3 The World Marketplace: Business without Borders

- What opportunities exist in the world economy for businesses?
- Why do nations trade?
- How do we measure trade?
- How do companies reach global markets?
- What are the barriers to international trade?
- What are the benefits and criticisms of the free trade movement?
An Unprecedented Opportunity....

“A company that keeps its eye on Tom, Dick and Harry is going to miss Pierre, Hans, and Yoshio.”

-- Al Ries, marketing strategist and author
An Unprecedented Opportunity....

<table>
<thead>
<tr>
<th>Nation</th>
<th>Population*</th>
<th>Per Capita GDP (U.S. Dollars)**</th>
<th>GDP Growth Rate***</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,330,044,544</td>
<td>$6,100</td>
<td>+9.8%</td>
</tr>
<tr>
<td>India</td>
<td>1,147,995,904</td>
<td>$2,900</td>
<td>+7.3%</td>
</tr>
<tr>
<td>United States</td>
<td>303,824,640</td>
<td>$48,000</td>
<td>+1.4%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>237,512,352</td>
<td>$3,900</td>
<td>+5.9%</td>
</tr>
<tr>
<td>Brazil</td>
<td>196,342,592</td>
<td>$10,300</td>
<td>+5.2%</td>
</tr>
</tbody>
</table>


Key Reasons for International Trade

✓ Access to Factors of Production
✓ Reduced Economic Risk
✓ Inflow of Innovation
**Key Reasons for International Trade: Competitive Advantage**

**Opportunity cost** – The cost of giving up the second-best choice when making a decision.

A country has an **absolute advantage** when it can produce more of a good than other nations, using the same amount of resources.

**Comparative advantage** - the benefit a country has in a given industry if it can make products at a lower opportunity cost.
BrandChannel.com “brandjunkie” awards *brands that inspire and shape our world.*

- In 2008, Facebook took top honors for successful viral marketing
- Apple got kudos for innovative packaging
- 12.6% of brandjunkies thought no brand made a real effort to be **GREEN**
Global Trade: Taking Measure

- **Balance of Trade**
  - Trade Deficit
  - Trade Surplus

- **Balance of Payments**
  - Balance of Payments Deficit
  - Balance of Payments Surplus

- **Exchange Rates**

- **Countertrade**
### Global Trade: Exchange Rates

<table>
<thead>
<tr>
<th>STRONG DOLLAR VS EURO: (Example: $1.00 = 1.20 euros)</th>
<th>WEAK DOLLAR VS. EURO: (Example: $1.00 = .60 euros)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. travelers to Europe</strong></td>
<td><strong>European travelers to U.S.</strong></td>
</tr>
<tr>
<td><strong>American firms with European operations</strong></td>
<td><strong>European firms with American operations</strong></td>
</tr>
<tr>
<td><strong>European exporters</strong></td>
<td><strong>American exporters</strong></td>
</tr>
</tbody>
</table>
Seizing the Opportunity: Strategies for Reaching Global Markets

- Exporting
- Licensing
- Franchising
- Direct Investment

- Lower Risk
- Less Control
- Higher Risk
- More Control
Seizing the Opportunity: Strategies for Reaching Global Markets

**Foreign Outsourcing/Contract Manufacturing** – contracting with foreign suppliers to produce products, usually at a fraction of the domestic cost

**Importing** – buying products that have been produced or grown in foreign nations
Seizing the Opportunity: Strategies for Reaching Global Markets

• **Exporting**
  
  *Selling domestic products abroad*

• **Licensing**
  
  *Authority given by domestic firm for rights to produce/market its product and use trademarks/patents*

• **Franchising**
  
  *Providing the right to produce and market products under its operating requirements*

• **Direct Investment**
  
  *Firms acquire businesses or develop new facilities in foreign countries*

• **Joint Ventures**
  
  *Two or more companies joining forces (Partnership or Strategic Alliances)*
The Chinese government has demonstrated that capitalism – combined with strict control – can be highly effective.

• The controlling hand of the government was especially visible before the 2008 Beijing Olympics; the government:
  ✓ Ordered restaurants to remove dog meat from their menus
  ✓ Mandated a special training program for 90,000 taxi drivers
  ✓ Encouraged residents to participate in an online international etiquette program

• China’s control has kept the country in better shape than the rest of the world at the outset of the global economic crisis.

• China’s free market reforms are modeled after western capitalism and have driven China’s growth. Can America learn something from China?
Barriers to International Trade

- Sociocultural Differences
- Economic Differences
- Political & Legal Differences
Veggie Surprise, Anyone?

- **India**: Paneer Salsa Wrap: Cottage cheese with Mexican-Cajun coating

- **Australia**: Bacon and Egg Roll: “rashers of quality bacon and fried egg”

- **Hong Kong**: Corn Cup: A plastic cup filled with corn off the cob

- **United Kingdom**: Five “Toasted Deli” sandwich options

- **Japan**: Shrimp burgers and green tea flavored milkshakes
Social/cultural differences can rapidly undermine business relationships

- Nonverbal Communication
- Forms of Address
- Attitudes toward punctuality
- Religious Celebrations
- Business Practice/Gifts
3

Barriers to International Trade: Economic Differences

- Exchange Rates
- Population
- Per Capita Income
- Infrastructure
  - Transportation
  - Communication
  - Energy
  - Finance

Can you profitably provide your product or service to meet the needs of the market?
## The Many Names of Money

<table>
<thead>
<tr>
<th>Country</th>
<th>Currency</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>Yuan</td>
</tr>
<tr>
<td>England</td>
<td>Pound</td>
</tr>
<tr>
<td>European Union</td>
<td>Euro</td>
</tr>
<tr>
<td>India</td>
<td>Rupee</td>
</tr>
<tr>
<td>Iran</td>
<td>Rial</td>
</tr>
<tr>
<td>Israel</td>
<td>Shekel</td>
</tr>
<tr>
<td>Japan</td>
<td>Yen</td>
</tr>
<tr>
<td>Mexico</td>
<td>Peso</td>
</tr>
<tr>
<td>South Africa</td>
<td>Rand</td>
</tr>
<tr>
<td>South Korea</td>
<td>Won</td>
</tr>
</tbody>
</table>
Barriers to International Trade: Political and Legal Differences

• Political regimes differ around the world

• Legal Differences
  ✓ Lack of Enforcement
  ✓ Bribery

• Political Climate
  ✓ Stability
  ✓ Violence

• Piracy and intellectual property is a problem in several foreign nations.
Global Greening?

*The world community must take dramatic steps to combat global warming.*

- Change won’t be easy and coordination is vital
- The *United Nations* is sponsoring an international *Climate Change Conference* in Copenhagen.

*Consider these questions about the conference:*

1. Did a treaty emerge? How many nations signed? Did any of the participants surprise you? How?
2. Do you think the conferences and treaties will yield results? Why or why not?
3. What role did the United States play? Do you believe that the role was appropriate? Why or why not?
## Protectionism

<table>
<thead>
<tr>
<th>Reasons to Create Trade Restrictions</th>
<th>Reasons to Eliminate Trade Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Protect domestic industry</td>
<td>Reduce prices and increase choices for consumers</td>
</tr>
<tr>
<td>Protect domestic jobs in key industries</td>
<td>Increase domestic jobs</td>
</tr>
<tr>
<td>Retaliate against countries who have engaged in unfair trade practices</td>
<td>Build exporting opportunities</td>
</tr>
<tr>
<td>Pressure other countries</td>
<td>Use world resources more efficiently</td>
</tr>
</tbody>
</table>
International Trade Restrictions

• Tariffs
• Quotas
• Voluntary Export Restrictions
• Embargo
There has been a global move toward *free trade* – the unrestricted movement of good and services across borders.
GATT and the World Trade Organization (WTO)

• General Agreement on Tariffs & Trade (GATT)
  — Established in 1948
  — Now encompasses 125 nations
  — Slashed tariffs by about 30%

• World Trade Organization (WTO)
  — Promote International Trade
  — Settle Trade Disputes
GATT and the World Trade Organization (WTO)

• **The World Bank**
  — 185 Member Countries
  — Reduce World Poverty in Developing World
  — Influence Global Economy
  — Provide Financial Assistance

  *Low interest loans*

• **The International Monetary Fund**
  — Support Stable Exchange Rates
  — Facilitate International Payments
  — Adopt Economic Policies
  — Promote Trade
  — Lends money to member nations
Groups of countries promoting the free flow of goods and services

- The North American Free Trade Agreement (NAFTA)
  - The largest trading bloc
  - U.S., Canada, Mexico
  - Critics for job loss
- European Union (EU)
  - The largest common market
  - 27 nations; combined GDP of $15 Trillion
  - Goal is to bolster Europe’s trade position
Looking Back

- What opportunities exist in the world economy for businesses?
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