### International Business

**Definitions**

1) IB field is concerned with the issues facing international companies and governments in dealing with all types of cross-border transactions.

2) IB involves all business transactions that involve two or more countries.

3) IB consists of transactions that are devised and carried out across borders to satisfy the objectives of individuals and organizations.

4) IB consists of those activities private and public enterprises that involve the movement across national boundaries of goods and services, resources, knowledge or skills.

### Multinational Enterprises

A MNE has a worldwide approach to foreign markets and production and an integrated global philosophy encompassing both domestic and international markets.

### International Management

defined as a process of accomplishing the global objectives of a firm by (1) effectively coordinating the procurement, allocation, and utilization of the human, financial, intellectual, and physical resources of the firm within and across national boundaries and (2) effectively charting the path toward the desired organizational goals by navigating the firm through a global environment that is not only dynamic but often very hostile to the firm’s very survival.
International Trade: When a firm exports goods or services to consumers in another country.

Foreign Direct Investment: When a firm invests resources in business activities outside its home country.

The Globalization of the World Economy

- Globalization of markets
- Globalization of production
- Decline of barriers to trade (WTO)
- Increased technological capabilities
- 60,000 international firms with 500,000 foreign affiliates that generate $11 trillion in sales in 1998

Globalization

- Trade and investment barriers are disappearing.
- Perceived distances are shrinking due to advances in transportation and telecommunications.
- Material culture is beginning to look similar.
- National economies merging into an interdependent global economic system.
Globalization: Pros & Cons

Pros
- Increased revenue opportunity through global sales.
- Reduced costs by producing in ‘low cost’ countries.

Cons
- Different nations = different problems.
- Similarities between nations may be superficial.
- Global planning may be easy, but global execution is not.

What is “Globalization”?

“The shift toward a more integrated and interdependent world economy.”

Globalization of Markets

“Merging of historically distinct and separate national markets into one huge global marketplace.”

- Facilitated by offering standardized products:
  - Citicorp
  - Coca-Cola
  - Sony PlayStation
  - McDonalds

- Does not have to be a big company to participate:
  Over 200,000 U.S. companies with less than 100 employees had foreign sales in 2000.
The Largest Global Markets

**Industrial Goods and Materials**
- Commodities such as aluminum, oil and wheat.
- Industrial products such as microprocessors, aircraft.
- Financial assets such as U.S. Treasury bills and Eurobonds.

Globalization of production

- Refers to sourcing of goods and services from locations around the world to take advantage of
  - Differences in cost or quality of the factors of production
    - Labor
    - Land
    - Capital

Globalization of Production

- "The sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (labor, energy, land and capital)."
- Companies hope to lower their overall cost structure and/or improve the quality or functionality of their product offering - increasing their competitiveness.
Volume of world trade and production, 1950-2002

Macro Factors

Decline in Trade Barriers
Technological Change

Globalization

General Agreement on Tariffs and Trade

Member states (140) in eight negotiating 'rounds' worked to lower barriers to the free flow of goods and services.

In the most recent round, the Uruguay Round, nations agreed to enhanced patent, copyright and trademark protections and established the World Trade Organization.
Average Tariff Rates on Manufactured Products as Percent of Value

<table>
<thead>
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<th>1913</th>
<th>1950</th>
<th>1990</th>
<th>2000</th>
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<tr>
<td>France</td>
<td>21%</td>
<td>18%</td>
<td>5.9%</td>
<td>3.9%</td>
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<tr>
<td>Germany</td>
<td>20</td>
<td>26</td>
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<td>18</td>
<td>25</td>
<td>5.9</td>
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<td>9</td>
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<td>14</td>
<td>4.8</td>
<td>3.9</td>
</tr>
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</table>

Table 1.1

Fewer FDI Restrictions

Between 1991 and 2000 of the 1,121 changes worldwide in laws governing FDI, 95% created a more favorable investment environment.

During 2000, 69 countries made 150 changes to FDI regulations, 147 or 98% were more favorable to investment.

The Growth of World Trade and Output

![Figure 1.1](image-url)
The Role of Technological Change

- Microprocessors and Telecommunications
- The Internet and World Wide Web

Worldwide E-Commerce Growth Forecast
The Shrinking Globe

1500-1840

1850-1930

1950s

1960s

Best average speed of horse-drawn coaches and sailing ships, 10mph.

Steam locomotives average 85mph.

Steamships average 25mph.

Propeller aircraft 300-400 mph.

Jet passenger aircraft 500-700 mph.

Figure 1.2

Implications for Production and Market Globalization

Production dispersed to economical locations due to transportation and communication advances.

New markets opened through WWW.

Jet aircraft move people and goods.

Global media creating a worldwide culture.

The Changing Paradigm of the Global Economy

Old:

- U.S. dominance of the world economy and world trade.
- U.S. dominance in world FDI.
- U.S. firms dominance of international business.
- ½ of the world economies (Communist dominated) were off-limits to western businesses.

New:

- U.S. dominance of the world economy and world trade.
- U.S. dominance in world FDI.
- U.S. firms dominance of international business.
- ½ of the world economies (Communist dominated) were off-limits to western businesses.
### The Changing Pattern of World Output and Trade

**Table 1.2**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>SHARE OF WORLD OUTPUT 1963</th>
<th>SHARE OF WORLD OUTPUT 2000</th>
<th>SHARE OF WORLD EXPORTS 2000</th>
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<tbody>
<tr>
<td>United States</td>
<td>40.3%</td>
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<td>12.3%</td>
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<tr>
<td>Japan</td>
<td>5.5</td>
<td>14.2</td>
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<tr>
<td>Germany</td>
<td>9.7 (W. Ger.)</td>
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<td>France</td>
<td>6.3</td>
<td>5.2</td>
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<tr>
<td>United Kingdom</td>
<td>6.5</td>
<td>4.1</td>
<td>3.7</td>
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<td>Italy</td>
<td>3.4</td>
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<td>3.92</td>
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<tr>
<td>South Korea</td>
<td>NA</td>
<td>1.4</td>
<td>2.7</td>
</tr>
</tbody>
</table>

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### Percentage Share of Total FDI Stock, 1980-2000

![Percentage Share of Total FDI Stock, 1980-2000](chart)

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### FDI Inflows, 1988-2000

($ Billions)

![FDI Inflows, 1988-2000](chart)
The National Composition of the Largest Multinationals

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>U.S.A.</td>
<td>48.5%</td>
<td>31.5%</td>
<td>32.4%</td>
<td>26%</td>
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<tr>
<td>Japan</td>
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<td>U.K.</td>
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<tr>
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<td>Germany</td>
<td>8.1</td>
<td>.9</td>
<td>12.7</td>
<td>12</td>
</tr>
</tbody>
</table>

Table 1.3

The Changing World Order

- The fall of Communism in Eastern Europe and the former Soviet Union.
- Czechoslovakia has divided itself into two states.
- Yugoslavia has divided into 5 (often warring) successor states.
- Pro-democracy movement (suppressed) in China.
- Latin America has seen both democracy and free market reforms.

Globalization

- Jobs and Income
  - Firms move jobs to low cost countries.
  - Countries specialize in efficiently produced goods and import those they can not efficiently produce.
  - Increases income in less developed countries.
  - May lead to income inequality.

- Labor Policies and the Environment
  - Firms move to countries with weak laws.
  - Economic progress leads to stronger laws.
  - By creating wealth and incentives for technology improvements, world will be better.
  - Tie strong laws to international agreements.
  - Firms are not amoral.
Globalization debate—Con

- Destroys manufacturing jobs in wealthy, advanced countries
- Wage rates of unskilled workers in advanced countries declines
- Companies move to countries with fewer labor and environment regulations
- Loss of sovereignty

Globalization and National Sovereignty

Under the new system, many decisions that affect billions of people are no longer made by local and national governments but instead, if challenged by any WTO member nation, would be deferred to a group of unelected bureaucrats sitting behind closed doors in Geneva. The bureaucrats can decide whether or not people in California can prevent the destruction of the last virgin forests or determine if carcinogenic pesticides can be banned from their foods; or whether European countries have the right to ban dangerous biotech hormones in meat... At risk is the very basis of democracy and accountable decision making. Ralph Nader.
Globalization and National Sovereignty

WTO
- Founded 1994
- 140 members
- Police GATT trading system

Supranational organizations are limited to powers granted by member countries and serve the collective interests of its members. Power is derived from the organization’s ability to sway members to action.

Globalization and the World’s Poor

- Critics argue that globalization has not helped poor.
  - 1870: per capita income of 17 richest nations was 2.4x that of all other countries.
  - 1990: it was 4.5x larger.
- Other factors may have influenced the gap.
  - Totalitarian governments.
  - Economic policies that destroyed wealth creation.
  - Little protection of property rights.
  - Expanding populations.
  - War.

Managing in the Global Marketplace

- An International Business is any firm that engages in international trade or investment.

Managing an international business is different than managing a domestic business:

1. Countries are different.
2. Problems are more complex.
3. Must work within government regulations.
Changing Nature of International Business
- US share of world output has dramatically declined
- Sources and destinations of FDI has also changed dramatically in the past 30 years and the developing countries becoming more important
- New MNCs from developing countries
- Fall of communism and rise of free enterprise system

Why Intl. Business is different?
- Operate in different countries with different cultures, political systems, economic systems, and are at different levels of economic development
- Interact with different governments – conflict between nation-state and MNC
- Work within the limits of international trade and investment systems
- Complexity of managing intl. businesses
- Deal with foreign exchange changes