**Introduction to International Business**

**What is International Business?**

International business consists of business transactions between parties from more than one country, such as buying materials in one country and shipping them to another for processing or assembly, shipping finished products from one country to another for retail sale, building a plant in a foreign country to capitalize on lower labor costs, borrowing money from a bank in one country to finance operations in another. The parties involved in such transactions may include private individuals, individual companies, groups of companies, and/or governmental agencies.

**International Business vs. Domestic Business**

* Domestic business: involves transactions occurring within the boundaries of a single country.
* International business: involves transactions cross national boundaries. International business can differ from domestic business for a number of other reasons involving the following.
  + Countries involved may use different currencies, forcing at least one party to convert its currency into another.
  + The legal systems of the countries may differ, forcing one or more parties to adjust their practices to comply with local law
  + The cultures of the countries may differ, forcing each party to adjust its behavior to meet the expectations of the other
  + The availability of resources differs by country. One country may be rich in natural resources but poor in skilled labor, while another may enjoy a productive, well-trained workforce but lack natural resources. Thus, the way products are produced and the types of products that re produced very among countries.

**International Business Activities**

*1. Exporting and Importing*

* Exporting – is the selling of products made in one’s own country for use or resale in other countries.
* Importing – is the buying of products made in other countries for use or resale in one’s own country

Exporting and importing are divided into 2 groups:

1. Trade in goods – tangible products such as clothing, computers, and raw materials (U.S called *trade merchandise exports and imports*, while UK called *visible trade)*.
2. Trade in services – intangible products such as banking, travel, and accounting activities (U.S. called *Service exports and imports*, while in UK called *Invisible trade*.

Exports of Goods and Services as a Percentage of GDP for Some Key Countries (2001 Data)



*2. International Investments*

International investments are capital supplied by residents of one country to residents of another. Investments are divided into two categories: foreign direct investments and portfolio investments.

1. **Foreign direct investments (FDI)** are investments made for the purpose of actively controlling property, assets, or companies located in host countries.

An example of an FDI is the purchase of all the common stock of Sweden’s Volvo Corporation by Ford Motor Company. After the purchase, Ford installed its own executives to oversee Volvo’s operations and integrate them into Ford’s global procurement and marketing programs.

1. **Portfolio investments** are purchases of foreign financial assets (stocks, bonds, and certificates of deposit) for a purpose other than control.

An example of a portfolio investment is the purchase of 1,000 shares of Sony’s common stock by a Danish pension fund. With this investment the pension fund is trying to raise the rate of return on its asset portfolio rather than control Sony’s decision making.

*3. Other Forms of International Business Activity*

* **Licensing** – is a contractual arrangement in which a firm in one country licenses the use of its intellectual property (patents, trademarks, brand names, copyrights, or trade secrets) to a firm in a second country in return for a royalty payment.
* **Franchising** – a specialized form of licensing, occurs when a firm in one country (the franchisor) authorizes a firm in a second country (the franchisee) to utilize its operating systems as well as its brand names, trademarks, and logos in return for a royalty payment.
* **Management contract** – is an arrangement wherein a firm in one country agrees to operate agreed-upon fee. (commonly use in hotel industry, such as Marriott and Hilton).

**Other international business forms**

*1. Multinational Corporation (MNC)*

MNC is used to identify firms that have extensive involvement in international business. A more precise definition of a MNC is a firm “that engages in foreign direct investment and owns or controls value-adding activities in more than one country.”

* *Owning and controlling foreign assets*
  + MNCs typically buy resources in a variety of countries, create goods and/or services in a variety of countries, and then sell those goods and services in a variety of countries.
* *Management*
  + MNCs generally coordinate their activities from a central headquarters but may also allow their subsidiaries in foreign markets adjust their operations to local circumstances.

*2. Multinational Enterprises (MNEs)*

MNEs are not true corporations. It is referred to a form of partnerships, such as accounting partnerships.

*3. Multinational Organization (MNO)*

MNO can be used when one wants to refer to both not-for-profit and profit-seeking organizations.

**Globalization**

Globalization can be defined as “the inexorable integration of markets, nation-states, and technologies … in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before.”

The Contemporary Causes of Globalization

There are two broad reasons:

*1. Strategic Imperatives*

* To leverage core competencies: a core competency is a distinctive strength or advantage that is central to a firm’s operations. By utilizing its core competency in new markets, the firm is able to increase its revenues and profits.
* To acquire resources and supplies: in some cases organizations must go to foreign sources because certain products or services are either scarce or unavailable locally.
* To seek new markets:
* Firm may be able to achieve economies of scale, lowering its average costs as its production increases
* Such expansion diversifies a firm’s revenue stream. As it serves more countries, the firm become less dependent on its sales in any one country, thereby protecting itself from that country’s economic down turn
* To better compete with rivals:

The need to continually attack and counterattack each other in every region of the world to prevent their rivals from getting a stranglehold in any country.

*2. Environmental Changes*

* Political environment:

After WWI, many countries, including the US, France, the UK, and Germany, imposed tariffs and quotas on imported goods and favored local firms on government supply contracts. As a result, international trade and investment declined throughout the 1930s.

However, after WWII these policies were reversed. The major trading powers negotiated reductions in tariffs and quotas and eliminated barriers to FDI within their borders. Many of the reductions were negotiated through the General Agreement on Tariffs and Trade(GATT) and its successor, the World Trade Organization (WTO). Regional accords, such as the European Union, the North American Free Trade Agreement, and even ASEAN, also have relaxed trade and investment barriers among their members.

* Technological Changes:

Improvement in technology – particularly in communications, transportation, and information processing – made international business more feasible and more profitable.

**Activities**

List different products you use on a regular basis, such as your alarm clock, camera, car, coffeemaker, computer, sneakers, telephone, television, CD, shirt, fruit juice, or type of recording tape. Determine which firms made these items. After you have developed your list, go to the library and research the following for each item:

1. In which country is the firm headquartered?
2. What percentage of the firm’s annual sales comes from its home market? What percentage comes from other countries?
3. Where was the item most likely manufactured?
4. Why do you think it was manufactured there?

