



BUSINESS in the GLOBAL ECONOMY

Chapter 3

Chapter 3 -- Business in the Global Economy
Intro to Business

TRADING AMONG NATIONS

- Domestic Business
 - The making, buying, and selling of goods and services *within* a country
- International Business
 - Business activities needed for creating, shipping, and selling goods and services across national borders

TRADING AMONG NATIONS

- **Absolute Advantage**
 - Exists when a country can produce a good or service at a lower cost than other countries
 - This may result from an abundance of natural resources or raw materials
- **Comparative Advantage**
 - A situation in which a country specializes in the production of a good or service at which it is relatively more efficient

TRADING AMONG NATIONS

- Imports
 - Items bought from other countries
- Exports
 - Goods and services sold to other countries

MEASURING TRADE RELATIONS

- Balance of Trade
 - The difference between a country's total exports and total imports
 - *trade surplus* – if a country exports (sells) more than it imports (buys)
 - *trade deficit* – if a country imports (buys) more than it exports (sells)
- Balance of Payments
 - The difference between the amount of money that comes into a country and the amount that goes out of it

INTERNATIONAL CURRENCY

- Variety of currency in the world is a challenge in doing business internationally
- Foreign Exchange Rates
 - The value of a currency in one country compared with the value of a currency in another is called the exchange rate
 - The value is affected by supply and demand



INTERNATIONAL CURRENCY

- Factors Affecting Currency Values
 - Balance of Payments
 - Economic Conditions
 - Political Stability



THE INTERNATIONAL BUSINESS ENVIRONMENT

- Geography
- Cultural Influences
- Economic Development
 - Literacy Level
 - Technology
 - Agricultural Dependency
 - Infrastructure
- Political and Legal Concerns



INTERNATIONAL TRADE BARRIERS

- Quotas
 - Limit on the quantity of imports
- Tariffs
 - A tax that a government places on certain imported products
- Embargoes
 - Imposed by governments to stop the export or import of a product

ENCOURAGING INTERNATIONAL TRADE

- Free-Trade Zones
 - 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
- Free Trade Agreements
 - Member countries agree to remove duties and trade barriers on products traded among them
 - This results in increased trade between the members
- Common Markets
 - Members do away with duties and other trade barriers
 - Allow companies to invest freely in each member's country
 - Allow workers to move freely across borders

INTERNATIONAL BUSINESS ORGANIZATIONS

- **Multinational Company (MNC)**
 - An organization that does business in several countries
 - Usually consists of a parent company in a *home country* and divisions or separate companies in one or more host countries.
 - The country in which the MNC places business activities is called the *host country*

INTERNATIONAL BUSINESS ORGANIZATIONS

- **MNC Strategies**

- Global strategy

- Uses the same product and marketing strategy worldwide

- Multinational strategy

- Treats each country market differently
- Firms develop products and marketing strategies that adapt to the customs, tastes, and buying habits of a distinct national market

INTERNATIONAL BUSINESS ORGANIZATIONS



- **MNC Benefits**

- Abundance of goods available, often at lower prices than can be produced domestically
- Career opportunities expand—jobs created
- Increase sales and profits with foreign trade
- Promote mutual understanding, communication and respect among people of different nations
- Nations that are business partners usually try to maintain friendly relations for economic reasons

INTERNATIONAL BUSINESS ORGANIZATIONS

- **Drawbacks of MNCs**
 - An MNC can become a major economic power in a host country.
 - Workers of the host country may depend on the MNC for jobs
 - Consumer become dependent upon it for goods and services
 - The MNC may actually influence or control the political power of the country

INTERNATIONAL BUSINESS ORGANIZATIONS

- **GLOBAL MARKET ENTRY MODES**
 - Licensing
 - Selling the right to use some intangible property (production process, trademark, or brand name) for a fee or royalty
 - Franchising
 - A franchise is the right to use a company name or business process in a specific way
 - Joint Venture
 - N agreement between two or more companies to share a business project

INTERNATIONAL BUSINESS ORGANIZATIONS

- **INTERNATIONAL TRADE ORGANIZATIONS**
 - World Trade Organization (WTO)
 - Created in 1995 to promote trade around the world
 - More than 150 member countries
 - Settles trade disputes and enforces free-trade agreements between its members
 - International Monetary Fund (IMF)
 - Established in 1946
 - More than 150 member nations
 - Helps promote economic cooperation
 - Maintains an orderly system of world trade and exchange rates

INTERNATIONAL BUSINESS ORGANIZATIONS

- **INTERNATIONAL TRADE ORGANIZATIONS**

- World Bank

- The International Bank for Reconstruction and Development, commonly called the *World Bank*
 - Created in 1944 to provide loans for rebuilding after World War II
 - Today, the bank's key function is to give economic aid to less developed countries
 - These funds build communications systems, transportation networks, and energy plants