

## Chapter 1:

In an interdependent economic system:

- **Barriers** to cross-border trade and investment are taken down or are in the process of being taken down
- **Perceived distance** is shrinking due to advances in technology and telecommunications technology
- **Material culture** is becoming more uniform all across the world (ex: phones look more or less the same all across the world)
- **National economies** are merging into interdependent global economic systems (ex: EU, ASEAN)

Due to the rise of the interdependent global economy, goods and services are produced and shipped all across the world

- Ex: A phone in Canada could be designed in the US, uses ores mined in Chile, manufactured in Japan, and assembled in China before being shipped to Canada for consumers to purchase

Despite the many benefits, going global still has its problems:

- Business processes that give a retailer an advantage in Canada might not be able to use the same strategy in India
- A brand that means something in Canada (ex: Tim Hortons) may mean nothing in other countries (like Eswatini)

**Globalization** is the shift towards a more integrated and interdependent world economy

- Globalization includes both the globalization of markets and production

**Globalization of markets** means the merging of separate national markets into one huge global marketplace

- **Low-cost transportation** has made it more economically viable to ship products all across the world, helping to create global markets
- **Low-cost global communication networks** such as the internet help create electronic global marketplaces

**Globalization of production** means sourcing goods and services from around the world to take advantage of national differences, costs, and quality of factors of production

- The decline of transportation costs made geographically widespread locations more economically viable

Despite the rise in the “global village” many national differences remain in culture, consumers, and business practices

- For example, an American might enjoy a burger with pieces of chicken instead of buns, but the rest of the world will say that sounds disgusting

**International trade** is when a firm exports goods or services to another country

**Foreign Direct Investment** is the direct investment of resources and business activities outside of a firm’s home country. Simply put, it’s when a firm does stuff in another country

**Global Institutions** are set up in place to manage and regulate the global marketplace

- Some examples include the **IMF** (est 1944), the **World Bank** (est 1944), the **United Nations** (est 1945), **GATT** (1947-1994), and the **WTO** (est 1995)
- The **World Bank** promotes economic development (ex: after a war or natural disaster)

The **IMF** helps maintain order in the international monetary system (ex: it helps countries deal with WACKY exchange rates)

- The IMF is the **lender-of-last-resort**. It helps nations who have economies that are in turmoil and whose currencies are quickly losing value
- The IMF has strings attached. In exchange for loans, the countries must adopt specific policies to return their economies to stability and growth. This has created much debate among people

The **World Bank** is not a single entity, but a group of entities. These entities are:

- International Bank for Reconstruction and Development (**IBRD**)

- International Development Association (**IDA**)
- International Finance Corporation (**IFC**)
- Multilateral Investment Guarantee Agency (**MIGA**)
- International Centre for Settlement of Investment Disputes (**ICSID**)

The **United Nations** has many purposes:

- The **keep peace** throughout the world
- To **develop friendly relations** among nations
- To **help nations work together** to improve the lives of the poor, conquer hunger, disease and illiteracy, and to encourage respect for each other's rights and freedoms
- To **be a centre for harmonizing** the actions of nations to achieve the goals mentioned above

The goal of the **WTO** is to ensure all trade flows smoothly, predictably, and as freely as possible

- The WTO polices the world trading system
- The WTO make sure nations adhere to the rules laid down in trade treaties
- The WTO promotes the lowering of barriers to trade and investment
- Simply put, the WTO **referees countries who want to trade**

Drivers in globalization can be categorized into two categories that emerged after the second world war

- **Decline in barriers:** they allow the free flow of goods, services, and capital
- **Technological change:** the world has seen major advances in communication, information processing, transportation technology, and the internet

The **lowering of barriers** to international trade enables firms to view the world as their market rather than just their home country

- The lowering of trade and investment barriers allows firms to base production at the optimal location for that activity, serving the world market from multiple locations

**Technological change** has had a huge impact on international trade, specifically the **internet**

- In 1990, less than 1 million people were on the internet. Fast-forward to June 2020, and that number changed to 4.8 billion!

- The internet has changed the way people communicate
- The internet makes it easier for buyers and sellers to find each other regardless of location or size
- The internet allows businesses, both big and small, to expand their global presence at a cost cheaper than ever before

Managing an international business **differs from managing a domestic one**

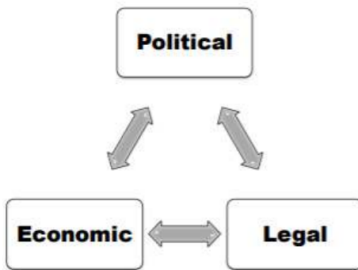
- Countries are different
- The problems and range of problems are more complex than domestic ones
- Firms must work within the limits imposed by governments and in the international trade and investment system
- International transactions involve converting money into different currencies

## Chapter 2:

International business is much more complicated than domestic business because countries have different **political**, **economic**, and **legal systems** that change how business must be done

- **Culture** and **education** and **skill level of the population** can vary dramatically from country to country
- Countries across the world are at **different stages of economic development**

The political, economic, and legal systems are **not independent of each other**. Collectively, these systems are referred to as the **political economy** of a country.



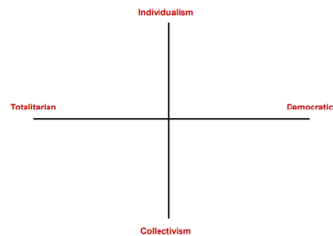
A **political system** is the system of government of a nation. This is determined by the degree which the country emphasizes **collectivism** as opposed to **individualism** and the degree to which the country is **democratic** or **totalitarian**

**Collectivism** emphasizes the collective goals over individual goals

- **Communism** is socialism by totalitarian dictatorships
- **Social Democrats** is socialism by democratic means

**Individualism** is a political system that focuses on the interests of the individual rather than those of the state. It has two central beliefs:

- Individual freedom and self-expression



- Let people pursue their own economic self interest

**Democracy** is a system where the people elect representatives to form the government. Democracies demand:

- Freedom of expression
- Free media
- Regular elections
- Limited terms for representatives
- Fair court system
- Non political police and army

**Totalitarianism** is a political system based on collectivism where it is believed socialism can only be achieved through a totalitarian dictatorship

- One person or party has absolute control over all spheres of human life and opposing those in power is prohibited (ex: North Korea)

There are three **economic systems** which are listed below:

- A **market economy** is an economy where supply and demand determine the price and production of goods
- A **command economy** is an economy where the government determines the allocation of resources, including the determination of production and prices
- A **mixed economy** is where certain sectors are left to private ownership and free market mechanisms while others are owned and managed by the government

**Legal systems** are rules or laws that regulate people's behaviours and business practices. The three types of legal systems are:

- **Common Law:** Interpret customs and traditions
- **Civil Law:** Apply written laws and codes
- **Theocratic Law:** Based on religious teachings

A **contract** is a document specifying the conditions under which an exchange is to occur and details the rights and obligations of the parties involved

A **property** is a resource over which an individual or business holds a legal title, meaning it owns the resource. Some examples include:

- Land and real estate
- Equipment
- Capital
- Mineral rights
- Businesses
- Intellectual property

**Property rights** are legal rights over the use of a resource and the income made derived from that resource

**Private action** is an illegal action taken by private individuals or groups against property holders such as theft, piracy, or blackmail

## Chapter 3:

**Culture** is a system of **values and norms** that are shared among a group of people and constitute a way of life

Knowing about the culture of your **target country** can help you save money and/or prevent you from making mistakes

- No **consumer products company** can afford to make cultural mistakes in an **intensely competitive market**
- Understanding rituals and symbolic behaviours is essential to doing business in foreign countries

An **idiom** is an expression whose symbolic meaning differs from its literal meaning; they can be valuable in determining the business environment of a country

- Ex: The nail that sticks out gets hammered down (Japan)
- Ex: The squeaky wheel gets the grease (USA)

A **society** is a group of people who share a common set of values and norms

- **Values** are abstract ideas about what a group believes to be good, right, and desirable
- **Norms** are social rules that governs people's actions toward one another

**Folkways** are routine conventions of everyday life. Some examples of these include:

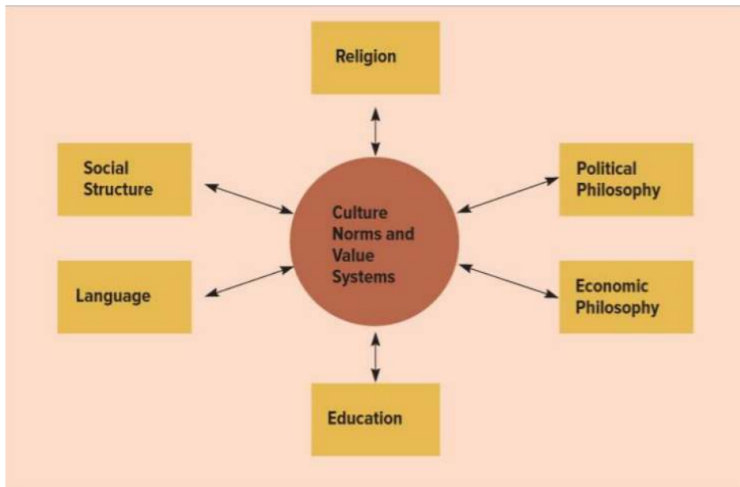
- Attitudes toward time (time conscious or relaxed)
- Appropriate dress
- Correct manners
- Shaking hands

**Mores** are norms that are central to a functioning society and its social life

- Norms have much greater significance than folkways and violating them can bring serious retribution

There is no one-to-one correspondence between a society and a **nation-state**. Nation-states can either contain a single culture or several cultures

- Ex: Canada has English, French, and First Nations
- Ex: Iraq has the Sunni and Shiite



**Social structure** is the degree to which a society values the **individual over the group** and the degree to which a society is **stratified into classes**

- In western societies, the **individual** is the building block of basic social organization. In the US and Canada, there is great emphasis on individual performance
- In some Asian cultures, one's **attachment to the group** is highly valued

**Social strata** is defined on the basis of characteristics such as family background, occupation, and income. All individuals are **born into specific stratas**

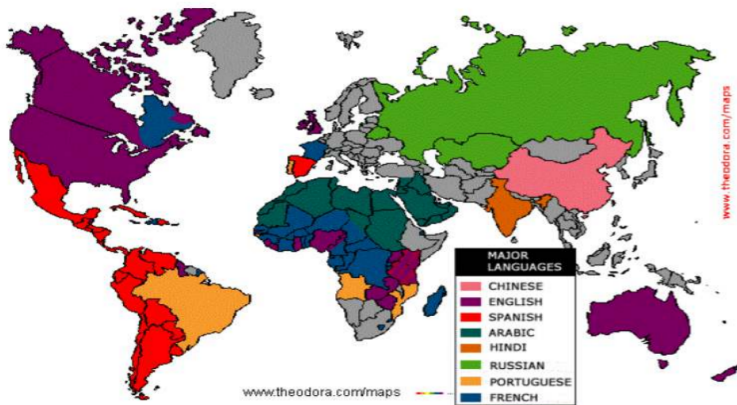
**Social mobility** is the the extent to which individuals can move out of the strata they were born in

- A **caste system** is defined as a society where social position is defined by the family into which a person is born and change to a different position is usually not possible
- A **class system** is a society where social status is defined by the family to which a person is born into and by socioeconomic achievements. Mobility between classes is possible through people's achievements and/or luck

**Language** shapes the way people perceive the world and helps define culture

- Countries with more than one language often have more than one culture
- Chinese is the mother tongue of the largest number of people, followed by Spanish and English
- English is the most widely spoken language in the world, followed by Spanish, Russian, and Arabic

## Major Languages



The **availability of skilled and educated workers** is a major determinant of the likely economic success of a country

How a society's culture affects the values found in the workplace is of considerable importance to an international business. **Hofstede** identified 6 dimensions that he claims summarize different cultures:

1. Power Distance
2. Individualism vs. Collectivism
3. Uncertainty Avoidance
4. Masculinity vs. Femininity (yeah... this didn't grow too well with time...)
5. Long-Term vs. Short-Term Orientation
6. Indulgence vs. Restraint

Culture is not constant, it evolves over time. Studies suggest economics are an important factor in societal change

- As societies become richer, their cultures may change

Doing business in different cultures requires adaptation to conform with the value systems and norms of that culture. **Adaptation** embraces all aspects of an international firm's operation in a foreign country, including:

- The way deals are negotiated
- The appropriate incentives and pay systems for salespeople
- The structure of the organization
- The name of a product
- The tenor of relations between management and the workforce
- The manner in which a product is promoted

Location, climate, access to the ocean, and resources can impact the business environment of a country

## Chapter 5:

**Trade** is the act of buying, selling, or exchanging various goods and services

**Free Trade** is a situation in which governments do not attempt to influence what citizens can buy from other countries or sell to other countries through **quotas** or **duties**

- Free Trade is beneficial because it allows countries to **specialize** in the manufacture of products and **export** the products they can produce efficiently and **import** goods that are better suited to be made abroad
- **Trade Theory** explains why it is beneficial for a country to engage in international trade even for products it can produce itself

The economic arguments surrounding the benefits and costs of free trade in goods and services are not abstract academic ones

Trade Theory has shaped the economic policy of many nations for the past 50 years

- It was the driver behind the WTO, the EU, and NAFTA

**Mercantilism** is an economic philosophy that suggests a country should encourage exports and discourage imports

- It encourages hoarding currency and was used in the mid-16th century by european powers

In 1776, **Adam Smith** proposed a theory of **absolute advantage** where countries export goods they have an absolute advantage in the production of

- Countries should **specialize** in the production of goods and **trade** them for goods produced by other countries
- If each country specializes in the production of the good in which it has an absolute advantage and trades with a country for another good, **both countries gain from this**

**Ricardo** proposed a theory of **Comparative Advantage** which builds on Adam Smith's theory in 1817

- He suggested countries should specialize in the production of goods and services they can produce the most efficiently
- Comparative Advantage Theory provides a strong rationale for encouraging free trade

**Heckscher-Ohlin** proposed the **Heckscher-Ohlin Theory** that suggests countries will export goods that make use of the factors of production that are **locally abundant** while importing goods that need factors of production which are **locally scarce**

- The three **Factors of Production** are land, labour, and capital

In the mid 1960s, **Raymond Vernon** proposed the **Product Life-Cycle Theory** that suggests when a new product is introduced, demand rapidly increases in the home country, but **demand is limited to high-income groups** in other advanced countries. The product's undergo three stages:

- **Introduction Stage:** The inventor enjoys a monopoly in both manufacturing and exports
- **Maturity Stage:** The product has now become standardized, and other countries have started producing and exporting the product
- **Standardization Stage:** The inventor ceases production in the home country and becomes an importer of the product instead

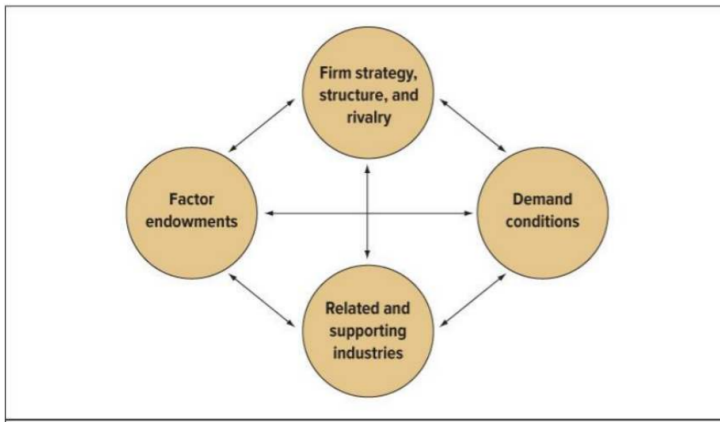
The Product Life-Cycle Theory hold less true today as production is dispersed globally and products are introduced to new markets at the same time rather than in one country

In the late 1970s, **Paul Krugman** suggested the **New Trade Theory** that suggests firms who can achieve **first mover advantages** will develop **economies of scale** and **create barriers** to entry for other firms

- **Economies of scale** are costs that become cheaper and cheaper as a firm produces more and more of a good

In the 1990s, **Michael Porter** proposed the **National Competitive Advantage Theory**, which suggests there are 4 attributes which shape the environment firms compete in, and they either promote or impede the creation of a competitive advantage:

1. Demand Conditions
2. Relating and Supporting Industries
3. Factor Endowments
4. Firm Strategy, Structure, and Rivalry



**Demand Conditions** are the nature of home demand for the industry's product or service

- Sophisticated and demanding customers pressure firms to be competitive, so firms provide higher quality goods that are much more competitive on the global scale

**Relating and Supporting Industries** are the presence or absence of supplier industries and related industries that are internationally competitive

- Successful industries tend to be grouped in clusters in countries

**Factor Endowments** are a nation's position in factors of production necessary to compete in a given industry

- They can either be **basic** (natural resources, climate, location, demographics, essentially what is already there) or **advanced** (skilled labour, infrastructure, technological know-how, simply put stuff that are developed)

**Firm strategy, structure, and rivalry** are how companies are created, organized, managed, and the nature of domestic rivalry

- Management ideologies affect the development of national competitive advantage
- Vigorous domestic rivalry creates **pressure to innovate**, to improve quality, to reduce costs, and to invest in upgrading advanced features

Unrestricted free trade is beneficial, but gains are not always as good as it would seem due to:

- Immobile Resources
- Diminishing Returns
- Exchange Rates
- Transportation Costs

Opening a country to trade could increase:

- The country's stock of resources (ex: labour and capital from abroad)
- The efficiency of resource utilization (ex: better technology from abroad)
- Economic growth (ex: larger production)

Different countries have different advantages in different production activities

- It makes sense for a firm to **disperse its productive activities** to where they can be performed more efficiently to reduce costs

Firms that establish a **first-mover advantage** with regards to the production of a good may subsequently dominate global trade of that product

- It pays to invest substantially to build a first-mover advantage, even if it means several years of losses before the venture becomes profitable

Because they are so critical in international trade, businesses can **influence government trade policy** by lobbying to promote free trade or trade restrictions

- They can set up barriers to block other firms from entering the market or take down barriers to reduce import costs when outsourcing labour

## Chapter 6:

In a world without trade barriers, trade patterns are determined by the relative productivity of different factors of production in different countries

- Countries will **specialize** in goods they can make efficiently while **importing** goods they can produce less efficiently

**Free Trade** refers to a situation where a government does not restrict what its citizens can buy from other countries or sell to other countries

- While nations are committed to free trade, they **tend to intervene anyways** because of the interests of politically important groups

When governments intervene, they often **restrict imports** of goods and services into their nation while **promoting exports**

- This is normally to protect domestic jobs and producers from foreign competition

**Tariffs** are taxes placed on imported goods

- **Specific Tariffs** are a fixed charge per unit (ex: \$3 per barrel of oil)
- **Ad Valorem Tariffs** are costs proportional to the value of imported goods (ex: 25% tariff on cars, 250% tariff on bananas). Essentially, a percentage of the value of the product
- Typically, **consumers** tend to pay these extra costs, not sellers

**Subsidies** are government payments to domestic producers. They can include cash grants, low-interest loans, tax breaks, and government equity participation (government buys a share in company)

- These help to **lower production costs**, which help domestic producers compete against imports and gain export market share
- Again, the **consumers** tend to pay these extra costs.

**Import Quotas** are a **direct restriction on the quantity** of goods that can be imported into the country

- Ex: Fridge Magnet Island can only import 150 beds per year

**Tariff Rate Quotas** are hybrids of quotas and tariffs

- Ex: 10% tariff on rice for the first 10 trillion tonnes imported, after which the tariff is increased to 25%

**Voluntary Export Restraints** are import quotas imposed by the exporting country at the request of the importing country

- Country 1 asks Country 2 to limit its exports to Country 1
- The intention of this is to be more friendly and to avoid a trade war

**Local Content Requirements** are demands that a fraction of a good must be produced domestically

- They can be expressed in **physical terms**: 75% of component parts for cars must be produced locally
- They can be expressed in **value terms**: 40% of all grapefruit must be produced locally
- The Buy America Act specifies that government agencies must give preference to American products when putting contracts for equipment

**Administrative policies** are rules designed to make it hard for imports to enter a country

- Ex: In Japan, Japanese customs inspectors check every Danish tulip bulb by cutting them in half! Yikes!

**Dumping** is the selling of a good in a foreign market at below its fair market value or for a price cheaper than its total production cost

- In Canada, the Canadian Border Services Agency (CBSA) investigates reports of dumping, and if appropriate, puts taxes on that imported item

The **Political** arguments for intervention are as follow:

1. Protecting jobs and industries
2. National security
3. Retaliation
4. Protecting consumers
5. Furthering foreign policy objectives
6. Protecting human rights

The **economic** arguments for intervention are as follow:

1. The infant industry argument
2. Strategic trade policy

The **Infant Industry Argument** suggests new manufacturing industries cannot compete with well-established industries in developed countries

- To allow these industries to get a foothold, governments should support these industries (through tariffs, quotas, and subsidies) until they have grown strong enough to meet international competition

The purposes of **Strategic Trade Policies** are to raise national income and help domestic firms overcome foreign firms who have established a **first-mover advantage**

When firms are provided with aid by means of intervention, they should respond by:

- **Researching** to gather knowledge and intelligence
- Choosing the **most appropriate entry strategies**
- **Lobbying** for freer trade and investment
- Take advantage of areas when imports receive preferential treatment (called foreign trade zones or **FTZs**)
- **Seek favourable customs classifications** that allow the firm to reduce exposure to trade barriers
- **Take advantage** of investment incentives and other government support programs

**Agriculture** is one of the economic sectors where subsidies are the most extensively used. Agricultural subsidies:

- Allow inefficient farmers to stay in business
- Encourage overproduction
- Encourage production of products that could be grown more efficiently somewhere else
- Reduce international trade in agricultural products

**Non-tariff** barriers to trade include:

- **Technical barriers to trade:** Size, packaging, labelling (ex: english and french in Canada)

- **Sanitary standards:** Food safety, health of animals and plants (ex: GMO, hormone-treated beef)







































