

Chapter 1

Overview of International Business

Learning objectives

End of this lesson, you should be able to:

1. Explain and discuss what international or global business (GB)
2. Explain importance of GB =>> why study GB
3. Identify basic forms of international business activities
4. Discuss globalization concept
5. Evaluate factors for globalization

Next week

The Business of the World Cup



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2018 - Russia spent \$300 million on Kaliningrad Stadium
2022 - Qatar estimate to spend Pound £107 b



What are issues in World Cup (or Olympic)?

- 1.
- 2
- 3.

What are issues in World Cup (or OLympic)?

Many questions and issues surrounding this international venture.

1. How do countries get to host the world cup?
2. Are the bidding process proper?
3. What if FIFA?
4. What are the requirements, for facilities and readiness?
5. What investment needed?
6. What are the economics benefits?
7. Host country society benefit?

Analysis of Case

The case explores the relationship between international business and the FIFA World Cup. The World Cup tournaments embody international business as it consists of participants and stakeholders across the globe. Highly competitive, involves transactions between parties with vested interests who stand to benefit in different ways.

Key Points

The FIFA World Cup represents a global machine of intensive international business, with participants, decisionmakers, and stakeholders spread across the globe.

The Fédération Internationale de Football Association (FIFA) governs the World Cup tournaments and an executive committee takes ultimate decision which nation will host the tournament after a fiercely competitive bidding process.

Each nation makes a presentation to FIFA committee why they should be the next host and commit to developing their infrastructure and facilities as outlined by FIFA.

Being hosted in different cities is important for the World Cup - part of FIFA's mission statement to spread football beyond Europe and South America. The host city also provides facilities, workforce, and organizational support.

Hosting the World Cup gives boost to tourism, leads to developments in infrastructure, and a global spotlight to spearhead significant economic gains.

FIFA makes money off the World Cup by selling the broadcasting rights and advertising rights at a premium, and through corporate sponsorship.

Criticism on FIFA's business model, which makes the host nation foot a multi-billion-dollar bill while collecting billions in profits.

Fairness of the bidding process has also undergone some controversy - criticism on cases of bribery and lack of transparency in the executive committee.

What is international business?

International business involves **any business transaction** between parties from **more than one country**. It includes such activities as **buying and selling raw materials, inputs or finished products across borders, operating plants in other countries** to take advantage of local **resources**, and **borrowing money in one country** to finance operations in a second country.

What Is International Business?

- International business consists of business transactions between parties from more than one country
- **International Business vs Domestic Business**
 - Boundaries
 - Currencies
 - Legal Systems
 - Cultures
 - Availability of Resources

What is the difference between international and domestic business

What is the difference between international and domestic business

- involves transactions that cross national borders while domestic business does not
- One party must adjust to a different legal, economic, and cultural system - convert its currency into the other party's currency or make changes in how products are produced or the types of products that are produced.

Why study international business?

1.

2.

3.

4

1 Most of us almost certainly work for a company that is either foreign owned, domestically owned but has some foreign operations, or domestically owned but is affected by the global economy - to be successful and productive, important to understand the basics of why and how companies conduct business across borders

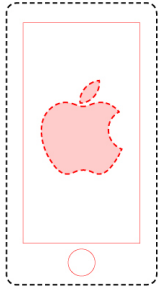
2. Small businesses - now more active in the international business e.g. buying and supplying components. Those students planning to start own businesses should also be cognizant of international business.

3. Cultural literacy - because business today often means *international business*, critical that students develop the type of cultural literacy that will enable them to be conversant with the global economy and international marketplaces. Those fail to develop such skills will be at disadvantaged to future “competitors” (those who have learned multiple languages, have had job experiences in other countries and traveled widely).

4. Not all business techniques and tools are developed in the United States, students need to study international business so that they are aware of developments taking place in other parts of the globe, such as the use of **just-in-time (JIT)** systems.

Why Study International Business?

- Provides the knowledge and skills that are essential for your career in the twenty-first century
- Helps you make better career assessments
- Keep pace with future competitors
- Stay abreast of the latest business techniques and tools
- Obtain cultural literacy



California, US

Apple designs the iPhone at its headquarters in California. It sends out orders for parts to dozens of companies all around the globe.

Texas Instruments
makes the
touchscreen
controller

Micron
makes the
flash
memory

**Dialog
semiconductors**
makes the
power
management components

**ST
Microelectronics**
makes the
accelerometers
and gyroscope

Samsung
makes
memory
and applications
processor

Cirrus Logic
makes the
audio
controller

Murata
makes the
Bluetooth
and WiFi components

Infineon
makes the
phone
network components

Shenzhen, China

iPhones are assembled in China by Taiwanese manufacturer Foxconn. As China becomes more economically developed, the rising cost of labour, energy and property could put pressure on Apple's margins.

The iPhone supply chain

find out more at
thegatewayonline.com

the gateway

Questions

What countries are involved in manufacturing?

What kinds of components are produced?

Where are the products sold?

International Business Activities

- Exporting & Importing
- International Investments
- International Licensing
- International Franchising
- International Management Contract

Explanation follows

Small exercise/assignment

Groups of two (2) persons

List different products you use daily - alarm clock, computer, handphone, footwear, etc.

Determine which firms made these products

Select one product from your list and search the following

1. In which country is the firm headquartered?
2. Where was the firm's products manufactured?
3. Why do you think it was manufactured there?
4. What percentage of firm's annual sales comes from home market, and what percentage of sales comes from other countries?

BORDERS DO MATTER

A decade ago, many self-proclaimed business gurus announced the coming of the boundaryless global economy—one in which national borders were superfluous and irrelevant. It would be hard to find a concept more naïve or oblivious to the realities of doing business internationally. The simple truth is that boundaries and national borders do matter. Nations, defined by those boundaries, have different legal systems and different laws. They have different political systems and social structures. Cultural values differ among the citizens of different nations. Taxes, the price of labor, land, and other resources, and the requirements for establishing a business vary across nations. If we did not have borders, the need for a separate international business course would disappear. We could just study business.

The CAGE model developed by Pankaj Ghemawat, of IESE Business School in Barcelona, is a useful framework for understanding the operating challenges facing international businesses because of these national differences:

- *Cultural distance* (the “C” in CAGE) refers to differences in cultural, linguistic, religious, and social values that can affect the way firms do business within a country. Chapter 4 focuses on important elements of these cultural differences.
- *Administrative distance* refers to differences in the public administration of countries. It can be affected by past colonial ties, common legal heritages, use of a common currency, political alliances, or attitudes toward the proper balancing between the role of the private sector and the role of the public sector. Chapter 3 focuses on many of these differences.



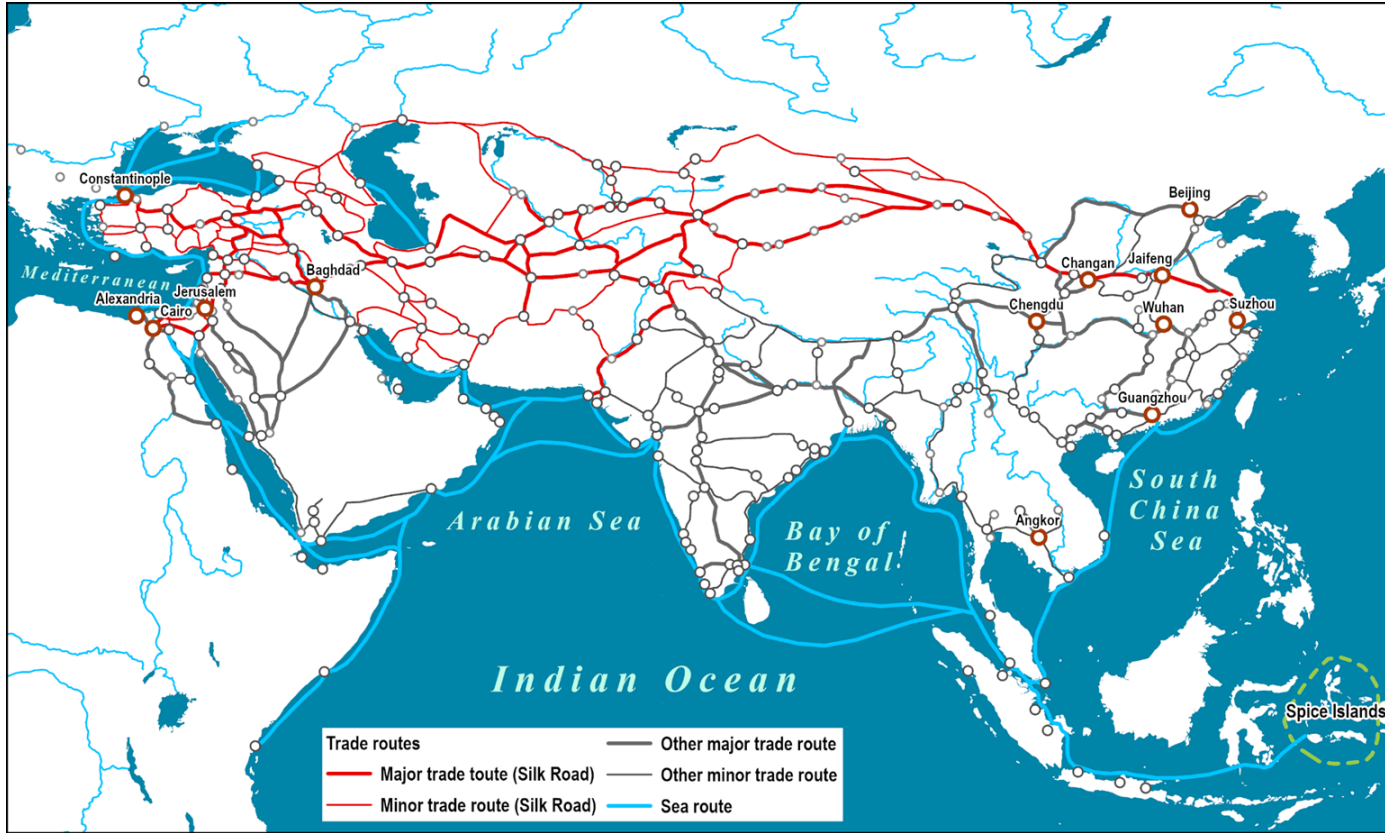
- *Geographic distance* refers to the physical, communications, and transportation links between countries and how the geographic connectedness of countries affects their economic integration. Chapter 2 focuses on the economic geography of the world marketplace.
- *Economic distance* refers to the differences in the economic resource bases of countries. Although natural resources are a component of economic distance, human resources, infrastructure, creation of new knowledge, and promotion of technological innovation are in fact much more important causes of economic distance. Chapter 6 analyzes how these economic differences affect the nature and level of countries' participation in the global marketplace.

One of the primary challenges facing international business practitioners is formulating and implementing strategies that recognize and then use these differences to create competitive advantages for their firms. This may be as simple as purchasing labor-intensive inputs from countries where wages are low to reduce the costs of necessary components. It may be as complex as restructuring how the firm is organized or how it does business to benefit from global efficiencies while respecting and responding to local culture, laws, and social norms.

Sources: Based on Pankaj Ghemawat, “Distance Still Matters,” *Harvard Business Review*, September 2001; Pankaj Ghemawat, “Managing Differences: The Central Challenge of Global Strategy,” *Harvard Business Review*, March 2007.

International business activities

Historically, trading of goods by exporting and importing activities





What are the contemporary global business activities?

International Business Activities:

Exporting and Importing (1 of 2)

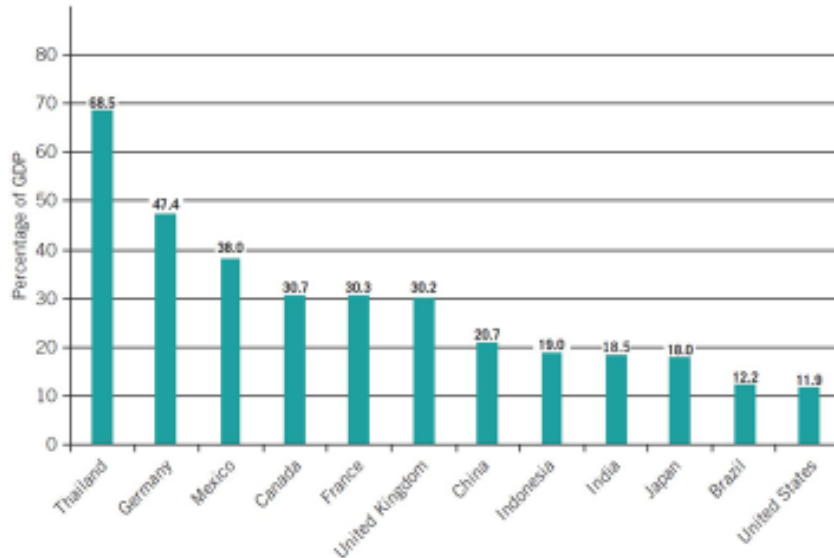
- **Exporting:** selling of products made in one's own country for use or resale in other countries.
- **Importing:** buying of products made in other countries for use or resale in one's own country.
- Exporting and importing activities often are divided into two groups:
 - Trade in goods: tangible products
 - Trade in services: intangible products

Merchandise exports and imports = visible trade

Service exports and imports = invisible trade

International Business Activities: Exporting and Importing (2 of 2)

Figure 1.1 Exports of Goods and Services as a Percentage of GDP for Some Key Countries (2017 data)



Source: Based on World Trade Organization Trade Profiles 2018.

Trade important to firm - Boeing sales 70% sales to foreign customers - generated US 57 bill revenue, creating thousands of jobs, and thousands more in part factories

Trade also important for countries - growth, wealth and survival

International Business Activities: International Investments

Capital flow from one place to another

- Foreign Direct Investments (FDI)
- Foreign Portfolio Investments (FPI)

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

Country from which investment flows = **home country**.

Country to which investment flows = **host country**

Portfolio investments involve purchases of foreign financial assets (stocks, bonds, certificates of deposit) for purposes other than control.

Name a company involved in:

Example of FDI _____Logistics Business / Computer Manufacturing_____

Home country : Taiwan

Host country : Singapore, Malaysia / Mexico, China

Give one example of portfolio investment

_____shares in automotive / SUKUK = Islamic Bonds_____

International Business Activities:

Other Forms

- **International licensing**
 - Intellectual Property
- **International franchising**
 - The Franchisor
 - The Franchisee
- **International management contract**
 - Management Services

Any examples you can think of for each one?

A **licensing** agreement allows a firm in one country to use all or some of the intellectual property of a firm in a second country in exchange for a royalty payment.

A **franchising** agreement allows a firm in one country to use the brand names, logos, and operating techniques of a firm in a second country in exchange for a royalty payment.

Management contracts involve an agreement in which a firm in one country agrees to operate facilities or provide other management services for an agreed-upon fee.

International Business Activities: An International Business

- Multinational Corporation (MNC)
- Multinational Enterprise (MNE)
- Multinational Organization (MNO)

Non-corporations may sometimes be known as multinational enterprises (MNEs), while not-for-profits are sometimes known as multinational organizations (MNOs).

Extent of internationalization

MNC - engages in FDI, owns or controls value-adding activities in more than one country, buy resources, create goods and/or services, and sell goods and services in many countries

Control and coordination - mainly headquarters with subsidiaries making adjustments as necessary.

The World's Largest Corporations in 2017 (1 of 2)

Table 1.1 The World's Largest Corporations

	Revenues (in billions of U.S. dollars) 2017	Revenues (in billions of U.S. dollars) 2007
Walmart	500.3	379.0
State Grid	348.9	132.9
Sinopec Group	327.0	159.3
China National Petroleum	326.0	129.8
Royal Dutch Shell	311.9	355.8
Toyota Motor	265.2	230.2
Volkswagen	260.0	149.1
BP	244.6	291.4
Exxon Mobil	244.4	372.8
Berkshire Hathaway	242.1	118.2
Apple	229.2	24.0
Samsung Electronics	211.9	106.0
McKesson	208.4	101.7

The World's Largest Corporations in 2017 (2 of 2)

Table 1.1 [Continued]

	Revenues (in billions of U.S. dollars) 2017	Revenues (in billions of U.S. dollars) 2007
Glencore	205.5	142.0
UnitedHealth Group	201.2	75.4
Daimler	185.2	177.2
CVS Health	184.8	76.3
Amazon	177.9	14.8
EXOR Group	161.7	n.a.
AT&T	160.6	118.9

Sources: Based on www.fortune.com, accessed July 30, 2018; *Fortune*, July 21, 2008, pp. 161-171; "Glencore's turnover soars to \$142 billion in 2007," www.metalbulletin.com, March 11, 2008, various corporate websites.

Contemporary Causes of Globalization (1 of 2)

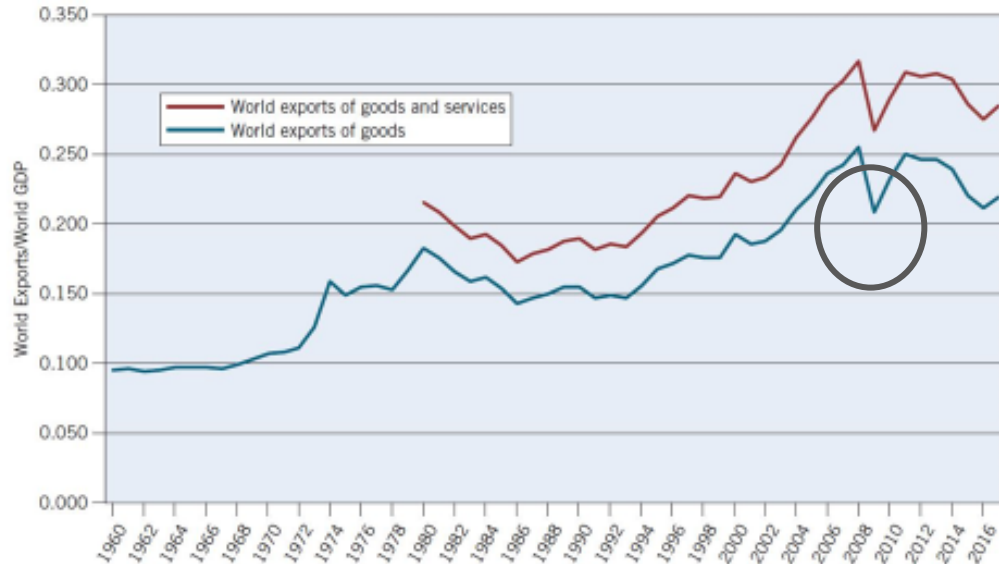
- What is Globalization?
- Manifestation of globalization
 - Intensification of the role of international trade in the economies of the world
 - Growing importance of FDI

“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.”

Primary vehicles

1. International Trade
2. International direct investment

Figure 1.2 World Exports as a Percentage of World GDP



Source: Based on World Bank statistical database (for GDP data) and the World Trade Organization database (for exports of goods and exports of services).

Dramatic growth of international trade over last several decades

Global recession - 2009, trade volumes decreased more than the world's GDP did, thus causing the ratio of trade to GDP to fall

1960 - merchandise trade accounted for 9 percent of the total GDP of the world's nations, by 2017 it represented 22 percent.

Figure 1.3 Stock of Foreign Direct Investment (FDI) Relative to World GDP



Growth in FDI has also been tremendous
By 2017, the stock of FDI equaled almost 39 percent of those years GDP

Source: Based on World Bank, *World Development Indicators* data bank, accessed August 1, 2018; United Nations Conference for Trade and Development, *World Investment Report*, various issues.

**Why expand
internationally?**

Contemporary Causes of Globalization (2 of 2)

- Causes of Globalization
 - Strategic Imperatives
 - Environmental Changes

Contemporary Causes of Globalization: Strategic Imperatives

- To leverage core competencies
- To acquire resources and supplies
- To seek new markets
- To better compete with rivals

Not conceding to a rival, when one firm expands into a new market, other firms in the same industry may follow

Skills and knowledge successful in one country - expand to further benefit from those skills

Price and availability of materials, land, labor, capital, and technology varies across countries, acquire resources or produce more efficiently by expanding internationally

Sales can be increased by expanding to markets beyond the firm's home country's borders

Contemporary Causes of Globalization:

Environmental Causes

- Changes in the Political Environment
 - Reduction of trade and investment barriers
 - General Agreement on Tariffs and Trade (GATT)
 - World Trade Organization (WTO)
 - Regional accords
- Changes in the Technological Environment
 - Advances in Transportation
 - Changes in Communications Technology
 - Improvement in Information Processing

Contemporary Causes of Globalization: Globalization and Emerging Markets (1 of 2)

- Transformed global marketplace
 - The collapse of European Communism
 - The ideological and policy changes undertaken by China and India
 - The reduction of trade barriers

Today focus moved from traditional 1st world markets to emerging markets

Contemporary Causes of Globalization:

Globalization and Emerging Markets (2 of 2)

- **Emerging Markets?**

- BRIC Countries
- Big Ten
- Non-High Income Countries

What are BRIC countries?

Brazil, Russia, India, and China

What are Big Ten countries?

Argentina, Brazil, China, India, Indonesia, Mexico, Poland, South Africa, South Korea and Turkey

See Table 1.2

Table 1.2 Characteristics of Selected Emerging Markets, 2017

BRIC

Country	Total Population (millions)	Total GDP (billions of U.S. dollars)	Per capita GDP (in U.S. dollars)
Brazil	209	2,055	9,821
Russia	144	1,578	10,743
India	1,339	2,597	1,940
China	1,386	12,237	8,827
Total	3,078	18,467	

Big Ten

Country	Total Population (millions)	Total GDP (billions of U.S. dollars)	Per capita GDP (in U.S. dollars)
Argentina	44	638	14,401
Brazil	209	2,055	9,821
China	1,386	12,237	8,827
India	1,339	2,597	1,940
Indonesia	264	1,016	3,847
Mexico	129	1,150	8,903
Poland	38	525	13,812
South Africa	57	349	6,161
South Korea	51	1,531	29,743
Turkey	81	851	10,541
Total	3,598	22,984	
World total	7,530	80,068	10,714

Source: Based on World Bank, *World Development Indicators* data bank.

Map 1.1 China's Regional Challenges



Source: Based on "China Quietly Releases 2017 Provincial GDP Figures," *Forbes*, February 12, 2018; "Rich province, poor province," *The Economist*, October 1, 2016; "Truckloads of notebooks mark first step of long march inland," *Financial Times*, May 24, 2011, p. 17.; "Factory blast roils tech supply chain," *Wall Street Journal*, May 24, 2011, p. B1; "China's rising wage bill poses risk of relocation," *Financial Times*, February 16, 2011, p. 3; Chinese National Statistics Bureau, 2010 Census.

Pop Quiz

What makes a firm global in its outlook? Do you think technology, and cultural and political changes affect the orientation of a firm?

Possible Answer

What makes a firm global in its outlook? Do you think technology, and cultural and political changes affect the orientation of a firm?

A truly global firm is:

- **One that has embraced the growth of technology as an enabler of business across borders.**
- **A firm that has learned to adapt to changes in the political environment.**
- **A firm that maintains a “global mindset” in terms of its supply chain, its customers, and its markets.**

The CAGE model (described in the book) can be used to discuss how cultural and political changes can impact a global firm. Global firms need to choose where they operate, and how they operate on a wide variety of inputs from the environment. Global firms also need to understand the extent to which they understand diversity of cultures and markets, and integrate this into their operations.

Review Questions

- What is international business? How does international business differ from domestic business?
- What is the importance of a global economy in your life?
- What are the differences between visible and invisible trade?
- How do merchandise exports and imports differ from service exports and imports?
- How does international licensing differ from franchising?
- What are the basic reasons for the recent growth of international business activity?