

Chapter 3

Business in the Global Economy

- 3-1 International Business Basics
- 3-2 The Global Marketplace
- 3-3 International Business Organizations

LESSON 3-1

International Business Basics

Goals

- Describe importing and exporting activities.
- Compare balance of trade and balance of payments.
- List factors that affect the value of global currencies.

Key Terms

- balance of payments
- balance of trade
- exchange rate
- exports
- imports

TRADING AMONG NATIONS

- Absolute advantage
- Comparative advantage
- Importing
- Exporting

Absolute Advantage

- ...exist when a country can produce a good or service at a lower cost than other countries.

Comparative Advantage

- ...when a country specializes in the production of a good or service at which it is relatively more efficient.

Importing

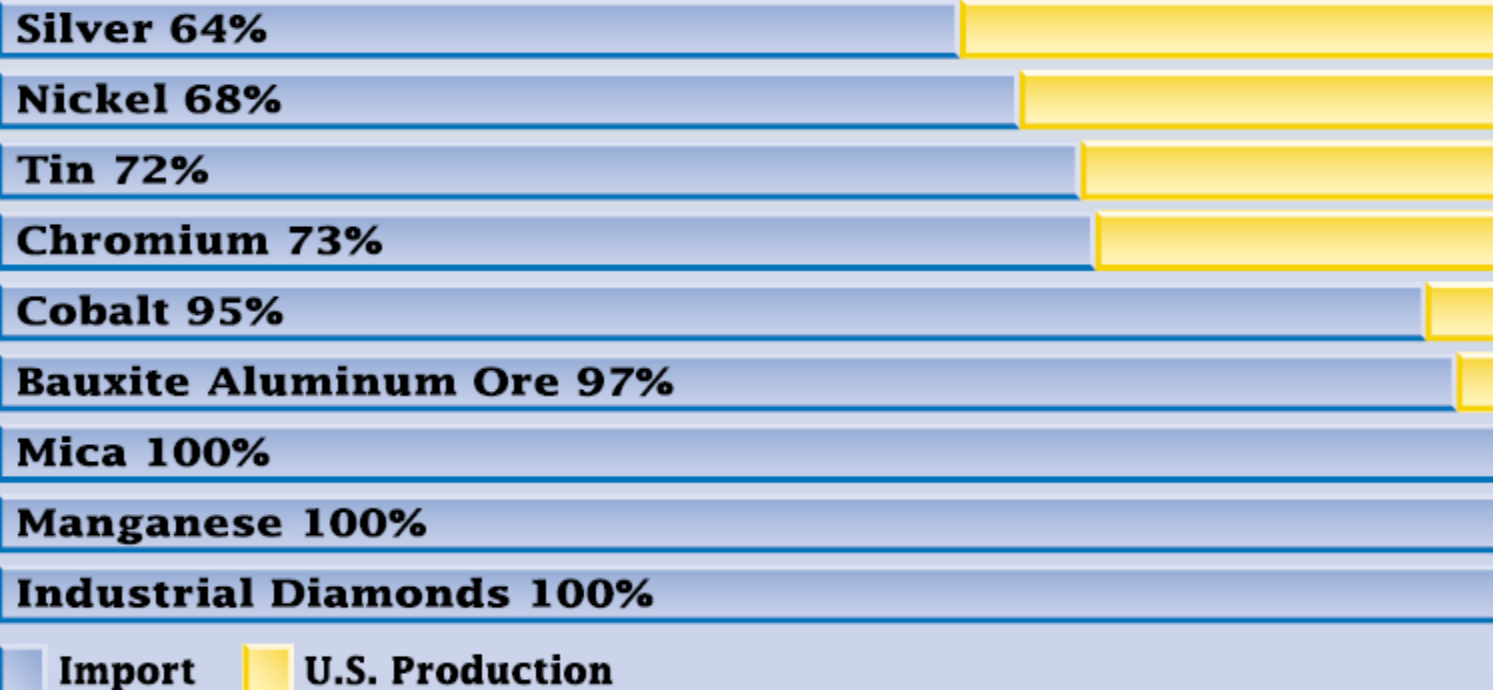
- Items bought from other countries.

Exporting

- Goods and services sold to other countries.

IMPORTING

Imported Raw Materials Used in Production in the U.S.



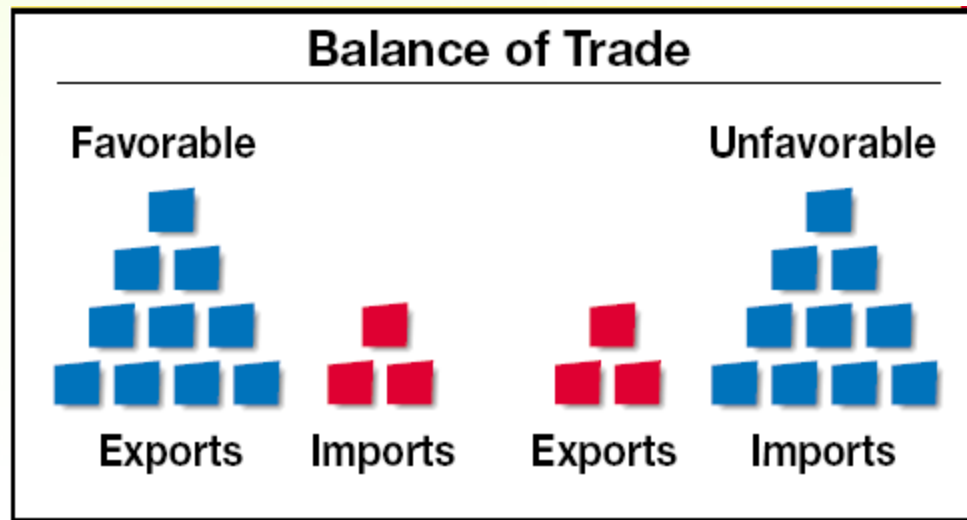
MEASURING TRADE RELATIONS

- Balance of trade – The difference between a country's total exports and total imports.
- Balance of payments – the difference between the amount of money that goes into a country and the amount of money that goes out.

U.S. TRADE BALANCES

Goods Exported (in billions)	Country	Goods Imported (in billions)	U.S. Trade Balance
1,018.6	All Countries	1,507.9	−489.3
169.8	Canada	224.2	−54.4
97.5	Mexico	138.1	−40.6
52.1	Japan	118.0	−65.9
20.7	Netherlands	11.0	+9.7
13.1	Australia	6.4	+6.7
11.2	Brazil	17.9	−6.7
17.5	Taiwan	31.6	−14.1
28.4	China	152.4	−124
150.5	European Union	244.8	−94.3

BALANCE OF TRADE



>> CHECKPOINT

How does balance of trade differ from balance of payments?

INTERNATIONAL CURRENCY

- Foreign exchange rates
- Factors affecting currency values
- Three main factors affect currency
 - Balance of payments
 - Economic conditions
 - Political stability

Exchange rate

- ...the value of a currency in one country compared with the value in another.

Factors affecting currency values

- Balance of payments
- Economic conditions
- Political stability

RECENT VALUES OF CURRENCIES

Country	Currency	Units per USD*	Value in USD*
Britain	pound	0.55 pounds	1.82
Brazil	real	3.15 reals	0.32
Canada	dollar	1.36 Canadian dollars	0.73
European Union	euro	0.83 euro	1.20
Japan	yen	110.1 yen	0.009
Saudi Arabia	riyal	3.75 riyals	0.27
South Africa	rand	6.49 rands	0.154
South Korea	won	11162.79 won	0.00086
Venezuela	bolivar	1923 bolivars	0.00052

* United States Dollar

>> CHECKPOINT

What factors affect the value of a country's currency?

LESSON 3-2

The Global Marketplace

Goals

- Describe the components of the international business environment.
- Identify examples of formal trade barriers.
- Explain actions to encourage international trade.

Key Terms

- infrastructure
- trade barrier
- quota
- tariff
- embargo

A country's communication, transportation and utility systems.

THE INTERNATIONAL BUSINESS ENVIRONMENT

- Geography
- Cultural influences
- Economic development
 - Literacy level
 - Technology
 - Agricultural dependency
- Political and legal concerns

Geography

- Location
- Climate
- Terrain
- Seaports
- Natural resources

Cultural Influences

- Language
- Religion
- Values
- Customs
- Social relationships

Economic Development

- Literacy level
- Technology
- Agricultural dependency

Infrastructure: a nation's transportation, communication, and utility systems.

Political & Legal Concerns

- Type of government
- Stability of the government
- Government policies towards business

GEOGRAPHY

- location
- climate
- terrain
- waterways
- natural resources

ECONOMICS

- technology
- education
- inflation
- exchange rate
- infrastructure

THE INTERNATIONAL BUSINESS ENVIRONMENT

CULTURE

- language
- family
- religion
- customs
- traditions
- food

POLITICAL–LEGAL FACTORS

- government system
- political stability
- trade barriers

>> CHECKPOINT

List the four main elements of the international business environment.

International Trade Barriers

- Government restrictions to free trade

INTERNATIONAL TRADE BARRIERS

- Quotas
- Tariffs
- Embargoes

Quota

- A limit on the quantity of a product that may be imported or exported within a given period.

QUOTAS

Reasons for quotas

- To keep supply low and prices the same
- To express displeasure at the policies of the importing country
- To protect one of a country's industries from too much competition from abroad

Tariffs

- A tax that a government places on certain imported products.

TARIFFS

Reasons for tariffs

- To set amount per pound, gallon, or other unit
- To set the value of a good

Embargoes

- A stop on the export or import of a product completely.

EMBARGOES

Reasons for embargoes

- To protect a country's industries from international competition more than the quota or tariff will achieve
- To prevent sensitive products from falling into the hands of unfriendly groups or nations

>> CHECKPOINT

What are three formal trade barriers?

ENCOURAGING INTERNATIONAL TRADE

- Free-trade zones
- Free-trade agreements
- Common markets

FREE-TRADE ZONES

- Used to promote international business in a selected area where products can be imported duty-free and then stored, assembled, and/or used in manufacturing
- Usually located around a seaport or airport
 - The importer pays duty only when the product leaves the zone

FREE-TRADE AGREEMENTS

- Member countries agree to remove duties and trade barriers on products traded among them
- Results in increased trade between members

North American Free Trade Agreement (NAFTA)

- **USA / Canada / Mexico**
- This pact does away with taxes on goods traded among the three countries and eases the movement of goods.

COMMON MARKETS

- Allows companies to invest freely in each member's country
- Allows workers to move freely across borders
- Examples
 - European Union (EU)
 - Latin American Integration Association (LAIA)

The goal of Common Markets

- Expand trade among member nations
- Promote regional economic intergration

>> CHECKPOINT

What actions could be taken to encourage international trade?

LESSON 3-3

International Business Organizations

Goals

- Discuss activities of multinational organizations.
- Explain common international business entry modes.
- Describe activities of international trade organizations and agencies.

Key Terms

- multinational company (MNC)
- joint venture

MULTINATIONAL COMPANIES (MNC)

An organization that does business in several countries.

- MNC strategies
- MNC benefits
- Drawbacks of multinational companies

MNC STRATEGIES

- Global strategy – Uses the same product and marketing strategy world wide
- Multinational strategy – treats each countries market differently

MNC BENEFITS

- Large amount of goods available
- Lower prices
- Career opportunities
- Foster understanding, communication, and respect
- Friendly international relations

DRAWBACKS OF MULTINATIONAL COMPANIES

- Economic power
- Worker dependence on the MNC
- Consumer dependence
- Political power

>> CHECKPOINT

What are two strategies commonly used by multinational companies?

GLOBAL MARKET ENTRY MODES

- Licensing
- Franchising
- Joint venture

LICENSING

- Allows companies to produce items in other countries without being actively involved
- Has a low financial investment, so the potential financial return for the company is often low
- The risk for the company is low

FRANCHISING

- Allows organizations to enter into contracts with people in other countries to set up a business that looks and runs like the parent company
- Marketing elements, such as food products, packaging, and advertising must meet both cultural sensitivities and legal requirements
- Commonly involves selling a product or service

JOINT VENTURE

An agreement between 2 or more companies to share a business project.

- Allows two or more companies to share raw materials, shipping facilities, management activities, or production activities
- Concerns include the sharing of profits and not as much control since several companies are involved
- Very popular for manufacturing, such as Japanese and U.S. automobile manufacturers

>> CHECKPOINT

How does licensing differ from a franchise?

INTERNATIONAL TRADE ORGANIZATIONS

- World Trade Organization
- International Monetary Fund
- World Bank

WORLD TRADE ORGANIZATION (WTO)

WTO Goals

- Lowering tariffs that discourage free trade
- Eliminating import quotas
- Reducing barriers for banks, insurance companies, and other financial services
- Assisting poor countries with economic growth

INTERNATIONAL MONETARY FUND (IMF)

- Helps to promote economic cooperation
- Maintains an orderly system of world trade and exchange rates
- Includes over 150 member nations

WORLD BANK

- Created in 1944 to provide loans for rebuilding after World War II
- Today the World Bank has over 180 member countries and two main divisions
 - International Development Association (IDA), which makes loans to help developing countries
 - International Finance Corporation (IFC), which provides technical capital and technical help to private businesses in nations with limited resources

>> CHECKPOINT

How does the International Monetary Fund assist countries?