



GLOBAL BUSINESS

EC

A 3D-rendered globe is the central focus, its surface composed of a grid of numerous national flags from various countries, including the United States, United Kingdom, European Union, and others. The globe is positioned on a white surface, creating a clear reflection below it. The background features a light blue world map with white grid lines, showing the outlines of continents like North America, Europe, and Africa.

GLOBALIZATION



Globalization around the world. All products are available on the global market place.

GLOBALIZATION

- **Globalization of Markets** - merging of distinct, national markets into a large global marketplace
- **Globalization of Production** - sourcing of goods and services from locations around the globe, taking advantage of the national differences in the cost and quality of factors of production (land, labor capital ...)



International Monetary Fund

GLOBAL INSTITUTIONS

- **General Agreement on Tariffs and Trade (GATT)** - predecessor of WTO
- **World Trade Organization (WTO)** - promote free trade
- **International Monetary Fund (IMF)** - 1944 - Bretton Woods, NH, Maintain order in the international monetary system
- **World Bank** - - 1944 - Bretton Woods, NH, To promote economic development
- **United Nations** - 10/24/45 - Peace through international cooperation
- **G20** - 1999 - 19 largest economies of the world + representatives of the EU & the European Central Bank



Free trade. But what if there is no money, since there is no work?

DRIVERS OF GLOBALIZATION

- **Declining trade & investment barriers**
 - Increased international trade
 - Increased foreign direct investment (FDI)
- **The role of technological change**
 - Microprocessors & telecommunication
 - www - growth of the internet
 - Transportation
 - Globally dispersed production system

CHANGING DEMOGRAPHICS

- **World output and trade** - US & developed world is declining in general. China & developing world increasing.
- **Foreign direct investment** is declining by developed countries and increasing by developing countries.
- **Multinational Enterprises (MNE)** - any company that has productive activities in two or more countries.
- Large MNEs decline in the US and mini-multinationals take over



THE GLOBALIZATION DEBATE

- Changing world order
- Globalization, jobs and income
- Globalization & the environment
- Globalization & national sovereignty
- Globalization and the world's poor
- Managing global businesses





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POLITICAL ECONOMY

POLITICAL SYSTEMS

- **Political Economy** - the political, economic and legal system of a country
- **Collectivism** - collective goals are more important than individual goals
- **Individualism** - emphasizes individual freedoms





Plato & Aristotle from
School of Athens, Raphael, 1509

- **Socialism** - Plato, Marx, Engels, Lenin - public ownership of factors of production
- **Communism** - is a classless, moneyless, and stateless social order structured upon common ownership of the means of production, as well as a social, political and economic ideology and movement that aims at the establishment of this social order.
- **Totalitarianism** - a person or political party exercise absolute power over all spheres of human life
- **Democracy** - Political system in which government is by the people , exercised either directly or thorough elected representatives
- **Privatization** - The sale of state owned enterprises to private investors.



Capitalism or socialism?

ECONOMIC SYSTEMS



Command Economy

Socialism

Communism

Mixed Economy

Socialist/Capitalist
elements

Market Economy

Capitalism



Legal systems

LEGAL SYSTEMS

- **Common Law** - law based on tradition, precedent, and custom
- **Civil Law** - based on a very detailed set of written laws and codes - Roman law
- **Theocratic Law System** - based on religious teachings - Islamic law
- **In business** -
 - Contract law
 - Property rights
 - Foreign corrupt practices act - illegal to bribe foreign officials
 - Protection of intellectual property
 - Product safety and liability

A panoramic nighttime view of Dubai, United Arab Emirates. The Burj Khalifa stands prominently in the center, its spire reaching into the dark sky. The city is illuminated with a mix of warm yellow and cool blue lights. In the foreground, a large body of water reflects the city lights. To the left, a building with a glowing green logo is visible. The overall scene conveys a sense of modernity and economic growth.

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ECONOMIC DEVELOPMENT



Accra, Ghana

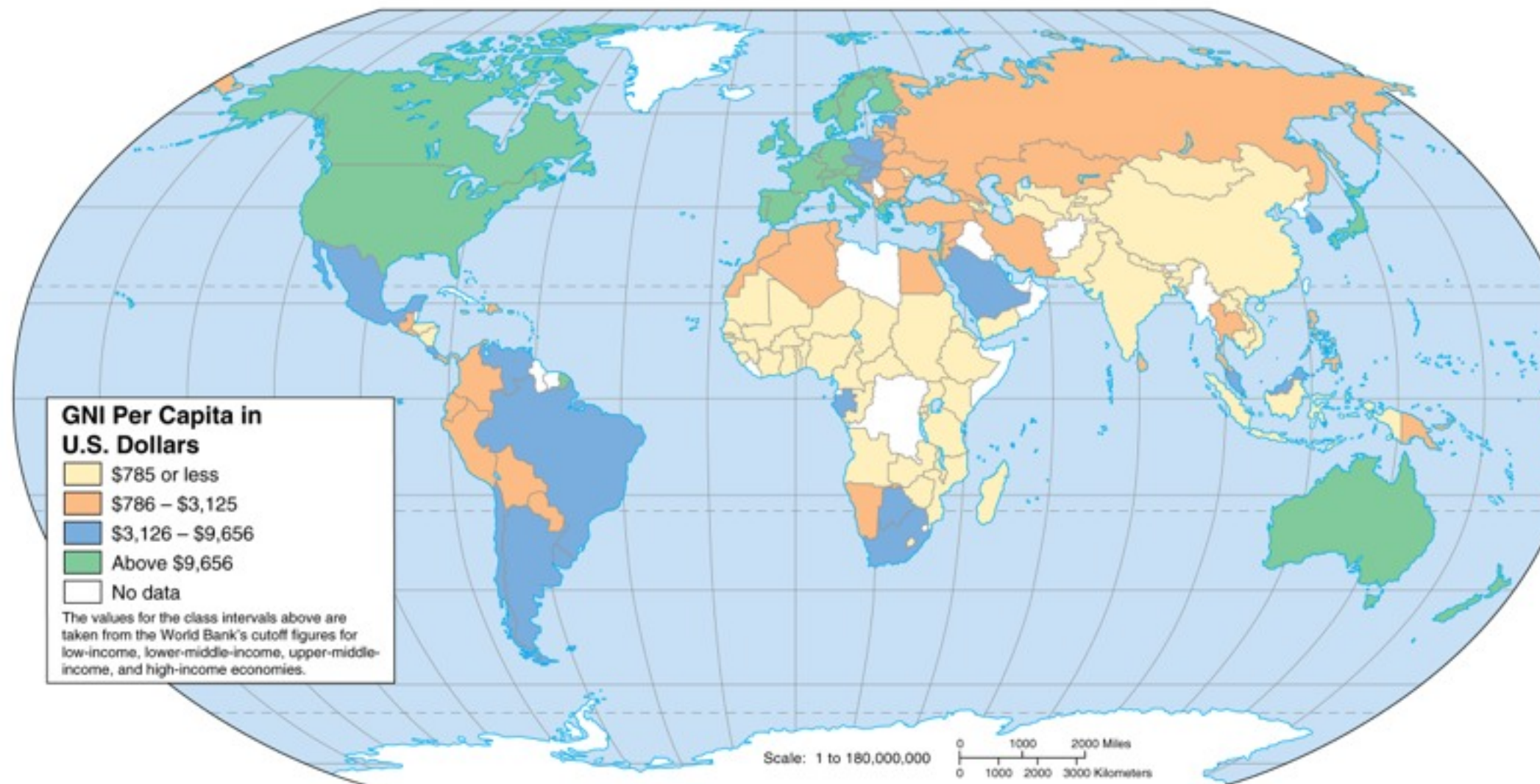
DIFFERENCES IN ECONOMIC DEVELOPMENT

- **Gross National Income (GNI)** - measuring economic activity of a country. Total annual income of residents.
- **GDP - Gross Domestic Product** - all G&S produced in an economy in dollar volume
- **Purchasing Power Parity (PPP)** - reflect differences of cost of living. The base for the adjustment is the cost of living in the US.
- **Long-run economic growth**
 - ▶ **Innovation & entrepreneurship** - are the engines of long run economic growth. Google, Amazon, Dell ...

- Economic growth is where there is **self interest** to succeed - market economy
 - Property rights - legal rights
 - Political system - competition
- Incentive - economic profit

- Economic progress brings democracy
- Correlation between geography, education and economic development - Jeffrey Sachs

GNI per Capita



MOVIE 3.1 Dubai World Expo 2020



- **The spread of democracy** in the world - 87 countries are free in 2011 or about 45% of the world's nations and 43% of the global population

1. Eastern Europe falls
2. New information technologies - internet
3. Emergence of prosperous middle class

- **Economic transformation**

- ▶ Deregulation
- ▶ Privatization - India's, China's transformation



MOVIE 3.2 The Growth of the Global Economy

OECD -- The Organization for Economic Co-operation and Development

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DIFFERENCES IN CULTURE



CULTURE

- **Culture** - A system of values and norms that are shared among a group of people
- **Values** - Ideas about what a society believes to be good, right and desirable
- **Norms** - Social rules and guidelines that prescribe appropriate behavior in particular situations



SOCIAL STRUCTURE

- **Social structure** - The basic organization of society
- **Individualism** vs the group
- **Social strata** - Hierarchical social categories often based on family background , occupation and income
- **Social mobility** - The extent to which individuals can move out of the social strata they were born into.
- **Caste system** - change in the position of the cast system is not possible during the person's lifetime





St Peter's, Rome

RELIGIOUS AND ETHICAL SYSTEMS

- **Religion** - a system of shared beliefs and rituals concerned with the realm of the sacred
- **Ethical systems** - a coherent collection of beliefs about the right way to behave in society
- **Christianity** - most widely practiced
- **Islam** - 2nd largest
- **Hinduism** - India, 4000 years ago, oldest
- **Buddhism** - India, 6th century BC,
- **Confucianism** - ideology, 5th century BC, Confucius, China, Korea, Japan

LANGUAGE

- Language is one of the defining characteristics of a culture
- Spoken language - Inuit - 24 ways of describing the quality of snow
- Countries with more than one language often have more than one culture
- English is the language of international business and most widely used
- Blunders - Chevy Nova, Hoover
- Unspoken language - nonverbal communication - hand gestures, personal spaces



A woman in traditional attire, carrying a large woven basket on her back, walks through a lush green terraced rice field. The landscape is a vast, hilly region with numerous terraced fields, some of which are filled with water, reflecting the sky. In the distance, a small village is visible on a hillside. The sky is filled with large, dramatic clouds, with sunlight breaking through in some places, creating a high-contrast, atmospheric scene. The overall mood is serene yet powerful, emphasizing the connection between nature and human labor.

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ETHICS IN INTERNATIONAL BUSINESS



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INTERNATIONAL TRADE THEORY

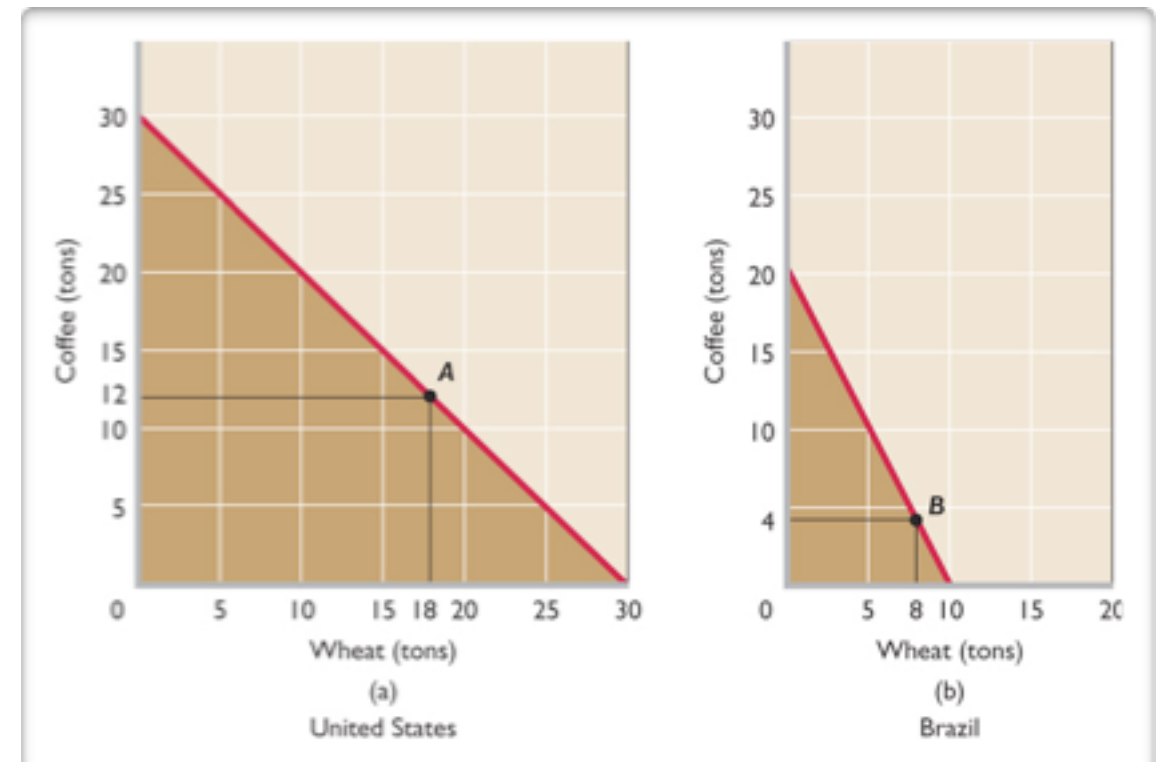


ABSOLUTE AND COMPARATIVE ADVANTAGE

- 1776 - The Wealth of Nations - Adam Smith - **Absolute advantage**
- 1817 - Principles of Political Economy - **Comparative advantage**
- Comparative Advantage: Graphical Analysis

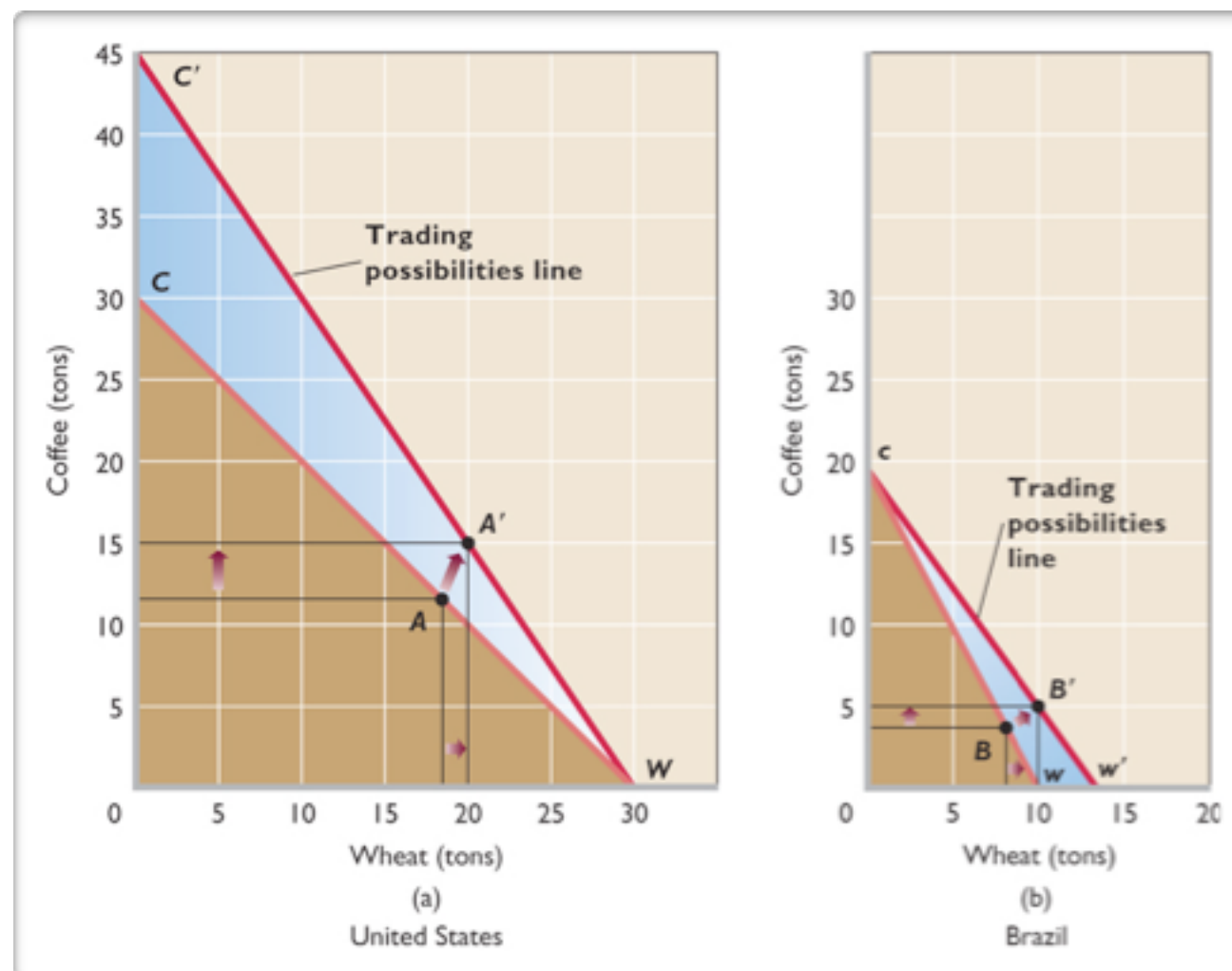
COMPARATIVE ADVANTAGE: GRAPHICAL ANALYSIS

- US - 30 tons of coffee / 30 tons of wheat
- Brazil - 20 tons of coffee / 10 tons of wheat
- US opportunity cost ratio is: $1C = 1W$
- Brazil opportunity cost ratio is: $2C = 1W$
- Comparative advantage - total output will be greatest when each good is produced by the nation that has the lowest domestic opportunity cost for that good.
- US has to give up 1W to produce 1C
- Brazil has to give up $1/2W$ to produce 1C
- The US should specialize in wheat and Brazil should specialize in coffee
- **Terms of Trade - Brazil $1.25C : 1W$, US $1.75C : 1W$** Settlement will be in the middle



COMPARATIVE ADVANTAGE: GRAPHICAL ANALYSIS

- Gains from Trade - Final terms of trade - $1.5C : 1W$
- US coffee = $1.5C = 45$
- Brazil wheat = $1.5C : 1W = 20C : XW \implies 20CW / 1.5C = XW \implies 13.333W$



Heckscher - Ohlin Theory

Ricardo's comparative advantage arises from differences in **productivity**. Labor productivity = comparative advantage.

Heckscher - Ohlin: differences in natural **factor endowments** = comparative advantage

The extent to which a country is endowed with such resources as land, labor and capital. The more abundant the factor, the lower the cost.

USX = abundant resource products

USM = scarce resource products

Both theories agree that trade is beneficial

H-O theory argues that the pattern of international trade is determined by differences in factor endowments rather than differences in productivity.

Leontief paradox - tested the H-O theory

According to H-O theory, Leontief said since US is abundant in capital = it should export capital intensive goods, and it is scarce in labor = it should import labor intensive goods

He found, that US exports were less capital intensive than US imports = **Leontief paradox**

Explanation: US produces new, innovative products, that are less capital intensive to produce as opposed to mass produced products that are mature.

Ricardian model predicts international trade patterns better than H-O theory.

Ricardo: International trade differences are predicted by differences in productivity.

USX - aircraft - US is efficient in producing aircraft

USM - textiles - US is less efficient in producing textiles

New research in H-O theory - if we take into account technological development, H-O theory also predicts international trade patterns.

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THE POLITICAL ECONOMY OF INTERNATIONAL TRADE



INSTRUMENTS OF TRADE POLICY

- **Tariffs**
- **Import quotas**
- **Voluntary export restraints**
- **Subsidies**
- **Local content requirements**
- **Administrative policies**
- **Antidumping policies**





THE CASE FOR GOVERNMENT INTERVENTION

- **Political arguments for intervention**

- ▶ Protecting jobs and industries
- ▶ National security - semiconductors
- ▶ Retaliation - intellectual property laws in China
- ▶ Protecting consumers - ban imports of American beef
- ▶ Protecting foreign policy objectives
- ▶ Protecting human rights

- **Economic arguments for intervention**

- ▶ Infant industry
- ▶ Strategic trade policy - Countries should support domestic firms to achieve first mover advantage in a domestic industry (Boeing, LCDs Japan)
- ▶ Governments to help domestic firms overcome already established first mover advantage firms. Airbus - GB - F - D - S 5% to 45% market share with government subsidies.



- The revised case for free trade
 - ▶ Retaliation and trade war - how should the US government respond to the Airbus subsidy? Most likely the US should not engage in a trade war.



DEVELOPMENT OF THE WORLD TRADIG SYSTEM

- 1930 - Smoot-Hawley Act
 - ▶ Enormous wall of tariff barriers in the US, damaging effect on employment abroad, US exports tumbled, further slide into the Great Depression
- 1947-1979 - GATT - Trade liberalization and economic growth
- 1980 - 1993 Protectionist trends
 - ▶ Japan, worsening US trade deficit, countries got around GATT
- 1986 - The Uruguay round and the WTO
- The future of the WTO - China - unresolved issues and the Doha round - 2001
 - ▶ Antidumping, agriculture - protectionism, intellectual property, nonagricultural G&S

8

FOREIGN DIRECT INVESTMENT





TRENDS & THEORIES OF FDI

- Trends in FDI - grown more rapidly than world trade
 - ▶ Fear of protectionism
 - ▶ Shift toward democratic economies and market systems encouraged FDI
 - ▶ Globalization of the world economy
- Direction of FDI - US, UK, F. Asia, Latin America, China to Africa - raw materials
- Source of FDI - US (largest), UK, F, D, NL, J - collectively responsible for 60%
- Form of FDI - acquisitions or greenfield
- Why FDI - vs exporting, licensing
 - ▶ Firm has know how - most important
 - ▶ Firm to control its operations and business strategy
 - ▶ Firms' capabilities are not licensable



BENEFITS & COSTS OF FDI

- Host country benefits - resource transfer, employment, balance of payments (BOP) competition and economic growth
- Host country costs - adverse effects on competition, adverse effects on BOP, loss of national sovereignty and autonomy - mostly irrational
- Home country benefits - BOP from inflow of earnings, employment, reverse resource transfer effect - learn superior product and process technologies, and management
- Home country costs- BOP, employment
- Governments can help or restrict FDI

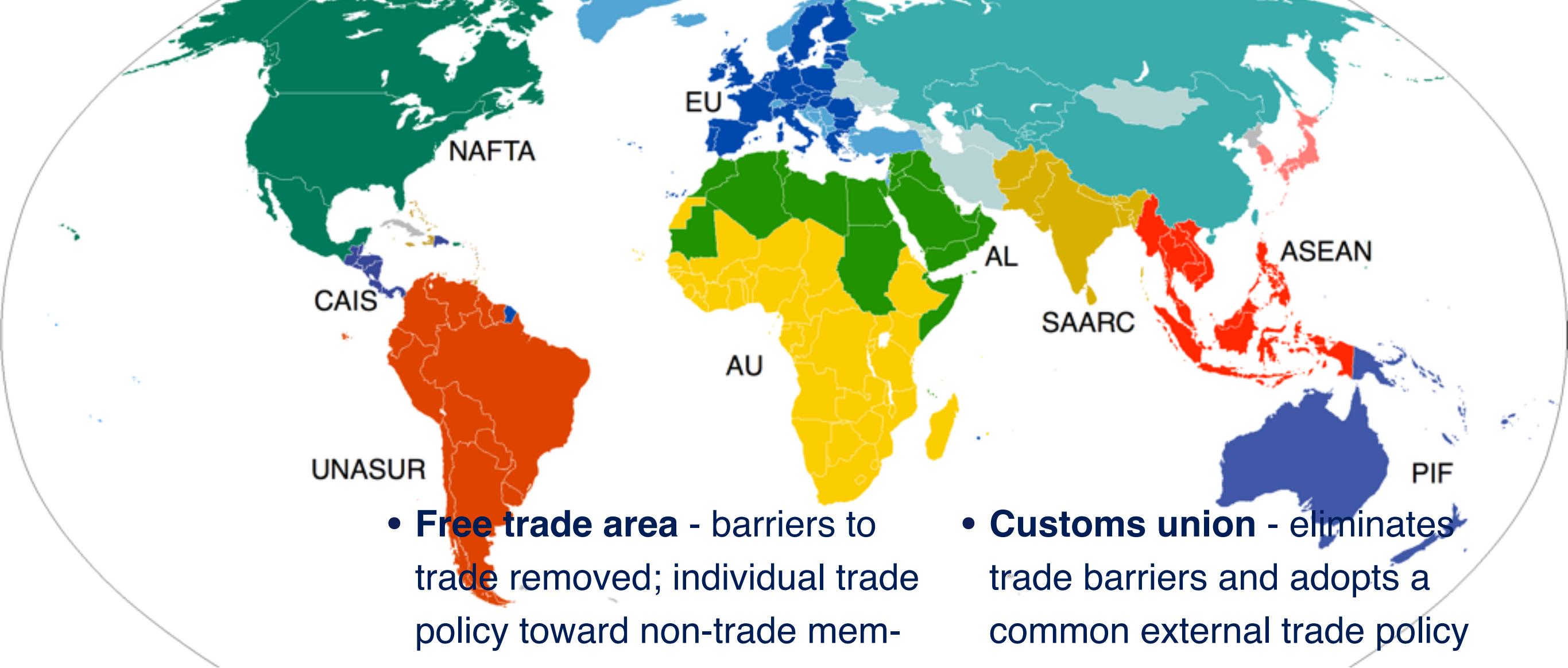
REGIONAL ECONOMIC INTEGRATION



LEVELS OF ECONOMIC INTEGRATION

- **Regional economic integration** -
Agreements among countries in a geographic region to reduce and ultimately remove tariff and non tariff barriers to the free flow of G&S and factors of production between each other
- EU - regional economic integration: 27 nations, GDP - \$15.7T, ~500M people





Economic integration in the
World

- **Free trade area** - barriers to trade removed; individual trade policy toward non-trade members
- **European Free Trade Association (EFTA)** includes Norway, Iceland, Liechtenstein, and Switzerland
- **Customs union** - eliminates trade barriers and adopts a common external trade policy
- **Common market** - + factors of production to move freely
- **Economic union** - + common currency, tax, fiscal, monetary policy
- **Political union** - central political apparatus

THE CASE FOR AND AGAINST INTEGRATION

- The economic and political case for integration - unrestricted free trade, specialization, lower cost and efficiency
- Against
 - ▶ Trade creation/Trade diversion - net effect should be positive





REGIONAL ECONOMIC INTEGRATION IN EUROPE

European Parliament

- EU - 27 countries
- EFTA - European Free Trade Association
- 4 countries
- Political structure of the EU - beginning:
 - 1. WW I, II and peace
 - 2. Political and economic power
- **1951** - European **Coal & Steel Commu-**
nity, B, F, D, I, Lux, NE
- **1957** - **Treaty of Rome** - common mar-
ket established, **European Community**
- **The Single European Act** - all impedi-
ments to the formation of a single market
is eliminated **December 31, 1992**
- **1993** - Name change - **European Union**
- **1973 - 2007** - **27 countries, ~500M,**
~\$15T GDP, now EU larger than US



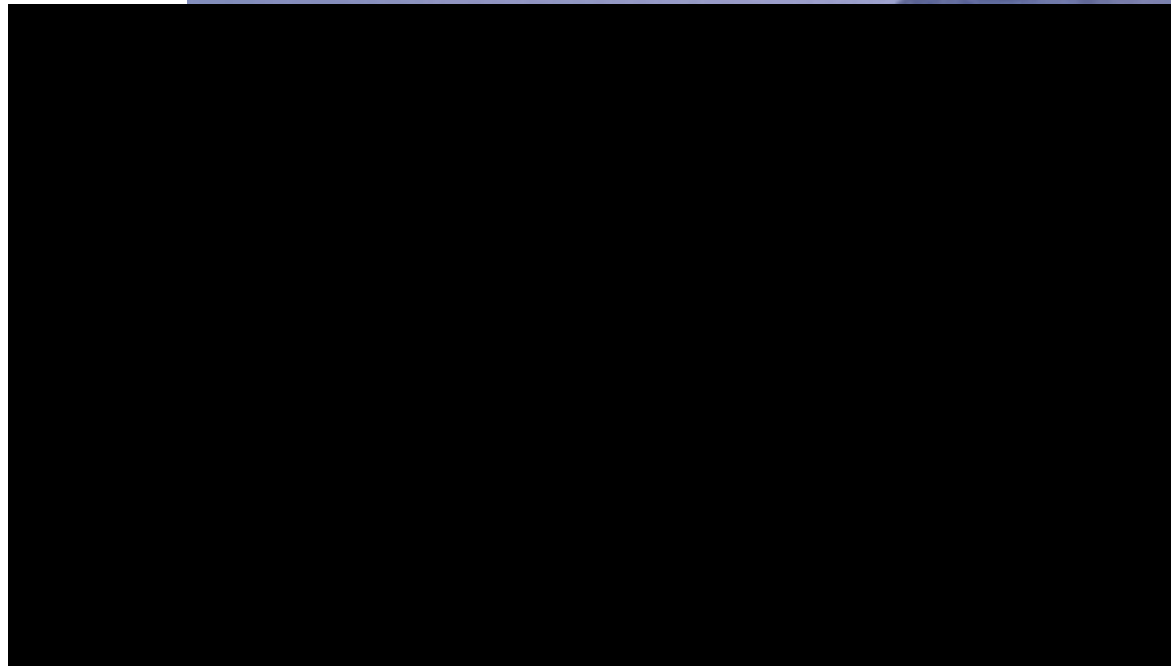
European Commission

- **European Commission**
 - EU legislation, Brussels, Belgium - run by commissioners appointed for 5 years by member countries (27 commissioners) President is chosen by member states - legislation goes to
- **Council of EU** then
- **European Parliament**
- European Commission upkeeps the laws through the **Court of Justice**
- **Court of Justice** - one judge from each country
- **EU Competition Commissioner** - competitiveness in Europe - Intel, Microsoft
- **European Council** - ultimate controlling authority
- **European Parliament** - 2012 - 754 members, meets in Strasbourg, France consultative body
-



Euro

- **1992 February - Maastricht Treaty** - The establishment of the Euro
- **Euro used by 17** of the 27 countries, GB, Den, S
- **Advantages:**
 - ▶ Single currency
 - ▶ Compare prices
 - ▶ Economic efficiency stemming from more competition
 - ▶ Liquid capital markets, increase in investment
 - ▶ More investment opportunities in companies across Europe
- **Disadvantages**
 - ▶ Loss of individual monetary policy
- **European Central Bank**
 - ▶ Modeled from German **Bundesbank**, located in Frankfurt
 - ▶ Politically independent
 - ▶ **Executive board:** President, VP, +4 other members
 - ▶ **Policy** is determined by governing council = Executive board + central bank governors from the 17 countries



How does the EU work



REGIONAL ECONOMIC INTEGRATION IN THE AMERICAS

- NAFTA
- The Andean Community
- Mercosur
- Central American Common Market -
CAFTA, CARICOM





ASEAN

REGIONAL ECONOMIC INTEGRATION ELSEWHERE

- ASEAN (Association of South East Asian Nations)
- APEC (Asia-Pacific Economic Cooperation)
- Regional trade blocs in Africa



10

THE FOREIGN EXCHANGE MARKET



Different country's currencies

THE FUNCTIONS OF THE FOREIGN EXCHANGE MARKET

Foreign exchange market - a market for converting the currency of one country into that of another country.

Exchange rate - is the rate at which one currency is converted into another. With exchange rates there is **foreign exchange risk**.

Functions of the foreign exchange market:

1. Convert currency from one to the other
2. Provide some insurance against foreign exchange risk

Currency conversion: if $\$2 = 1\text{£}$ then
 $\$60 = 30\text{£}$



World currencies

Main uses of foreign exchange markets:

1. Payments a company receives overseas
2. Pay foreign companies for their products
3. International investments
4. **Currency speculation** - the short term movement of funds from one currency to another in the hopes of profiting from shifts in exchange rates.

Expect the \$ to decline

$$\text{\$1} = 120\text{\yen} \text{ --- } \text{\$10M} = 1.2\text{B}\text{\yen}$$

\$ expected to decline:

$$\text{\$1} = 100\text{\yen} \text{ -- } 1.2\text{B}\text{\yen} = \text{\$12M}$$

+ \\$2M

Carry trade - borrowing in one currency where i is low. Then with the borrowed money invest where i is high.

$$i_{\text{Japan}} = 1\% \text{ -- } i_{\text{US}} = 6\% \\ + 5\%$$

If \yen goes up, one has to pay more \$ to get \yen back. Investor could lose some money. Insurance: hedging.

Spot exchange rates -
on the spot exchange

Forward exchange rates - exchange currency at some specific date in the future 30/90/180 days

Currency swaps - simultaneous purchase and sale of a given amount of foreign exchange for two different value dates.

Spot rate: $\$1 = ¥120$;

90 day forward: $\$1 = ¥110$

Apple sold $\$1M = ¥120M$

In 90 days Apple will receive $\$1.09M$ ($120/110$)

Arbitrage - The purchase of securities in one market for immediate resale in another to profit from a price discrepancy. Buy low, sell high.

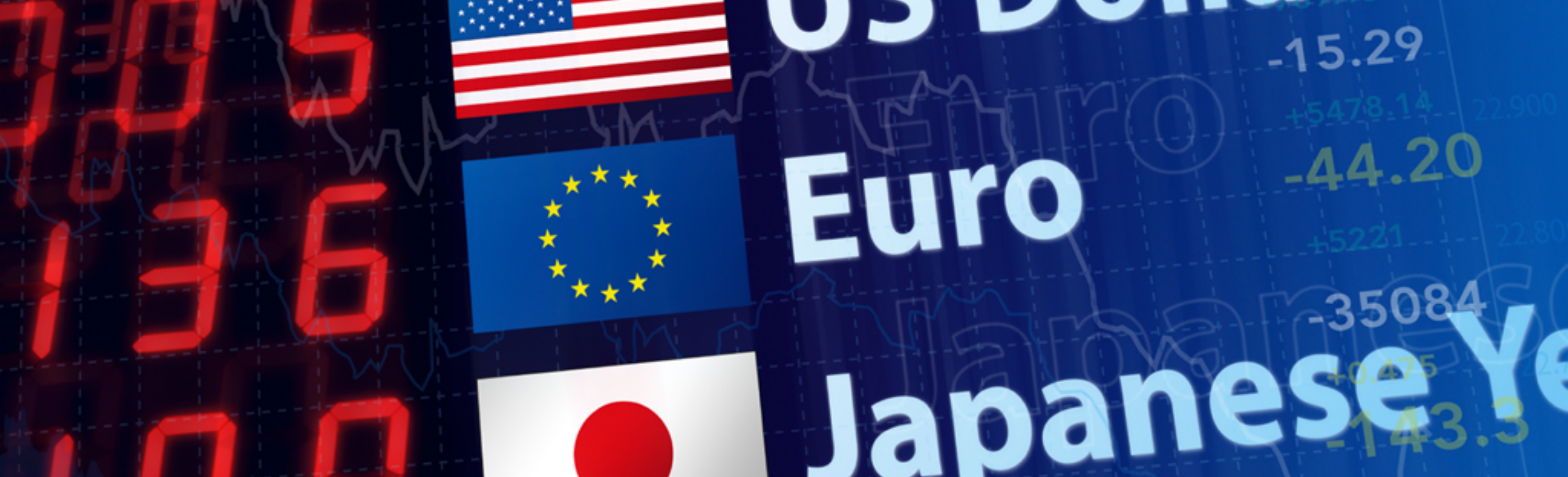
The law of one price

Purchasing power parity



11

THE INTERNATIONAL MONETARY SYSTEM



Forex

EXCHANGE RATE SYSTEMS

- **Floating exchange rate** - exchange rate is determined by market demand and supply for the currency
- **Pegged exchange rate** - Currency value is fixed relative to a reference currency
- **Dirty float** - a country's currency is allowed to float freely against other currencies but the government will intervene, buying and selling currency if it believes that the currency has deviated too far from its fair value.
- **Fixed exchange rate system** - currency conversion rate is fixed amongst different currencies - European Monetary System before the Euro.



Gold standard

THE GOLD STANDARD & THE BRETTON WOODS SYSTEM

- The gold standard - 1870-1914
- 1914 off the gold standard to finance the war - printed money - inflation
- 1919 - US went back to the gold standard
- 1933 left it again then in 1934 went back again
- 1939 the gold standard was dead
- 1944 - Bretton Woods
 - ▶ The role of the IMF - established to maintain order
 - ▶ The role of the World Bank - to promote economic development
 - ▶ Currencies were fixed to gold but did not need to be convertible +/-1%
 - ▶ 1 oz of gold = \$35

- **IMF**

- ▶ Discipline - no devaluations, stability to trade, no inflation
- ▶ Flexibility - IMF to lend \$ if there was fundamental disequilibrium - devaluations are allowed

- **World Bank**

- ▶ International Bank for Reconstruction and Development (IBRD) - to rebuild Europe and provide low interest loans
- ▶ Money landing - \$ raised through bond sales, paid back at market rate of interest
- ▶ International Development Association (1960) member donations for poorest nations

- **Fixed exchange rate collapsed in 1973.**

- ▶ US ran trade deficit, \$ needed to be devalued, others would have to re-value their currency.
- ▶ Nixon imposed a 10% import tariff
- ▶ \$ was devalued
- ▶ Finally the fixed exchange rate system collapsed.

- **Floating exchange rate regime** - finalized January 1976 - Jamaica - The Jamaica Agreement

- ▶ Floating was accepted
- ▶ Gold standard abandoned

- Since 1973 exchange rates are much more volatile
 - ▶ Number of oil crises, \$ volatile, government money supply interventions

- **Fixed vs floating exchange rates**



12

THE STRATEGY OF INTERNATIONAL BUSINESS

STRATEGY AND THE FIRM

- Value creation
- Strategic positioning
- The firm as a value chain





VW

GLOBAL EXPANSION, PROFITABILITY, AND PROFIT GROWTH

- Leveraging products and competencies
- Location economies
- Experience effects
- Leveraging subsidiary skills
- Profitability and profit growth summary

COST PREASSURES

- Pressures for cost reduction
- Pressures for local responsiveness





Boeing 787 - Dreamliner

CHOOSING A STRATEGY

- Global standardization strategy
- Localization strategy
- Transnational strategy
- International strategy



Mazda - Mazda - Ford JV

STRATEGIC ALLIANCES

- The advantages of strategic alliances
- The disadvantages of strategic alliances
- Making alliances work



13

ENTERING FOREIGN MARKETS

BASIC ENTRY DECISIONS

- **Which foreign markets?** - The choice must be based on the country's long-run profit potential
- Profit is a function of:
 - Present and future wealth of consumers
 - market system
- Costs and risks are also lower in economically advanced and politically stable nations



- **Timing of entry** - Early entry - enter before others = **first mover advantage**
 - ▶ Capture demand by establishing a strong brand name
 - ▶ Build sales volume - economies of scale = lowest cost
 - ▶ Tie consumers to their products
- First mover disadvantage:
 - ▶ Pioneering costs
 - ▶ Business failure
 - ▶ Product promotion and customer education
- **Scale of entry** and strategic commitments
 - ▶ Significant scale of entry - customers and distributors will see that the company is committed
 - ▶ Less resources to invest in other markets - limited strategic flexibility
- **Small scale entry** - learn about the foreign market while limiting the firm's exposure to the market
 - ▶ Collect information, reduce risk
 - ▶ Lack of commitment - hard to build market share
 - ▶ Miss first mover advantage
- **There are no “right” decisions just decisions that are associated with different levels of risk and reward**



US-China Joint venture

ENTRY MODES

- **Exporting**

- ▶ Low cost, economies of scale
- ▶ Disadvantage: May not be most efficient uses of resources - manufacture in a cheaper location
- ▶ Transportations costs, tariffs,

- ▶ Marketing and sales delegated to foreign firms. Solution: wholly owned subsidiary

- **Turnkey projects** - Earn \$ from technological know how, less risky than FDI

- ▶ Disadvantages: No long term interest in the foreign country

- ▶ Might create a competitor
- ▶ If technology is a competitive advantage, by selling it, lessens the competitive advantage
- **Licensing** - licensor grants the rights to intangible property (patents, inventions, formulas, processes, designs, copyrights, trademarks) to the licensee for a specified period for a royalty fee
 - ▶ **Advantages:** no capital outlay, business possesses intangible property but it does not have to develop it itself (Coca cola licenses name for clothing)
 - ▶ **Disadvantages:** No tight control over manufacturing, marketing and strategy to give economies of scale, licensing technological know-how to foreign companies and they can turn around and innovate the technology
- **Franchising** - special form of licensing, mostly services - McDonalds
 - ▶ **Advantages:** The franchisee assumes the risks - McDonald's global expansion
 - ▶ **Disadvantages:** quality control issues. Create wholly owned subsidiary with the company's managers to insure quality
- **Joint Ventures** - creates jointly owned firms
 - ▶ **Advantages:** local knowledge, cost sharing of foreign markets, political considerations
 - ▶ **Disadvantages:** giving control of its technology to its partner, keep majority so it does not happen, conflicts

- **Wholly owned subsidiaries** - the firm owns 100% of the stock
 - ▶ Set up a new operation - greenfield venture
 - ▶ It can acquire an established firm
 - ▶ **Advantages:** Reduced risk of losing competitive advantage, tight control over operations overseas
 - ▶ **Disadvantages:** costly, must know how to operate in the foreign country
- **An entry mode**
 - ▶ Technological know-how - wholly owned subsidiary
 - ▶ Management know-how - franchising and subsidiary (McDonalds)
 - ▶ Pressures for cost reduction

- **Greenfield venture or Acquisition?**
- **Acquisitions**
 - ▶ **Pros:** quick, preempt competition - especially in fast growing markets, less risky than greenfield investments
 - ▶ **Acquisition failures:** overpayment and overoptimism, clash of culture, failure to integrate operations, inadequate pre-acquisition screening
- **Greenfield ventures**
 - ▶ **Pros:** allows the firm to build the kind of subsidiary it wants, uses its own operation standards
 - ▶ **Cons:** slower to establish, risky, can be preempted by larger competitors

A woman in traditional attire, carrying a large woven basket on her back, walks through a lush green terraced rice field. The landscape is a vast, hilly region with numerous terraced fields, some of which are filled with water, reflecting the sky. In the distance, a small village is visible on a hillside. The sky is filled with large, dramatic clouds, with sunlight breaking through in some places, creating a high-contrast, atmospheric scene. The overall mood is serene yet powerful, capturing a moment of daily life in a beautiful, rugged landscape.

14

EXPORTING, IMPORTING AND COUNTERTRADE



Lufthansa Cargo

- **The promise and pitfalls of exporting**

- ▶ Large revenue and profit opportunities are to be found overseas - economies of scale are greater, unit costs are lower
- ▶ Ignorance of potential opportunities is a huge barrier to exporting
- ▶ Smaller firms are intimidated by the complexities and mechanics of exporting - business practices, languages,

culture, legal system, currency, paperwork

- **Improving export performance**

- ▶ Export opportunities are not known
- ▶ Most successful trader - Germany - trade associations, gov. agencies, commercial banks gather info
- ▶ In Japan, MITI (Ministry of International Trade and Industry)
- ▶ Sogo shosha - Marubeni

- **Information sources**

- ▶ US Dept. of Commerce - trade events, foreign contacts
- ▶ International Trade Administration
- ▶ US Commercial Service
- ▶ Small Business Administration (SBA)
- ▶ Service Corps of Retired Executives (SCORE)
- ▶ Export Legal Assistance Network (ELAN) - trade attorneys

- Utilizing export management companies
 - export specialists that act as the export marketing department or international department of their firms

- Export strategy - 3M

- ▶ Enter on a small scale

- ▶ Add product lines after some success

- ▶ Hire locals

- Success ?

- ▶ Hire talent and experts
- ▶ Focus on small amount of markets
- ▶ Enter the foreign market on a small scale to reduce potential failure
- ▶ Hire additional talent to reduce time
- ▶ Build strong and enduring relationships with local distributors and customers
- ▶ Hire local people
- ▶ Option for local production

- **Export and Import Financing**

- ▶ Lack of trust: exporter - importer - letter of credit (L/C), bill of lading
- Draft - or bill of exchange - an order written by an exporter to pay a specified amount of money at a specified time
 - ▶ Sight draft - payable on sight
 - ▶ Time draft - allows delay in payment
- Negotiable instrument - it can be discounted and/or sold
- Bill of lading - issued by the exporter by the carrier transporting the merchandise
 - ▶ Receipt - carrier received the merchandise
 - ▶ Contract - in return of the charge carrier must transport

- ▶ Document of title - obtain payment before the merchandise is released to the importer

- **Export assistance**

- ▶ **Export-Import Bank** - increase exports - loans, loan guarantees
- ▶ Export credit insurance - if the customer defaults, export credit insurance will cover most of the loss. Issued by Foreign Credit Insurance Association (FCIA)
- **Countertrade** - trade goods and services for other goods and services when they cannot be traded for money

- **Types of countertrade**

- ▶ **Barter** - direct exchange of goods and services between two parties
- ▶ **Counter purchase** - a firm agrees to purchase a certain amount of materials back from the country to which a sale is made

- **Pros and cons of Countertrade**

- ▶ Finance trade when other means are not available
- ▶ Unsellable and/or poor quality goods. Even if the goods are good quality, the firm has to have a department that manages countertrade deals.
- ▶ Japanese sogo shosha - most contacts

A woman in traditional attire, carrying a large woven basket on her back, walks through a lush green terraced rice field. The landscape is a vast, hilly region with numerous terraced fields, some of which are filled with water, reflecting the sky. In the distance, a small village is visible on a hillside. The sky is filled with dramatic, dark clouds, with sunlight breaking through in the center, creating a strong backlighting effect and illuminating the scene with a warm, golden light. The overall atmosphere is serene and majestic.

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GLOBAL PRODUCTION, OUTSOURCING & LOGISTICS



Apple by Foxconn

WHERE TO PRODUCE & OUTSOURCING

- Country factors
- Technological factors
- Product factors
- Advantages of make
- Advantages of buy



ARBITRAGE

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CARRY TRADE

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CIVIL LAW

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COLLECTIVISM

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COMMON LAW

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Chapter 2 - Legal Systems

COMMUNISM

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CULTURE

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CURRENCY SPECULATION

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CURRENCY SWAPS

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DEMOCRACY

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ETHICAL SYSTEMS

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FOREIGN EXCHANGE MARKET

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FORWARD EXCHANGE RATES

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GDP - GROSS DOMESTIC PRODUCT

All G&S produced in an economy in dollar volume

Related Glossary Terms

Gross National Income (GNI), Purchasing Power Parity (PPP)

Index

Find Term

Chapter 3 - Differences In Economic Development

GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT

Predecessor of WTO

Related Glossary Terms

Drag related terms here

Index

Chapter 1 - Global Institutions

GLOBALIZATION

The trend towards a more integrated global economic system.

Related Glossary Terms

Globalization of Markets, Globalization of Production, Multinational Enterprises (MNE

Index

GLOBALIZATION OF MARKETS

Merging of distinct, national markets into a large global marketplace

Related Glossary Terms

Globalization, Globalization of Production

Index

Find Term

Chapter 1 - Globalization

GLOBALIZATION OF PRODUCTION

Sourcing of goods and services from locations around the globe, taking advantage of the national differences in the cost and quality of factors of production (land, labor capital ...)

Related Glossary Terms

Globalization, Globalization of Markets

Index

Find Term

Chapter 1 - Globalization

GROSS NATIONAL INCOME (GNI)

Measuring economic activity of a country. Total annual income of residents.

Related Glossary Terms

GDP - Gross Domestic Product, Purchasing Power Parity (PPP)

Index

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Chapter 3 - Differences In Economic Development

INDIVIDUALISM

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INTERNATIONAL MONETARY FUND (IMF)

1944 - Bretton Woods, NH, Maintain order in the international monetary system

Related Glossary Terms

World Trade Organization (WTO)

Index

Find Term

Chapter 1 - Global Institutions

MULTINATIONAL ENTERPRISES (MNE

Any company that has productive activities in two or more countries.

Related Glossary Terms

Globalization

Index

Find Term

Chapter 1 - Changing Demographics

NORMS

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Chapter 4 - Culture

POLITICAL ECONOMY

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Chapter 2 - Political Systems

PRIVATIZATION

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Related Glossary Terms

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PURCHASING POWER PARITY (PPP)

Reflect differences of cost of living. The base for the adjustment is the cost of living in the US.

Related Glossary Terms

GDP - Gross Domestic Product, Gross National Income (GNI)

Index

Find Term

Chapter 3 - Differences In Economic Development

REGIONAL ECONOMIC INTEGRATION

Agreements among countries in a geographic region to reduce and ultimately remove tariff and non tariff barriers to the free flow of G&S and factors of production between each other

Related Glossary Terms

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Chapter 9 - Levels of Economic Integration

RELIGION

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SOCIALISM

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SPOT EXCHANGE RATES

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THEOCRATIC LAW SYSTEM

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VALUES

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WORLD TRADE ORGANIZATION (WTO)

Promote free trade

Related Glossary Terms

International Monetary Fund (IMF)

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Chapter 1 - Global Institutions