

Understanding the Global Context of Business

chapter # 4

Introduction

- This chapter explores the global context of business with:
 - major world marketplaces and trade agreements
 - factors that help determine how countries and businesses respond to international opportunities and challenges.
 - decisions managers must make if they intend to compete in international markets.
 - social, cultural, economic, legal, and political factors that affect international business.

learning objectives

- 1. Discuss the rise of international business and describe the major world marketplaces, trade agreements, and alliances.*
- 2. Explain how differences in import-export balances, exchange rates, and foreign competition determine the ways in which countries and businesses respond to the international environment.*

learning objectives

- 3. Discuss the factors involved in deciding to do business internationally and in selecting the appropriate levels of international involvement and international organizational structure.*
- 4. Explain the role and importance of the cultural environment in international business.*
- 5. Describe some of the ways in which economic, legal, and political differences among nations affect international business.*

The Contemporary Global Economy

- **Globalization**

- process by which the world economy is becoming a single interdependent system

- **Import**

- product made or grown abroad but sold domestically

- **Export**

- product made or grown domestically but shipped and sold abroad

The Contemporary Global Economy (cont.)

- Governments and businesses are more aware of the benefits of globalization to businesses and shareholders
- New technologies have made international travel, communication, and commerce faster and cheaper than ever
- Sometimes a firm must expand into foreign markets simply to keep up with competitors

Distinctions Based on Wealth

1. High-income countries
2. Upper-middle-income countries
3. Lower-middle-income countries
4. Low-income countries

Global Clusters



Trade Agreements and Alliances

- **North American Free Trade Agreement (NAFTA)**
 - agreement to gradually eliminate tariffs and other trade barriers among the United States, Canada, and Mexico
- **European Union (EU)**
 - agreement among major European nations to eliminate or make uniform most trade barriers affecting group members

European Union



FIGURE 4.1 The Nations of the European Union

Trade Agreements and Alliances

- **Association of Southeast Asian Nations (ASEAN)**
 - organization for economic, political, social, and cultural cooperation among Southeast Asian nations

Association of Southeast Asian Nations

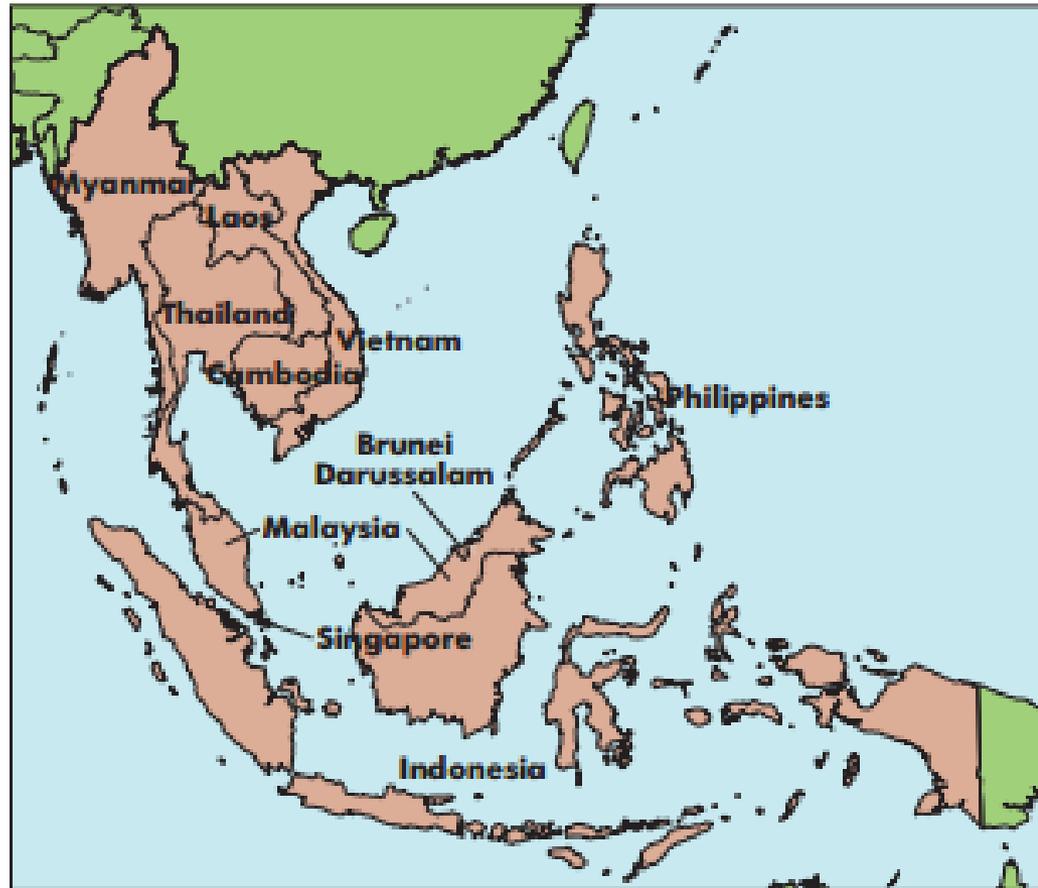


FIGURE 4.2 The Nations of the Association of Southeast Asian Nations (ASEAN)

Trade Agreements and Alliances

- **General Agreement on Tariffs and Trade (GATT)**
 - international trade agreement to encourage the multilateral reduction or elimination of trade barriers
- **World Trade Organization (WTO)**
 - organization through which member nations negotiate trade agreements and resolve disputes about trade policies and practices

Goals of the WTO

1. Promote trade by encouraging members to adopt fair trade practices
2. Reduce trade barriers by promoting multilateral negotiations
3. Establish fair procedures for resolving disputes among members

International Trade

- **Balance of Trade**

- economic value of all products a country exports minus the economic value of all products it imports

Major Trading Partners of the U.S.

table 4.1 Major Trading Partners of the United States

Country	Imports (\$ billions)	Rank	Country	Exports (\$ billions)	Rank
China	390.8	1	Canada	270.1	1
Canada	298.4	2	Mexico	199.9	2
Mexico	257.3	3	China	100.2	3
Japan	134.6	4	Japan	64	4
Federal Republic of Germany	99.3	5	United Kingdom	50.8	5
Korea, South	54.3	6	Federal Republic of Germany	45	6
Saudi Arabia	52	7	Brazil	40.2	7
United Kingdom	50.6	8	South Korea	38.9	8
France	38.3	9	Netherlands	36.8	9
India	37.7	10	Hong Kong	33.1	10

International Trade

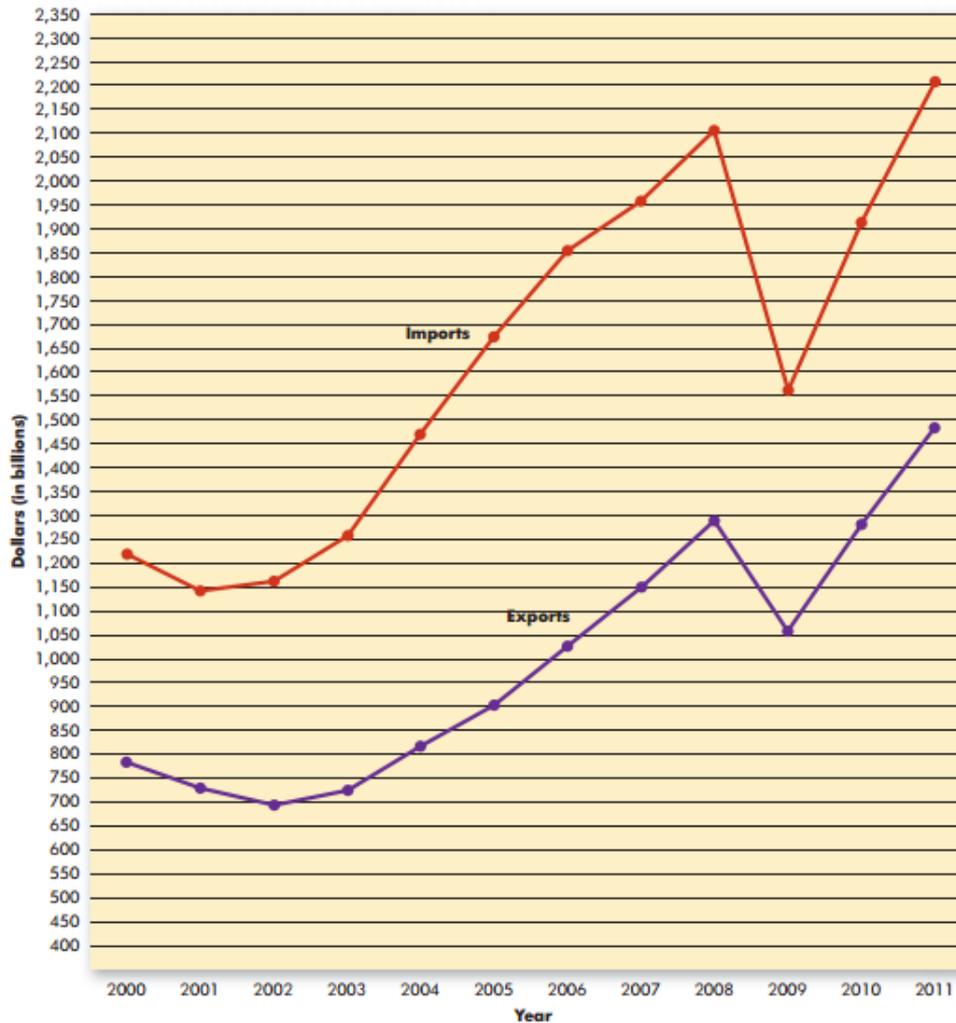


FIGURE 4.3 U.S. Imports and Exports

International Trade (cont.)

- **Trade Deficit**
 - situation in which a country's imports exceed its exports, creating a negative balance of trade

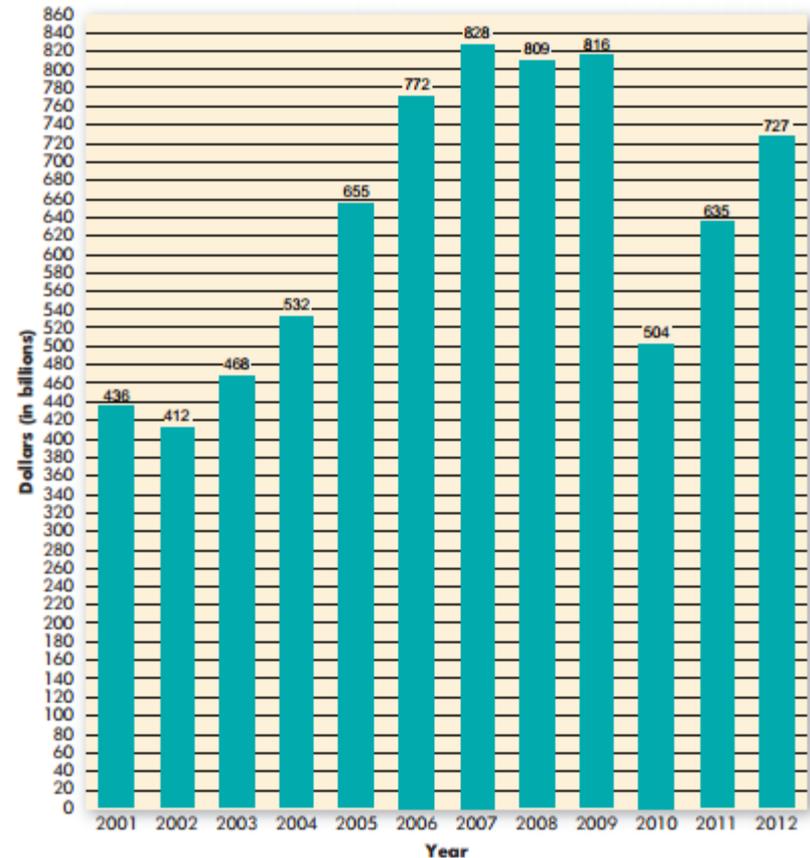


FIGURE 4.3 U.S. Imports and Exports

International Trade (cont.)

- **Trade Surplus**

- situation in which a country's exports exceed its imports, creating a positive balance of trade

- **Balance of Payments**

- flow of all money into or out of a country

Exchange Rates

- **Exchange Rate**

- rate at which the currency of one nation can be exchanged for the currency of another nation

- **Euro**

- a common currency shared among most of the members of the European Union (excluding Denmark, Sweden, and the United Kingdom)

Forms of Competitive Advantage

- **Absolute Advantage**

- the ability to produce something more efficiently than any other country can

- **Comparative Advantage**

- the ability to produce some products more efficiently than others

Forms of Competitive Advantage (cont.)

- **National Competitive Advantage**
 - International competitive advantage stemming from a combination of factor conditions, demand conditions, related and supporting industries, and firm strategies, structures, and rivalries

Going International

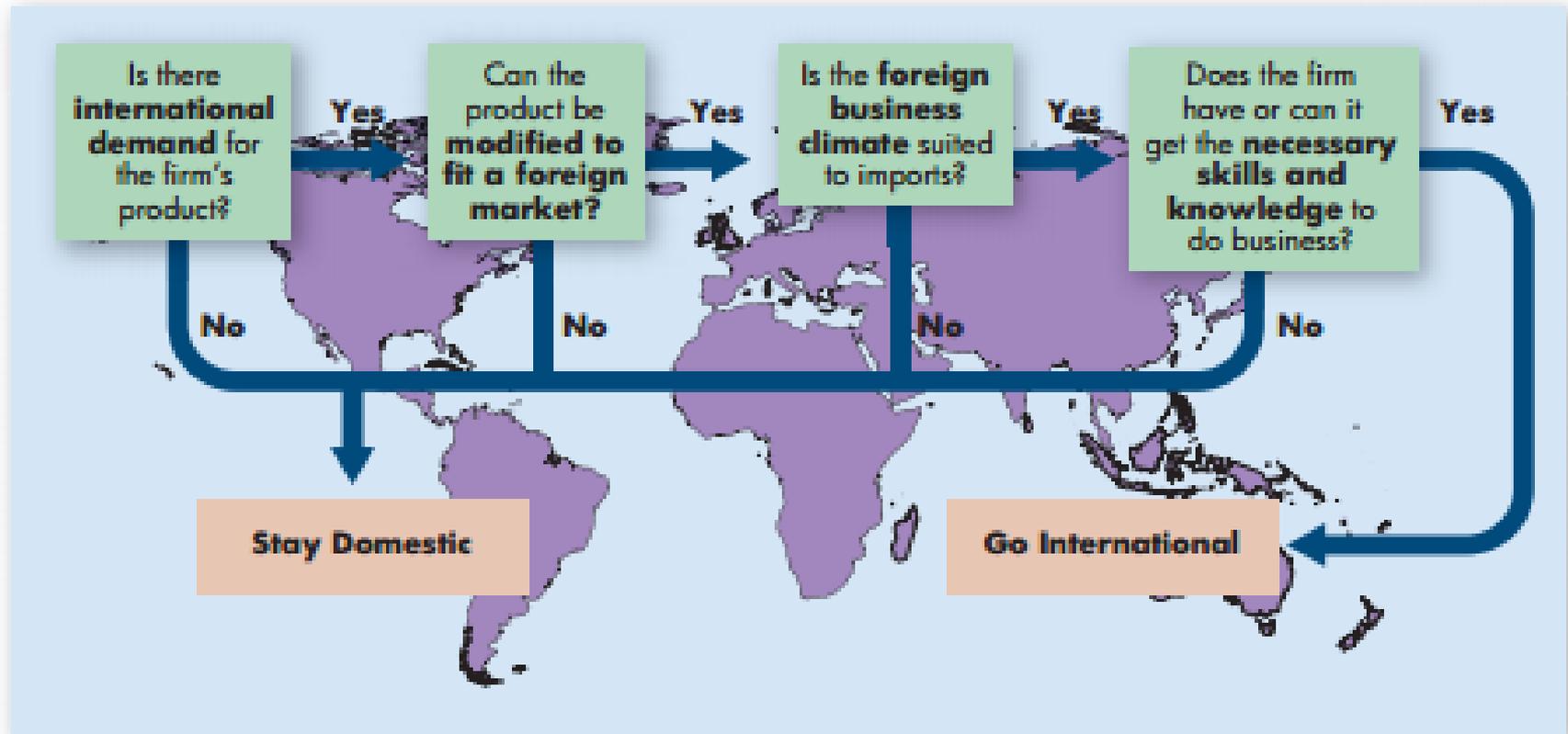


FIGURE 4.5 Going International

Levels of International Involvement

- **Exporter**

- firm that distributes and sells products to one or more foreign countries

- **Importer**

- firm that buys products in foreign markets and then imports them for resale in its home country

Levels of International Involvement (cont.)

- **International Firm**
 - firm that conducts a significant portion of its business in foreign countries
- **Multinational Firm**
 - firm that designs, produces, and markets products in many nations
- **Independent Agent**
 - foreign individual or organization that agrees to represent an exporter's interests

The World's Largest Non-U.S. Companies

table 4.2 The World's Largest Non-U.S. Companies by Sales, Profits, and Number of Employees (2011)

Company	Sales (\$ million)	Profits (\$ million)	Employees (in millions)
Royal Dutch Shell	378,152		
BP	308,928		
Sinopec	273,422		
China National Petroleum	240,192		
State Grid	226,294		
Nestle		32,843	
GAZPROM		31,895	
Industrial & Commercial Bank of China		24,398	
Royal Dutch Shell		20,127	
PETROBRAS		19,184	
Chinese National Petroleum			1.7
State Grid			1.6
National Health Service (England)			1.4
Indian Railways			1.4
China Post Group			0.9

Source: http://money.cnn.com/magazines/fortune/global500/2011/full_list/, and <http://www.businessinsider.com/the-10-biggest-employers-in-the-world-2011-9?op=1>.

International Organization Structures

- **Licensing Arrangement**

- arrangement in which firms choose foreign individuals or organizations to manufacture or market their products in another country

- **Strategic Alliance**

- arrangement in which a company finds a foreign partner to contribute approximately half of the resources needed to establish and operate a new business in the partner's country - also called joint venture

International Organization Structures (cont.)

- **Branch Office**

- foreign office set up by an international or multinational firm

- **Foreign Direct Investment (FDI)**

- Arrangement in which a firm buys or establishes tangible assets in another country

Barriers to International Trade

Social and Cultural Differences

Economic Differences

Legal and Political Differences

Hofstede's Five Dimensions of National Culture

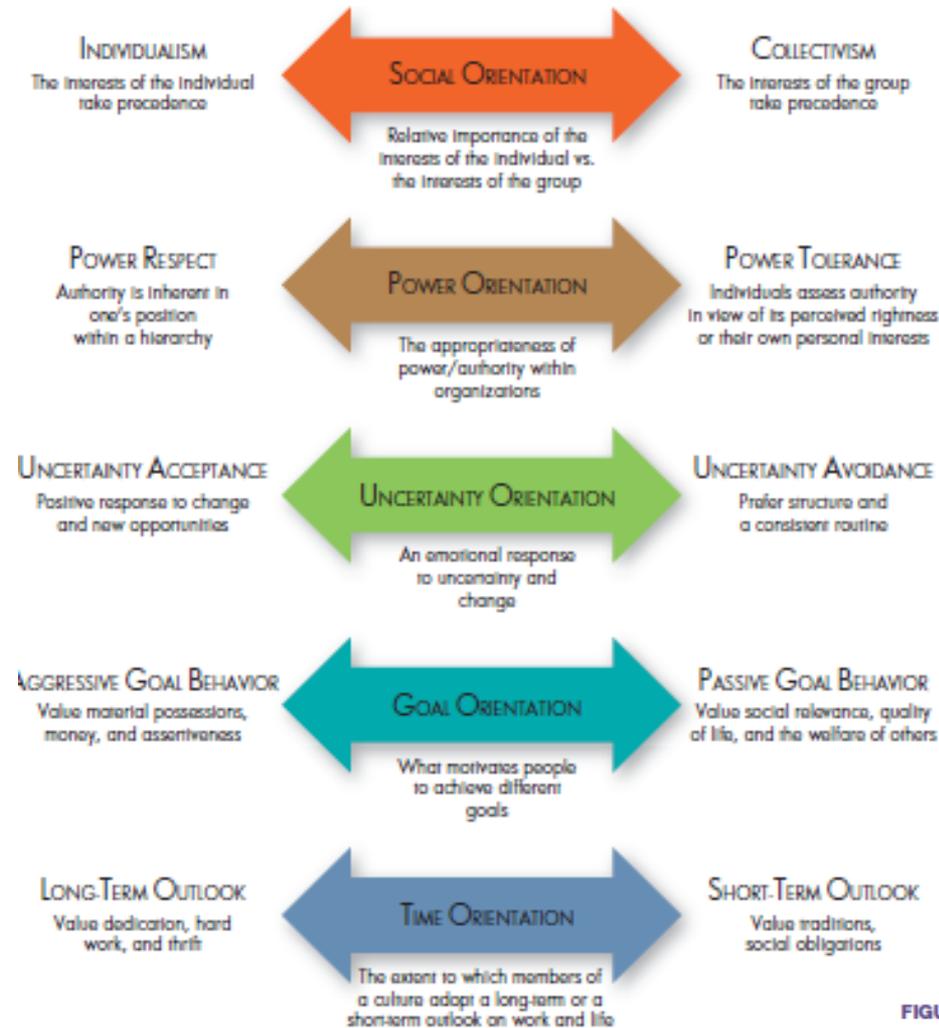


FIGURE 4.6 Hofstede's Five Dimensions of National Culture

Understanding the Cultural Environment

- **Social Orientation**

- a person's beliefs about the relative importance of the individual versus groups to which that person belongs

- **Power Orientation**

- the beliefs that people in a culture hold about the appropriateness of power and authority differences in hierarchies such as business organizations

Understanding the Cultural Environment *(cont.)*

- **Uncertainty Orientation**
 - the feeling individuals have regarding uncertain and ambiguous situations
- **Goal Orientation**
 - the manner in which people are motivated to work toward different kinds of goals
- **Time Orientation**
 - the extent to which members of a culture adopt a longterm versus a short-term outlook on work, life, and other elements of society

Barriers to International Trade

- **Quota**

- restriction on the number of products of a certain type that can be imported into a country

- **Embargo**

- government order banning exportation and/or importation of a particular product or all products from a particular country

Barriers to International Trade (cont.)

- **Tariff**
 - tax levied on imported products
- **Subsidy**
 - government payment to help a domestic business compete with foreign firms

The Protectionism Debate

- **Protectionism**

- the practice of protecting domestic business at the expense of free market competition
- Critics charge that protectionism drives up prices by reducing competition

Legal and Political Differences

- **Local Content Law**
 - law requiring that products sold in a particular country be at least partly made there
- **Business Practice Law**
 - law or regulation governing business practices in given countries

Legal and Political Differences (cont.)

- **Cartel**

- association of producers whose purpose is to control supply and prices

- **Dumping**

- practice of selling a product abroad for less than the cost of production

Applying What You've Learned

- 1. Discuss** the rise of international business and describe the major world marketplaces, trade agreements, and alliances.
- 2. Explain** how differences in import-export balances, exchange rates, and foreign competition determine the ways in which countries and businesses respond to the international environment.

Applying What You've Learned (cont.)

- 3. Discuss** the factors involved in deciding to do business internationally and in selecting the appropriate levels of international involvement and international organizational structure.
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