA GDP (IN U.S. DOLLARS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,349</td>
<td>Qatar</td>
<td>$100,900</td>
</tr>
<tr>
<td>India</td>
<td>1,221</td>
<td>Luxembourg</td>
<td>$78,000</td>
</tr>
<tr>
<td>United States</td>
<td>317</td>
<td>Singapore</td>
<td>$60,800</td>
</tr>
<tr>
<td>Indonesia</td>
<td>251</td>
<td>Norway</td>
<td>$54,400</td>
</tr>
<tr>
<td>Brazil</td>
<td>201</td>
<td>Brunei</td>
<td>$54,100</td>
</tr>
<tr>
<td>Pakistan</td>
<td>193</td>
<td>Hong Kong</td>
<td>$50,900</td>
</tr>
<tr>
<td>Nigeria</td>
<td>175</td>
<td>United States</td>
<td>$51,700</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>164</td>
<td>Switzerland</td>
<td>$44,900</td>
</tr>
<tr>
<td>Russia</td>
<td>142</td>
<td>Netherlands</td>
<td>$41,500</td>
</tr>
<tr>
<td>Japan</td>
<td>127</td>
<td>United Arab Emirates</td>
<td>$29,200</td>
</tr>
</tbody>
</table>

### Top 10 Trading Partners with the United States

<table>
<thead>
<tr>
<th>Country</th>
<th>Total U.S. Imports and Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>$154.7 billion</td>
</tr>
<tr>
<td>China</td>
<td>$131.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>$126.5</td>
</tr>
<tr>
<td>Japan</td>
<td>$50.3</td>
</tr>
<tr>
<td>Germany</td>
<td>$41.4</td>
</tr>
<tr>
<td>South Korea</td>
<td>$26.8</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$24.7</td>
</tr>
<tr>
<td>France</td>
<td>$19.0</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>$18.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>$17.2</td>
</tr>
</tbody>
</table>

Absolute and Comparative Advantage

- **Absolute Advantage**: Country can maintain a monopoly or produce at a lower cost than any competitor.
  - Example: China’s domination of silk production for centuries.

- **Comparative Advantage**: Country can supply a product more efficiently and at lower cost than it can supply other goods, compared with other countries.
  - Example: India’s combination of a highly educated workforce and low wage scale in software development.
Measuring Trade Between Nations

- **Balance of Trade**: Difference between a nation’s imports and exports
  - Balance of Trade Surplus: When a country exports more than it imports
  - Balance of Trade Deficit: When a country imports more than it exports

- **Balance of payments**: Overall flow of money into or out of a country
  - Balance of payments surplus: more money has moved into a country than out of it
  - Balance of payments deficit: more money has moved out of a country than into it
**Major U.S. Imports and Exports**

<table>
<thead>
<tr>
<th>EXPORTS</th>
<th>AMOUNT (IN BILLIONS)</th>
<th>IMPORTS</th>
<th>AMOUNT (IN BILLIONS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural commodities</td>
<td>$115.82</td>
<td>Crude oil</td>
<td>$260.1</td>
</tr>
<tr>
<td>Vehicles</td>
<td>88.1</td>
<td>Vehicles</td>
<td>178.9</td>
</tr>
<tr>
<td>Mineral fuel</td>
<td>80.5</td>
<td>Televisions, VCRs</td>
<td>137.3</td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>77.0</td>
<td>Electrical machinery</td>
<td>119.6</td>
</tr>
<tr>
<td>Petroleum preparations</td>
<td>53.5</td>
<td>Automated data processing equipment</td>
<td>113.5</td>
</tr>
<tr>
<td>General industrial machinery</td>
<td>51.8</td>
<td>Agricultural commodities</td>
<td>82.0</td>
</tr>
<tr>
<td>Specialized industrial machinery</td>
<td>46.8</td>
<td>Clothing</td>
<td>78.5</td>
</tr>
<tr>
<td>Scientific instruments</td>
<td>44.3</td>
<td>Petroleum preparations</td>
<td>67.4</td>
</tr>
<tr>
<td>Chemicals—plastics</td>
<td>42.0</td>
<td>Chemicals—medicinal</td>
<td>65.2</td>
</tr>
<tr>
<td>Chemicals—medicinal</td>
<td>41.9</td>
<td>General industrial machinery</td>
<td>60.4</td>
</tr>
</tbody>
</table>

Exchange Rates

- **Currency Rates** are influenced by
  - Domestic economic and political conditions
  - Central bank intervention
  - Balance-of-payments position
  - Speculation over future currency values

- Values fluctuate, or “float,” depending on supply and demand

- National governments can deliberately influence exchange rates
Barriers to International Trade

Figure 4.2: Barriers to International Trade

- Global Business
- Social and Cultural Barriers
  - Language
  - Values and Religious Attitudes
- Economic Barriers
  - Currency Shocks
- Legal and Political Barriers
  - International Regulations
  - Trade Restrictions
- Free Markets
Language: Potential problems include mistranslation, inappropriate messaging, lack of understanding of local customs, and differences in taste.

Values and Religious Attitudes: Differing values about business efficiency, employment levels, importance of regional differences, and religious practices, holidays, and values about issues such as interest-bearing loans.
Economic Differences

- **Infrastructure**: Basic systems of communication, transportation, energy facilities, and financial systems.

- **Currency Conversion and Shifts**: Fluctuating values can make pricing in local currencies difficult and affect decisions about market desirability and investment opportunities.
Political and Legal Differences

- **Political Climate**
  - Stability is key consideration

- **Legal Environment**
  - U.S. Law
  - International regulations
  - Country’s law
  - Climate of corruption
  - [Foreign Corrupt Practices Act](https://en.wikipedia.org/wiki/Foreign_Corrupt_Practices_Act) forbids U.S. companies from bribing foreign officials, candidates, or government representatives

- **International Regulations**
  - Treaties between U.S. and other nations.
  - Tariffs are taxes charged on imported goods.
  - Enforcement problems, as with piracy.
Transparency International produces an annual corruption index for businesspeople and the general public.

Types of Trade Restrictions

- **Tariffs** – taxes surcharges, or duties on foreign products
  - Tariffs generate income for the government
  - Protective tariffs raise prices of imported goods to level the playing field for domestic competitors

- **Nontariff Barriers** – also called administrative trade barriers
  - **Quotas** limit the amount of a product that can be imported over a specified time period.
  - **Dumping** is the act of selling a product abroad at a very low price.
  - An **embargo Exchange** controls imposes a total ban on importing a specified product.
  - **Exchange controls** through central banks or government agencies regulate the buying and selling of currency to shape foreign exchange in accordance with national policy.
Reducing Barriers to International Trade

- The world is moving toward more free trade
- Many communities and groups monitor and promote free trade
- International Economic Communities reduce trade barriers and promote regional economic cooperation
  - Free-trade area: Members trade freely among selves without tariffs or trade restrictions
  - Customers union: Establishes a uniform tariff structure for members’ trade with nonmembers.
  - Common market: Members bring all trade rules into agreement
Organizations Promoting Trade

- General Agreement on Tariffs and Trade (GATT)
  - Most industrialized nations found organization in 1947 to reduce tariffs and relax quotas

- The World Trade Organization succeeded GATT
  - Representatives from 153 countries
  - Reduce tariffs and promote trade

- World Bank
  - Funds projects to build and expand infrastructure in developing countries

- International Monetary Fund (IMF)
  - Operates as lender to troubled nations in an effort to promote trade
International Economic Communities

- **North American Free Trade Agreement (NAFTA)**
  - World’s largest free-trade zone: United States, Canada, and Mexico
  - U.S. and Canada are each other’s biggest trading partners

- **Central America-Dominican Republic Free Trade Agreement (CAFTA)**
  - Free-trade zone among U.S., Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua
  - $33 billion traded annually between U.S. and these countries

- **European Union**
  - Best known example of a common market
  - Goals include promoting economic and social progress, introducing European citizenship as complement to national citizenship, and giving EU a significant role in international affairs
European Union

The 28 Nations of the European Union

- Germany
- United Kingdom
- Netherlands
- Ireland
- Belgium
- Luxembourg
- France
- Austria
- Portugal
- Spain
- Malta
- Italy
- Greece
- Cyprus
- Croatia
- Denmark
- Sweden
- Finland
- Estonia
- Latvia
- Lithuania
- Poland
- Czech Republic
- Slovakia
- Hungary
- Romania
- Slovenia
- Bulgaria
Going Global

- Determining which foreign markets to enter
- Analyzing the expenditures required to enter a new market
- Deciding the best way to organize overseas operations
- Good starting point for research: CIA World Factbook
### Table 4.3

#### International Trade Research Resources on the Internet

<table>
<thead>
<tr>
<th>WEBSITE AND ADDRESS</th>
<th>GENERAL DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europages</td>
<td>Directory of and links to Europe’s top 500,000 companies in 33 European countries</td>
</tr>
<tr>
<td><a href="http://www.europages.com">http://www.europages.com</a></td>
<td></td>
</tr>
<tr>
<td>World Trade Organization</td>
<td>Details on the trade policies of various governments</td>
</tr>
<tr>
<td><a href="http://www.wto.org">http://www.wto.org</a></td>
<td></td>
</tr>
<tr>
<td>CIA World Factbook</td>
<td>Basic facts about the world’s nations, from geography to economic conditions</td>
</tr>
<tr>
<td><a href="http://www.usitc.gov/">http://www.usitc.gov/</a></td>
<td></td>
</tr>
<tr>
<td>U.S. Commercial Service</td>
<td>Information about Commerce Department counseling services, trade events, and U.S. export regulations</td>
</tr>
<tr>
<td><a href="http://trade.gov/cs">http://trade.gov/cs</a></td>
<td></td>
</tr>
<tr>
<td>U.S. Small Business Advisor</td>
<td>One-stop access to a range of federal government information, services, and transactions</td>
</tr>
<tr>
<td><a href="http://www.SBA.gov">http://www.SBA.gov</a></td>
<td></td>
</tr>
<tr>
<td>U.S. State Department</td>
<td>Listing of the State Department’s latest travel warnings about conditions that may affect safety abroad, supplemented by the list of consulate addresses and country information</td>
</tr>
</tbody>
</table>
Levels of Involvement

- Risk increases with the level of involvement
- Many companies employ multiple strategies
- Exporting and important are entry-level strategies
  - Importing is the process of bringing in goods produced abroad
  - Exporting is the act of selling your goods overseas
Countertrade and Franchising

- **Countertrade** – international transactions that do not involve currency payments but use bartering.

- **Franchising** - a contractual agreement in which a local entity gains rights to sell the franchisor’s product in the foreign market.

- **Franchise 500 list** from *Entrepreneur* magazine

- **Foreign licensing agreement** - allows a firm to produce or sell its product, use its trademark, patent or manufacturing process.

- **Subcontracting** - involves hiring local firms to distribute, produce, or sell goods and services.
Offshoring and Direct Investment

- The relocation of business processes to a lower-cost overseas location is offshoring
  - Not initiating business but gaining cost savings
  - Extremely controversial

- The ultimate level of global involvement is international direct investment
  - Directly operating production and marketing in foreign country
    - Acquisition
    - Joint Venture
    - Overseas Division
### TABLE 4.4

The World’s Top 10 Leading Companies (Based on a Combined Ranking for Sales, Profits, Assets, and Market Value)

<table>
<thead>
<tr>
<th>RANK</th>
<th>COMPANY</th>
<th>INDUSTRY</th>
<th>COUNTRY OF ORIGIN</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ICBC</td>
<td>Banking</td>
<td>China</td>
</tr>
<tr>
<td>2</td>
<td>China Construction Bank</td>
<td>Banking</td>
<td>China</td>
</tr>
<tr>
<td>3</td>
<td>JPMorgan Chase</td>
<td>Banking</td>
<td>United States</td>
</tr>
<tr>
<td>4</td>
<td>General Electric</td>
<td>Conglomerate</td>
<td>United States</td>
</tr>
<tr>
<td>5</td>
<td>Exxon Mobil</td>
<td>Oil &amp; Gas</td>
<td>United States</td>
</tr>
<tr>
<td>6</td>
<td>HSBC Holdings</td>
<td>Banking</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>7</td>
<td>Royal Dutch Shell</td>
<td>Oil &amp; Gas</td>
<td>Netherlands</td>
</tr>
<tr>
<td>8</td>
<td>Agriculture Bank of China</td>
<td>Banking</td>
<td>China</td>
</tr>
<tr>
<td>9</td>
<td>Berkshire Hathaway</td>
<td>Conglomerate</td>
<td>United States</td>
</tr>
<tr>
<td>10</td>
<td>PetroChina</td>
<td>Oil &amp; Gas</td>
<td>China</td>
</tr>
</tbody>
</table>

Developing a Strategy for International Business

- **Global Business (Standardization) Strategies**
  - Firm sells same product in essentially the same manner throughout the world
  - Works well for products with nearly universal appeal

- **Multidomestic (Adaptation) Strategies**
  - Firm develops products and marketing strategies that appeal to customs, tastes, and buying habits of particular national markets