**Chapter Objectives**

1. Explain why nations/companies engage in international trade and how trade is measured.
2. Identify opportunities in international business.
3. Appreciate how cultural, economic, legal, and political differences create challenges.
4. Describe ways governments/international bodies promote/regulate global trade.
5. Discuss initiatives designed to reduce trade barriers and promote free trade.
6. Understand how to prepare for a career in international business.

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**Why Do Nations Trade?**

> “Because no national economy can produce all the goods (it) need(s).”

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**Absolute Advantage**

1. Only source of particular product.
2. Can make more of product using same or fewer resources than other countries.

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**Comparative Advantage**

1. Produce product at lower opportunity cost.
2. Opportunity costs: the products that country must decline in order to produce something else.
3. When country specializes in particular product, it must sacrifice production of another product.

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**Comparative Advantage In The Techs**

<table>
<thead>
<tr>
<th>Country</th>
<th>Boots</th>
<th>Tecscopes</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Tech</td>
<td>3</td>
<td>8</td>
</tr>
<tr>
<td>Low Tech</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>
Measuring Trade

- Balance of Trade - “…subtract… value of (country’s) imports from the value of its exports.”
- Balance of Payments - “…the difference, over...time, between the total flow of money...into a country and the total flow of money...out.”

Balance Of Trade

- Trade Surplus (Favorable Balance)
  - Sells more than it buys

- Trade Deficit (Unfavorable Balance)
  - Buys more than it sells

Managing National Credit Card


Import or Export?

- Import
  - Goods In

- Export
  - Goods Out

Importing Goods In
Exporting Goods Out

Licensing And Franchising

- Licensing Agreement – Lets foreign company to sell products of producer/licensor or use intellectual property for royalty fee
- International Franchise Agreement – Company/Franchisor grants foreign company right to use brand name and sell its products

Contract Manufacturing

- “(also known as outsourcing)...U.S. company...contract(s) with local company in foreign country to manufacture one of its products...retain(s) control of product design and development and...label...”
Strategic Alliances
And Joint Ventures

- **Strategic Alliance** - Agreement between two companies (or company and nation) to pool resources to achieve business goals benefiting both partners.
- **Joint Venture** - Alliance in which partners fund a separate entity to manage joint operation.

Foreign Direct
Investments And Subsidiaries

- **Foreign Direct Investment** - Formal establishment of business operations on foreign soil.
- **Foreign Subsidiary** - Independent company owned by a foreign firm (parent).

Where Does FDI Go?

- 

![Graph showing global investments from 1985 to 2001.](image)

World’s Largest MNCs

<table>
<thead>
<tr>
<th>Rank</th>
<th>MNC Name</th>
<th>Revenues (2008 in billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wal-Mart Stores (USA)</td>
<td>89,870</td>
</tr>
<tr>
<td>2</td>
<td>Exxon Mobil (USA)</td>
<td>77,824</td>
</tr>
<tr>
<td>3</td>
<td>Royal Dutch Shell (Netherlands)</td>
<td>55,866</td>
</tr>
<tr>
<td>4</td>
<td>BP (Great Britain)</td>
<td>261,438</td>
</tr>
<tr>
<td>5</td>
<td>Toyota Motor (Japan)</td>
<td>231,261</td>
</tr>
<tr>
<td>6</td>
<td>Chevron (USA)</td>
<td>216,781</td>
</tr>
<tr>
<td>7</td>
<td>General Electric (USA)</td>
<td>209,954</td>
</tr>
<tr>
<td>8</td>
<td>Total (France)</td>
<td>167,280</td>
</tr>
<tr>
<td>9</td>
<td>General Motors (USA)</td>
<td>148,317</td>
</tr>
<tr>
<td>10</td>
<td>Coca-Cola (USA)</td>
<td>176,138</td>
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<tr>
<td>11</td>
<td>Panasonic (Japan)</td>
<td>132,367</td>
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<tr>
<td>12</td>
<td>Samsung (Korea)</td>
<td>131,680</td>
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<tr>
<td>13</td>
<td>Ford Motor (USA)</td>
<td>112,620</td>
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<tr>
<td>14</td>
<td>Nestle (Switzerland)</td>
<td>103,651</td>
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<td>15</td>
<td>IBM (France)</td>
<td>364,760</td>
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<tr>
<td>16</td>
<td>Siemens (Germany)</td>
<td>153,264</td>
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<tr>
<td>17</td>
<td>BP (France)</td>
<td>114,858</td>
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<tr>
<td>18</td>
<td>DaimlerChrysler (Germany)</td>
<td>107,532</td>
</tr>
<tr>
<td>19</td>
<td>BMW (Germany)</td>
<td>106,083</td>
</tr>
<tr>
<td>20</td>
<td>ASR (France)</td>
<td>102,581</td>
</tr>
</tbody>
</table>

MNC Culture

- **Criticism**
  - Destroys livelihoods in home-country
  - Traditional lifestyles/values weakened or destroyed
  - Irreversible damage to environment

- **Defense**
  - Better, cheaper products
  - Creates jobs
  - Raises standard of living
  - Increases cross-cultural understanding

Global Business Environment

- **Cultural**
- **Economic**
- **Legal & Regulatory**
Culture

“...system of shared beliefs, values, customs, and behaviors that govern the interactions of members of a society.”

Lost In Translation

Translated into German, the slogan “Come Alive with Pepsi” became “Come out of the Grave with Pepsi”

An English-speaking car-wash company in Francophone Quebec advertised itself as a “lavement d’auto” (“car enema”) instead of the correct “lavage d’auto”

A U.S. appliance ad fizzled in the Middle East because it showed a well-stocked refrigerator featuring a large ham, thus offending the sensibilities of Muslim consumers, who don’t eat pork.

Economic Environment

Economic Development - Gross national income per capita
- Standard of living
- Infrastructure

Currency Valuations & Exchange Rates

Universal Currency Converter

Legal & Regulatory Environment

No established global legal system

Foreign Corrupt Practices Act
**Subsidies or Trade Controls?**

- Protectionism
- Tariffs
- Quotas/Embargo
- Dumping

**Trade Control Debate**

**Pros**
- Protect specific industries
- Protect new or struggling industries
- Shield industries vital to national defense

**Cons**
- Restricts free trade; countries cannot compete freely
- Doesn’t promote level playing field; gives special privileges to some
- Cannot bring goods to fair/open market
- Detrimental to world economy; nations cannot focus on what they do best

**Reducing Trade Barriers**

- Trade Agreements/Organizations
  - General Agreement on Tariffs & Trade (1947)
  - World Trade Organization (1995)
- Financial Support for Troubled Economies (1944)
  - International Monetary Fund
  - World Bank
- Trading Blocs
  - North American Free Trade Association (1994)
  - European Union
  - Other

**European Union Nations**

**Career in International Business**

- Plan Education
  - Develop expertise
  - Knowledge of international politics, economics, & culture
- Get Direct Experience
- Interact With Other Cultures