Global Analysis

- Section 4.1 International Trade
- Section 4.2 The Global Marketplace

International Trade

Key Terms

- international trade
- imports
- exports
- balance of trade
- free trade
- tariff
- quota
- embargo
- protectionism
- World Trade Organization (WTO)
- North American Free Trade Agreement (NAFTA)
- European Union (EU)

Objectives

- Explain the interdependence of nations
- Explain the nature of international trade
- Discuss the balance of trade
- List three types of trade barriers
- List three significant trade agreements and alliances that foster worldwide free trade

Nature of International Trade

imports
Goods and services purchased from other countries.

exports
Goods and services sold to other countries.

International trade is the exchange of goods and services between nations.

Imports are goods and services purchased from other countries.

Exports are goods and services sold to other countries.

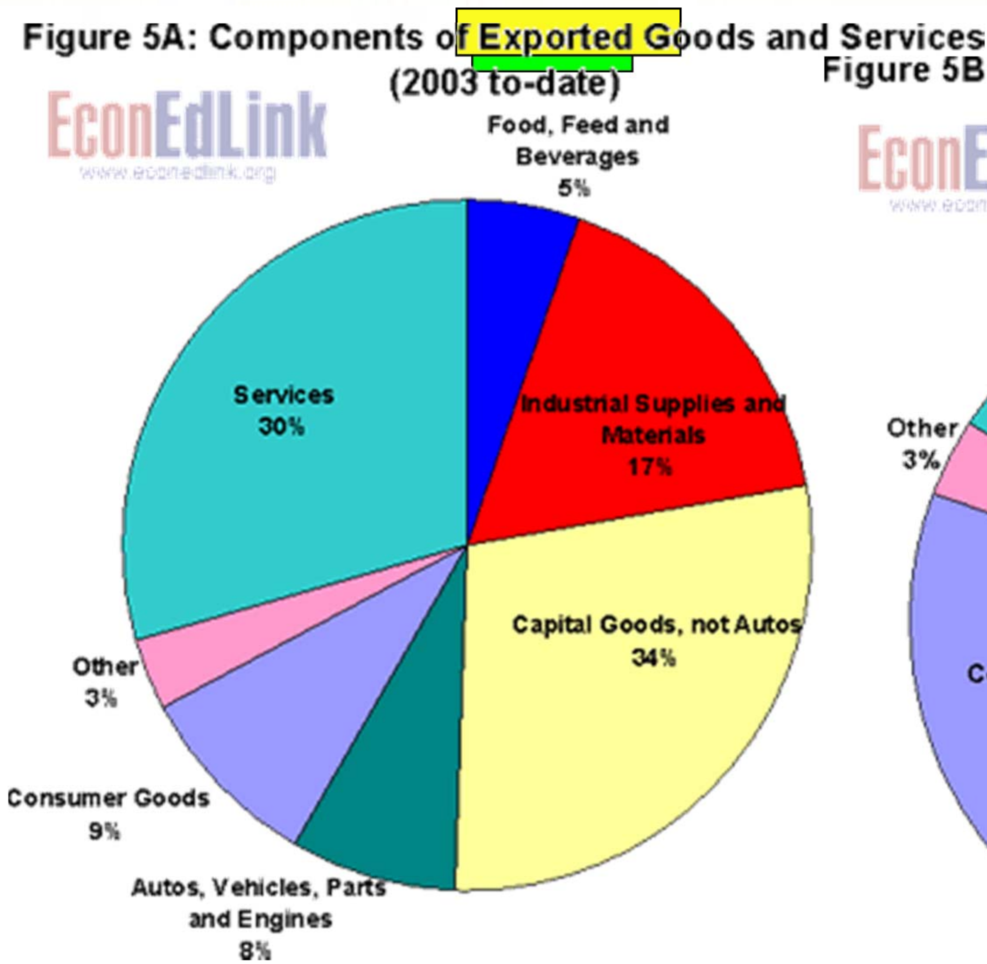
Figure 5A: Components of Exported Goods and Services
(2003 to-date)
EconEdLink
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Food, Feed and Beverages 5%
Industrial Supplies and Materials 17%
Capital Goods, not Autos 34%
Autos, Vehicles, Parts and Engines 8%
Consumer Goods 9%
Other 3%
Services 30%

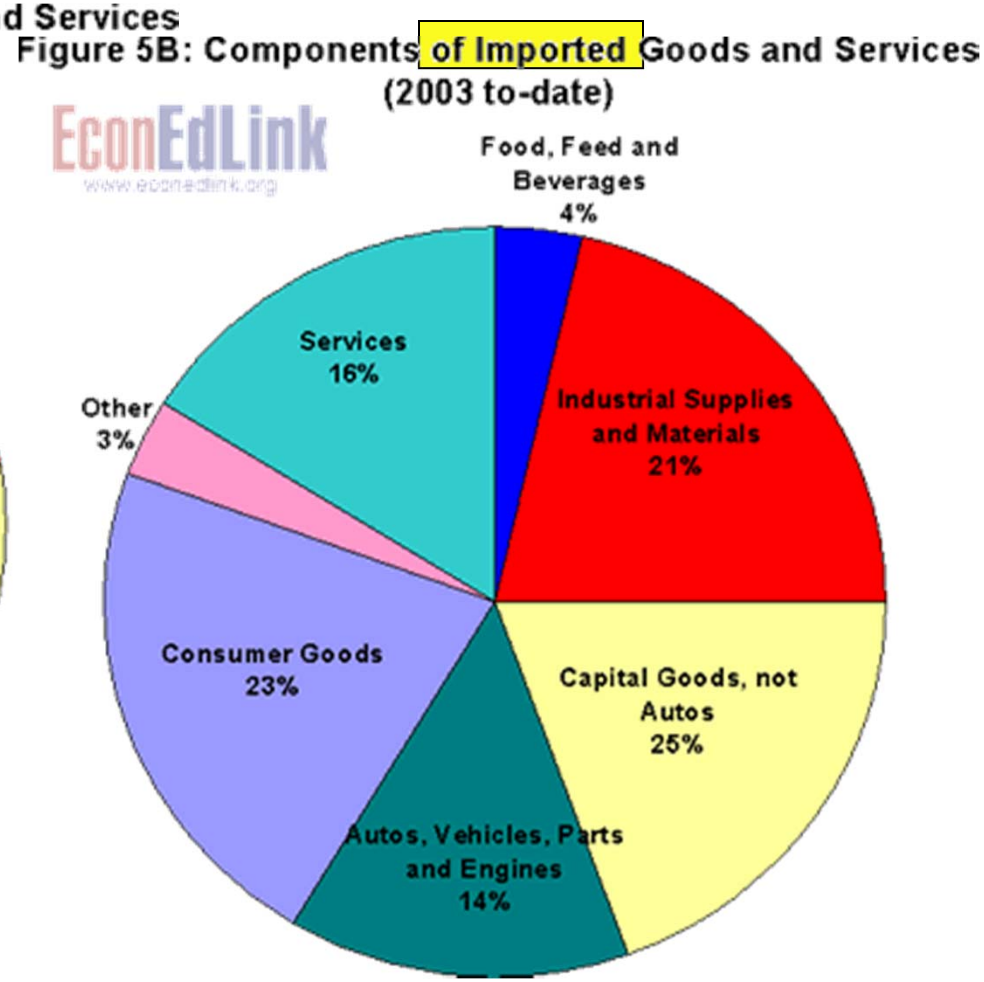
Figure 5B: Components of Imported Goods and Services
(2003 to-date)
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Food, Feed and Beverages 4%
Industrial Supplies and Materials 21%
Capital Goods, not Autos 25%
Autos, Vehicles, Parts and Engines 14%
Consumer Goods 23%
Other 3%
Services 16%

Interdependence of Nations

Economic interdependence happens when countries must rely on each other's help to produce all the goods they need to survive. Different countries can produce specific goods such as:

- U.S. and Canada: Agriculture
- Saudi Arabia and Russia: Oil
- India and Japan: Computer science and Technology

Absolute Advantage and Comparative Advantage

There are two types of advantages in international trade:

- Absolute
- Comparative

Absolute advantage occurs when a country has natural resources or talents that allow it to produce an item at the lowest cost possible. China has an absolute advantage in the production of silk.

Benefits of International Trade

Consumers benefit because competition encourages the production of high-quality goods with lower prices.

Producers gain higher profit by expanding their operations into international markets.

Workers benefit because international trade leads to higher employment rates.

Nations benefit because foreign investment in a country often improves the standard of living for that country's people.

Government Involvement in International Trade

All nations control and monitor their trade with foreign businesses.

The U.S. government monitors imports through the customs division of the U.S. Treasury Department.

Balance of Trade

balance of trade

The difference in value between a nation's exports and its imports.

The difference in value between the exports and imports of a nation is called its **balance of trade**.

A **trade surplus** occurs when a nation exports more than it imports.

A **trade deficit** occurs when a nation imports more than it exports.

The U.S. is the world's largest exporter.

Balance of Trade

A negative balance of trade reduces a nation's revenue.

When more money leaves a country than comes in, the country is in debt or is a debtor nation.

Unemployment can also be another negative result of a large trade deficit.

free trade

Commercial exchange between nations that is conducted on free market principles, without tariffs, import quotas, or other restrictive regulations.

Trade Barriers

Many countries favor and practice **free trade**, or trade that is done purely on free market principles, without restrictive regulations.

Other nations impose controls and restrictions to regulate the flow of goods and services. There are three main types:

- Tariffs
- Quotas
- Embargoes

Trade Barriers

tariff

A tax on imports; also known as a duty.

quota

A limit on either the quantity or monetary value of a product that may be imported.

A **tariff** is a tax on imports (also called a duty). Tarrifs come in two different types:

- Revenue-producing: a source of federal income
- Protective: raises the price of imports to encourage consumers to buy locally made goods.

An import **quota** limits either the quantity or the monetary value of a product that may be imported. These help local business compete with foreign companies.

embargo

A total ban on specific goods coming into and leaving a country.

protectionism

A government's establishment of economic policies that restrict imports to protect domestic industries.

Trade Barriers

An **embargo** is a total ban on specific goods coming into and leaving a country. An embargo can be imposed for different reasons:

- Poisoned or defective goods
- Political reasons

Example: The United Nations imposed an embargo on Iraq during the Persian Gulf War.

Lifting Embargoes - Cuba 1960, Vietnam 1994

Protectionism is a government's establishment of economic policies that systematically restrict imports in order to protect domestic industries. It is the opposite of free trade.

Trade Agreements and Alliances

World Trade Organization (WTO)

A global coalition of more than 140 governments that makes rules governing international trade.

Governments make agreements with each other to establish guidelines for international trade and to set up trade alliances.

The **World Trade Organization (WTO)** was formed in 1995 and is designed to:

- Open markets and promote global free trade
- Reduce tariffs
- Standardize trade rules
- Study important trade issues
- Evaluate the health of the world economy

Trade Agreements and Alliances

North American Free Trade Agreement (NAFTA)

An international trade agreement among the United States, Canada, and Mexico.

The **North American Free Trade Agreement (NAFTA)** is an international trade agreement among the United States, Canada, and Mexico. Founded on January 1, 1994, its goal is to get rid of all trade barriers between the countries by 2009.

Trade Agreements and Alliances

European Union (EU)

European trading bloc.

The **European Union (EU)** is Europe's trading bloc. It was established to:

- Establish free trade among its member nations
- Create a single European currency and central bank
- Maintain competitive practices
- Maintain environmental and safety standards
- Provide security
- Established to encourage economic recovery after WWII

Trade Agreements and Alliances

SECTION 4.1 REVIEW

SECTION 4.1 REVIEW

1 out of 5 Correct.

NAFTA		Global coalition that governs international trade
WTO		International trade agreement among the U.S., Canada, and Mexico
imports	✓ tariff	A tax on imports
exports		Goods, services sold to other countries
		Goods, services purchased from other countries

- click twice to continue -

The Global Marketplace

Key Terms

- licensing
- contract manufacturing
- joint venture
- foreign direct investment (FDI)
- multinationals
- mini-nationals
- globalization
- adaptation
- customization

Objectives

- List forms of international trade
- Identify political, economic, socio-cultural, and technological factors that affect international business
- Suggest global marketing strategies

Doing Business Internationally

Trade agreements by governments set the guidelines for business to operate in the global marketplace. Getting involved in international trade can mean:

- Importing
- Exporting
- Licensing
- Contract manufacturing
- Joint ventures
- Foreign direct investment

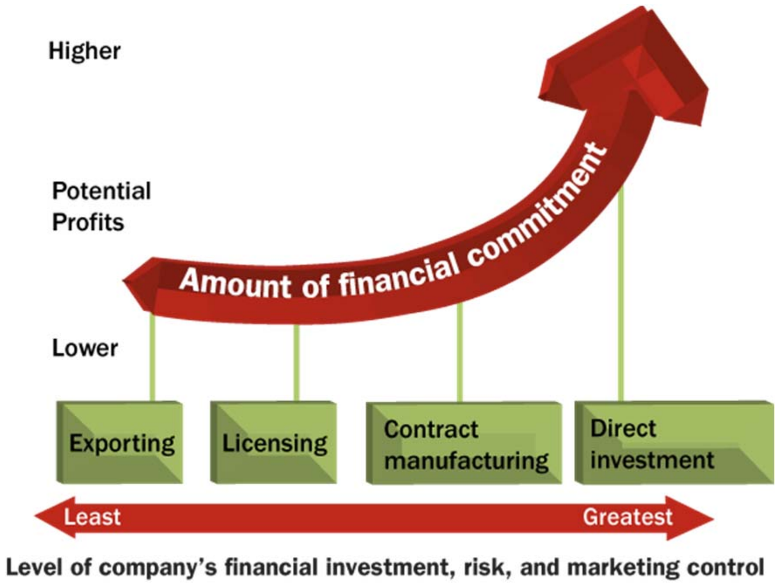
Importing

Importing involves purchasing goods from another country. The products must meet the same standards as domestic products.

The rules governing importing are complex. Most U.S. businesses hire customs brokers to keep the business within the laws and procedures affecting imports.

Exporting

A domestic company that wishes to enter into the global marketplace with minimal risk and control might consider exporting. These companies can get help from the U.S. government in their trade.



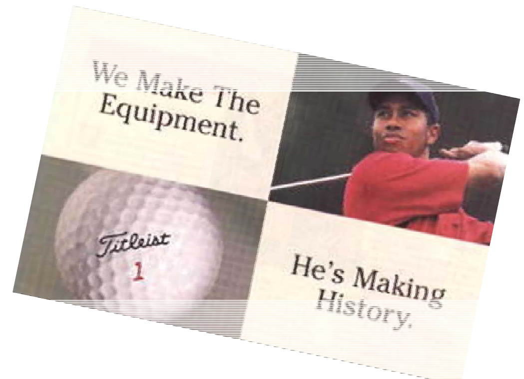
Licensing

licensing

The process of letting another company (licensee) use a trademark, patent, special formula, company name, or some other intellectual property for a fee or royalty.

Licensing involves letting another company use one of the following for a fee:

- Trademark
- Patent
- Special formula
- Company name
- Intellectual property



A franchise is a different kind of licensing where private investors can operate under the company name.

i'm lovin' it®

Contract Manufacturing

contract manufacturing

The process of hiring a foreign manufacturer to make products according to certain specifications.

joint venture

A business enterprise that different companies set up together; often, the venture involves a domestic company and a foreign company.

Contract manufacturing involves hiring a foreign manufacturer to make your products, according to your specifications. The finished goods are sold in that country or exported.

The major benefit of this technique is lower wages, but the risk is that production information can be lost or stolen in the production countries.

A **joint venture** is a business enterprise that companies set up together.

foreign direct investment (FDI)

Investments in factories, offices, and other facilities in another country that are used for a business's operations.

Contract Manufacturing

A **foreign direct investment (FDI)** is the establishment of a business in a foreign country. This process can include:

- Setting up a small office in another country
- Constructing manufacturing plants and retail stores abroad

multinationals Large corporations that have operations in multiple countries.

mini-nationals Midsize or smaller companies that have operations in multiple countries.

Contract Manufacturing

Multinationals are large corporations that have operations in several countries (GE, Microsoft).

Mini-nationals are mid-size or smaller companies that have operations in foreign countries.

Largest Global Public Corporations

Company	Country	Sector
General Electric	US	Electrical Equipment
Cisco Systems	US	Telecommunications Equipment
Intel	US	Semiconductors
Microsoft	US	Software
NTT Docomo	Japan	Wireless Telecommunication Services
Vodafone Airtouch	UK	Telecommunication Services
Exxon Mobil	US	Oil
Wal-Mart Stores	US	Discount Stores
Nokia	Finland	Telecommunications Equipment
Citigroup	US	Banks
NTT	Japan	Fixed-line Telecommunications Services
Oracle	US	Software
Deutsche Telekom	Germany	Fixed-line Telecommunications Services
Toyota Motor	Japan	Automobiles
Royal Dutch/Shell	Netherlands/UK	Oil
Lucent Technologies	US	Telecommunications Equipment
BP Amoco	UK	Oil
Intl Business Machines	US	Computer Hardware
AIG Group	US	Insurance
Pfizer	US	Pharmaceuticals
Merck	US	Pharmaceuticals
Ericsson	Sweden	Telecommunications Equipment
France Telecom	France	Fixed-line Telecommunications Services
AT & T	US	Fixed-line Telecommunications Services
Sun Microsystems	US	Computer Hardware

All these companies have operations in many countries.

How many of these companies do you recognize?

Global Environmental Scan

A global environmental scan includes analysis of:

- Political factors
- Economic factors
- Socio-cultural differences
- Technological levels

This scan's acronym is PEST.

Political Factors

Political factors include:

- A government's stability
- Its trade regulations and agreements
- Any other laws that impact a company's operation

Political Factors

Political uprisings can endanger a business's well-being, and even when the governments are stable, companies must be aware of local trading laws to avoid complications. For example:

- Chile has strengthened its standards for the protection of intellectual property rights.
- Toys cannot be advertised in Greece.

Economic Factors

Key economic factors relevant to doing business in another country include:

- Infrastructure: The reliability of a nation's roads, communication, and energy plants, etc.
- Labor force: The quality, cost, and education level of local workers.
- Employee benefits: Some countries have different policies for employees, such as France where the work week is only 35 hours instead of 40.

Economic Factors

- Taxes: Taxes on property and profits vary in different nations.
- Standard of living: Companies consider this factor more when eyeing a country as a market to see what kind of consumers are there, and how many.
- Foreign exchange rate: Changes in an exchange rate positively or negatively affect businesses that sell abroad.

Socio-cultural Factors

Marketers need to conduct a cross-cultural analysis in order to understand:

- Languages and symbols: Businesses take into consideration aspects such as the aversion to the number thirteen in the U.S. and the number four in China and Japan.
- Holidays and religious observances: Companies need to know local religious beliefs if they are to attract customers.
- Social and Business Etiquette: Actions such as gift-giving or receiving can have different undertones in different cultures.

Special Considerations in International Business

1. In which country would you not sell items in quantities of four?

   Japan – 4 is unlucky (like our 13)

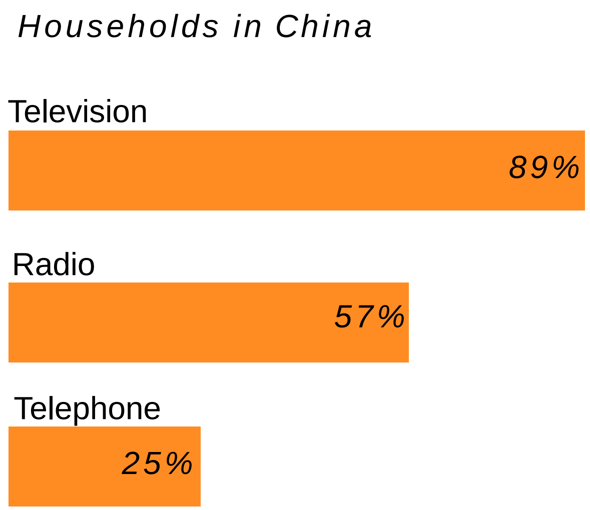
2. In which of the following countries would you not give a clock as a gift: China, Brazil or Mexico?

   China – Clocks are associated with funerals

3. In which country would you not give knives as a gift: China, Brazil or Mexico?

   Brazil – Knives symbolize severing relationships

Technological Factors



Studying a country's technology means taking into consideration even the most basic factors such as:

- Measurement systems
- Electric voltage standards

Global Marketing Strategies

The possibilities for marketing strategies that involve product and promotion decisions range from globalization to customization.

Ford adapted its advertising to adjust to the language of the country.

They learned from their Nova mistake.

globalization

The process of selling the same product and using the same promotion methods in all countries.

Globalization

Globalization is selling the same product and using the same promotion methods in all countries. Examples would be:

- Coca-Cola
- Nike

Coca-Cola does not change its products or ad message for the global market

Adaptation

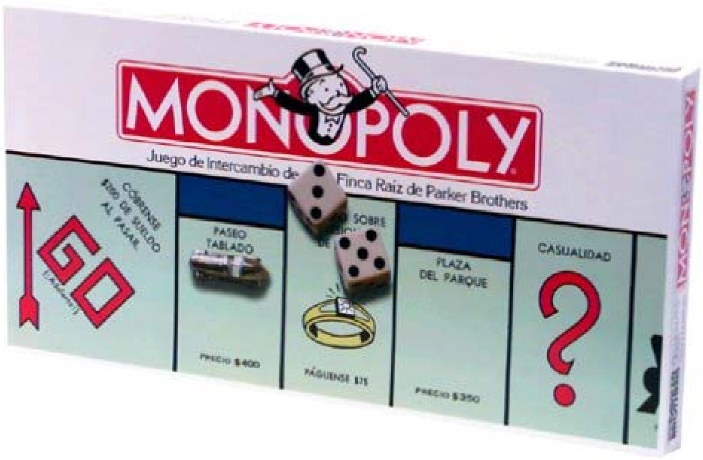
adaptation

Changing an existing product and/or promotion to better suit the characteristics of a targeted country or region.

Adaptation is a company's use of an existing product/promotion to which changes are made to better suit the characteristics of a country.

- Products and promotions can be changed to better fit languages or cultural boundaries.

Monopoly is available in 25 languages



customization

The process of creating products or promotions for certain countries or regions.

Customization

Customization involves creating products or promotions for certain countries or regions.

Watercress and Duck Gizzard is created just for the Chinese market

SECTION 4.2 REVIEW

SECTION 4.2 REVIEW

PLAY

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FOCUS on KEY POINTS

Section 4.1

- International trade is necessary because of the interdependence of nations. It benefits consumers, producers, workers, and nations in different ways.
- Governments are involved in international trade through monitoring trade between countries and establishing trade regulations. Currently, the United States has a negative balance of trade, also called a trade deficit.

continued

FOCUS on KEY POINTS

Section 4.1

- Three types of trade barriers are tarrifs, quotas, and embargoes.
- Three significant trade agreements and alliances that foster free trade are the World Trade Organization (WTO), the North American Free Trade Agreement (NAFTA), and the European Union (EU).

continued

FOCUS on KEY POINTS

Section 4.2

- Businesses can get involved in international trade through importing, exporting, licensing, contract manufacturing, joint ventures, and foreign direct investments.
- A global environmental scan analyzes political, economic, socio-cultural, and technological factors.
- Global marketing strategy options include globalization, adaptations of product and/or promotion, and customization.

THE DECA CONNECTION

An Association of Marketing Students

This chapter has helped prepare you to meet the following DECA performance indicators:

- Explain the nature of international trade
- Identify the impact of cultural and social environments on world trade
- Explain the principles of supply and demand
- Orient new employees
- Address people properly

CHAPTER 4 REVIEW

CHAPTER 4 REVIEW

You are x.

Start by picking a square. If you answer correctly, you win that square. If your answer is incorrect, O gets the square.

PLAY

- click twice to continue -