Chapter 4

Business in a Borderless World

Chapter Outline

Objectives

After reading this chapter, you will be able to:

- Explore some of the factors within the international trade environment that influence business.
- Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.
- Specify some of the agreements, alliances, and organizations that may encourage trade across international boundaries.
- Summarize the different levels of organizational involvement in international trade.
- Contrast two basic strategies used in international business.
- Assess the opportunities and problems facing a small business considering expanding into international markets.

Enter the World of Business

Foreign Retailers in Japan

Foreign retailers have been opening many stores in Japan, and plans call for many more over the next few years. Japanese real estate prices have plunged, and the laws and regulations involved with opening stores have diminished considerably. Firms in many industries are stampeding into Japan, but fast food, office supplies, toys, and clothing are the hottest.

McDonald's expects to have 10,000 outlets in Japan by 2006. Office Depot plans 350 stores by 2007. Toys "R" Us has moved into Japan in a big way with sales exceeding $1.2 billion in 2001. L.L. Bean will have 150 stores by 2008.

Many of these stores will open in one of eight new malls planned over the next decade. American Malls International Japan has plans for opening these malls—with 2.2 million to 2.5 million square feet each—in sites around Tokyo, Osaka, and Nagoya. The sites are within reach of 75 percent of Japan's 125 million consumers.

Of course, some changes must be made in items offered by foreign retailers in Japan. At Office Depot, for instance, Japanese consumers can find computers, pens, and paper clips, just as in any Office Depot location in Canada. However, they can also find three kinds of green tea, six flavors of instant *ramen,* decorative *noshi bukuro* envelopes for cash gifts, and large crystal ashtrays—items definitely not offered in Canada. Sales at Office Depot stores in Japan are expected to reach $2.1 billion annually and generated over $1.5 billion (US) from international sales in 2001. Some of those sales come from the e-commerce ventures.

Foreign retailers in Japan are expected to drive inefficient operators out of business, lower costs, and streamline industries in many ways. As a result, Japan's economy should become more efficient—good news for Japanese consumers.[1] Canada has few international retailers to compete with either Japanese or US retailers as we primarily export commodities to Japan in the form of coal, grain and foodstuffs. We do however export such products as houses, our designs are significantly stronger in earthquakes and such producers as Viceroy Homes are successfully exporting modular homes into the Japanese market possessing 7% of the Japanese market in 1997. This growth represents over 65% of the total value of company sales to Japan in 2001 in 6 months, or $32.5 million out of 49.9 million.[2]

Courtesy of Office Max

INTRODUCTION

Consumers around the world can drink Coca-Cola and Pepsi; eat at McDonald's and Pizza Hut; see movies from Mexico, England, France, Australia, and China; and watch CNN and MTV on Toshiba and Sony televisions. The products you consume today are just as likely to have been made in Korea or Germany as in North America. Likewise, consumers in other countries buy Western electrical equipment, clothing, rock music, cosmetics, and toiletries, as well as computers, robots, and earth-moving equipment.

Many firms are finding that international markets provide tremendous opportunities for growth. The consulting firm Deloitte and Touche estimates that about 95 percent of the world's population and two-thirds of its total purchasing power are outside the United States.[3] Accessing these markets can promote innovation, while intensifying global competition spurs companies to market better and less expensive products.[4]

In this chapter, we explore business in this exciting global marketplace. First, we'll look at the nature of international business, including barriers and promoters of trade across international boundaries. Next, we consider the levels of organizational involvement in international business. Finally, we briefly discuss strategies for trading across national borders.

THE ROLE OF INTERNATIONAL BUSINESS

international business
the buying, selling, and trading of goods and services across national boundaries

International business refers to the buying, selling, and trading of goods and services across national boundaries. Falling political barriers and new technology are making it possible for more and more companies to sell their products overseas as well as at home. And, as differences among nations continue to narrow, the trend toward the globalization of business is becoming increasingly important. Colgate-Palmolive markets its oral care, household, personal care, fabric care, and pet nutrition goods to more than 200 countries and territories, earning 70 percent of its revenues from countries other than the United States.[5]

When Bombardier sells an airplane in the U.S., Sony sells a stereo in Vancouver, or a small Swiss medical supply company sells a shipment of orthopedic devices to a hospital in Monterrey, Mexico, the sale affects the economies of the countries involved. To begin our study of international business, we must first consider some economic issues: why nations trade, exporting and importing, and the balance of trade.

Why Nations Trade

Nations and businesses engage in international trade to obtain raw materials and goods that are otherwise unavailable to them or are available elsewhere at a lower price than that at which they themselves can produce. A nation, or individuals and organizations from a nation, sells surplus materials and goods to acquire funds to buy the goods, services, and ideas its people need. Poland and Hungary, for example, want to trade with Western nations so that they can acquire new technology and techniques to revitalize their economies. Which goods and services a nation sells depends on what resources it has available.

absolute advantage
a monopoly that exists when a country is the only source of an item, the only producer of an item, or the most efficient producer of an item

Some nations have a monopoly on the production of a particular resource or product. Such a monopoly, or **absolute advantage,** exists when a country is the only source of an item, the only producer of an item, or the most efficient producer of an item. Because South Africa has the largest deposits of diamonds in the world, one company, De Beers Consolidated Mines, Ltd., virtually controls the world's diamond trade and uses its control to maintain high prices for gem-quality diamonds. The United States, until recently, held an absolute advantage in oil-drilling equipment. But an absolute advantage not based on the availability of natural resources rarely lasts, and Japan and the Soviet Union are now challenging the United States in the production of oil-drilling equipment.

Most international trade is based on **comparative advantage,** which occurs when a country specializes in products that it can supply more efficiently or at a lower cost than it can produce other items. Until recently, the United States had a comparative advantage in manufacturing automobiles, heavy machinery, airplanes, and weapons; other countries now hold the comparative advantage for many of these products. Canada, in particular, for automative goods versus the United States.

comparative advantage
the basis of most international trade, when a country specializes in products that it can supply more efficiently or at a lower cost than it can produce other items

Trade between Countries

To obtain needed goods and services and the funds to pay for them, nations trade by exporting and importing. **Exporting** is the sale of goods and services to foreign markets. If current trends continue, world exports of goods and services will reach $16 trillion by 2005.[6] Canadian businesses export many goods and services. Table 4.1 shows where Canadian exports went in 2000. **Importing** is the purchase of goods and services from foreign sources. Many of the goods you buy in Canada are likely to be imports or to have some imported components. Sometimes, you may not even realize they're imports.

exporting
the sale of goods and services to foreign markets

importing
the purchase of goods and services from foreign sources

Balance of Trade

You have probably read or heard about the fact that the United States has a trade deficit, but what is a trade deficit? A nation's **balance of trade** is the difference in value between its exports and imports. Because Canada exports more products and services than it imports, it has a positive balance of trade, or trade surplus. The Canadian trade surplus was $55 billion in 2000 because Canada exported $412 billion in goods and services and imported $356 billion. Canada's economy depends significantly on exports as the $412 billion exported in 2000 represents over 37% of the value of all goods and services produced in that year. Trade deficits are harmful because they can mean the failure of businesses, the loss of jobs, and a lowered standard of living.

balance of trade
the difference in value between a nation's exports and its imports

trade surplus
a nation's positive balance of trade, which exists when that country imports less products than it exports

United States	87.1%
Japan	2.2%
United Kingdom	1.4%
China	0.9%
Germany	0.8%

Table 4.1

Where Canadian Exports Went in 2000

Source: Statistics Canada and U.S. Census Bureau **http://strategis.ic.gc.ca**. June 4, 2001.

Table 4.2

The Top 5 Countries Canada Traded with in 2000

Source: Statistics Canada and U.S. Census Bureau. **http://strategis.ic.gc.ca/sc_mrkti/tdst/tdo/tdo.php**

	Exports	%	Imports	%	Trade Balance
United States	$359.2B	87.4	$229.5B	64.4	$129.0B Surplus
Japan	$ 9.1B	2.2	$ 16.6B	4.7	$ 7.5B Deficit
United Kingdom	$ 5.7B	1.4	$ 13.0B	3.6	$ 7.3B Deficit
China	$ 3.6B	0.9	$ 11.3B	3.2	$ 7.7B Deficit
Mexico	$ 2.0B	0.5	$ 12.1B	3.4	$ 10.1B Deficit

Of course, when a nation exports more goods than it imports, it has a favorable balance of trade, or trade surplus. Japan currently has a trade surplus with many of the countries with whom it trades. Table 4.2 shows the top 5 countries with which Canada has a trade deficit and a trade surplus.

balance of payments the difference between the flow of money into and out of a country

The difference between the flow of money into and out of a country is called its **balance of payments.** A country's balance of trade, foreign investments, foreign aid, loans, military expenditures, and money spent by tourists comprise its balance of payments. As you might expect, a country with a trade surplus generally has a favorable balance of payments because it is receiving more money from trade with foreign countries than it is paying out. When a country has a trade deficit, more money flows out of the country than into it. If more money flows out of the country than into it from tourism and other sources, the country may experience declining production and higher unemployment, because there is less money available for spending. When the Canadian dollar drops in relation to other currencies, such as the U.S. dollar, it costs more to import from the U.S., especially fresh fruit and vegetables in the winter. Conversely, Canadian products become less expensive to U.S. consumers and businesses. This increases exports for Canadians and creates many jobs, helping our economy, boosting productivity and increasing our competitiveness on the global stage. At the same time as foreign products become more expensive, we buy fewer foreign goods and combined it all improves our balance of trade, increasing jobs, keeping our cost of living in check and ultimately providing a better economic environment in Canada. In 1999, Canada recorded a positive balance of payments of $1.7 billion and it jumped to $4.2 billion in just the first quarter of 2001, primarily due to energy exports to the U.S.

INTERNATIONAL TRADE BARRIERS

Completely free trade seldom exists. When a company decides to do business outside its own country, it will encounter a number of barriers to international trade. Any firm considering international business must research the other country's economic, legal, political, social, cultural, and technological background. Such research will help the company choose an appropriate level of involvement and operating strategies, as we will see later in this chapter.

Economic Barriers

When looking at doing business in another country, managers must consider a number of basic economic factors, such as economic development, infrastructure, and exchange rates.

Economic Development. When considering doing business abroad, businesspeople need to recognize that they cannot take for granted that other countries offer the same things as are found in *industrialized nations*—economically advanced countries such as the United States, Japan, Great Britain, and Canada. Many countries in Africa, Asia, and South America, for example, are in general poorer and less economically advanced than those in North America and Europe; they are often called *less-developed countries* (LDCs). LDCs are characterized by low per capita income (income generated by the nation's production of goods and services divided by the population), which means that consumers are not likely to purchase nonessential products. Nonetheless, LDCs represent a potentially huge and profitable market for many businesses because they may be buying technology to improve their infrastructures, and much of the population may desire consumer products—such as personal care products and soft drinks. The erosion of Kodak's domestic market share is being more than offset by the firm's expansion into emerging markets such as China, India, and Latin America. Kodak now holds 45 percent of the world market.[7]

A country's level of development is determined in part by its **infrastructure,** the physical facilities that support its economic activities, such as railroads, highways, ports, airfields, utilities and power plants, schools, hospitals, communication systems, and commercial distribution systems. When doing business in LDCs, for example, a business may need to compensate for rudimentary distribution and communication systems, or even a lack of technology.

infrastructure
the physical facilities that support a country's economic activities, such as railroads, highways, ports, airfields, utilities and power plants, schools, hospitals, communication systems, and commercial distribution systems

exchange rate
the ratio at which one nation's currency can be exchanged for another nation's currency or for gold

Exchange Rates. The ratio at which one nation's currency can be exchanged for another nation's currency or for gold is the **exchange rate.** Exchange rates vary daily and can be found in newspapers and through many sites on the Internet. One such site, xe.com, asks the user to enter the amount desired to convert and the two types of currency involved in the exchange. For example, you could find out how many Euros you would receive for 500 Canadian dollars. The site also offers a table of rates. Familiarity with exchange rates is important because they affect the cost of imports and exports. Current exchange rates provide an opportunity for Canada to export cheaper products to the US. Tourists find that the US dollar goes a lot further in Canada, as the advertisement for Canadian ski resorts shows.

Occasionally, a government may alter the value of its national currency. Devaluation decreases the value of currency in relation to other currencies. If the US government were to devalue the dollar, it would lower the cost of American goods abroad and make trips to the United States less expensive for foreign tourists. Thus, devaluation encourages the sale of domestic goods and tourism. Mexico has repeatedly devalued the peso for this reason. Revaluation, which increases the value of a currency in relation to other currencies, occurs rarely.

http://www.xe.com
This website permits conversion calculations of most major currencies but a caution: the rates are updated every minute and the rate may not be available to consumers depending upon the actual dollar value being used.

Legal and Political Barriers

A company that decides to enter the international marketplace must contend with potentially complex relationships among the different laws of its own nation, international laws, and the laws of the nation with which it will be trading; various trade restrictions imposed on international trade; and changing political climates.

Laws and Regulations. Canada has a number of laws and regulations that govern the activities of Canadian firms engaged in international trade. Generally though Canada adheres to the many agreements that have evolved from the United Nations, the World Trade Organization as well as the trading groups such as NAFTA of which

Canadian ski resorts advertise the benefits of the current exchange rate between Canada and the US to American ski enthusiasts.

Courtesy of IntraWest

we are members. These rules govern how documents are to be recognized, the minimum age for workers (child labour laws), the trade in ivory and the movement of people, goods and intellectual rights such as patents, trademarks and copyrights, among others. As a normal process, we have international negotiators participate in the drafting of the treaties; accords etc. and which are then ratified by our parliament. Still Canadians doing business outside our borders or with visitors from other countries need to be careful.

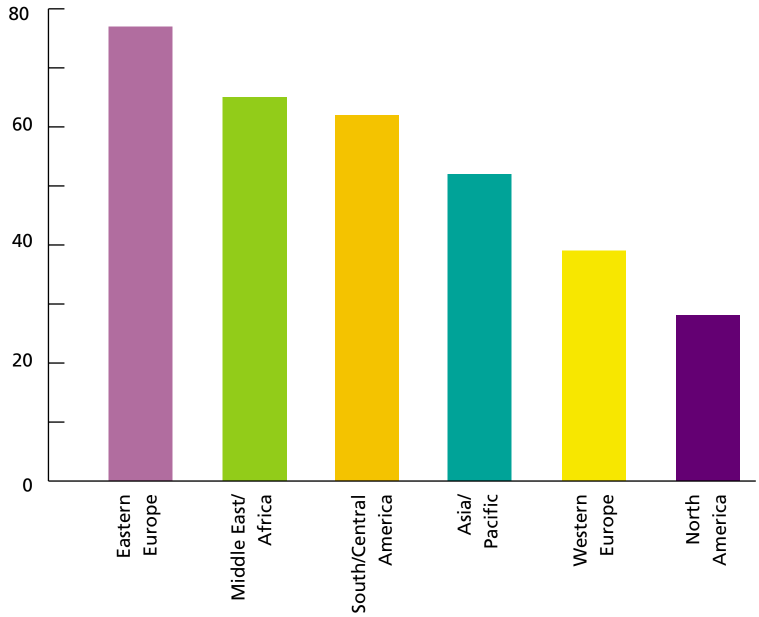

Figure 4.1

Software Piracy Rate by Region

Source: "Software Piracy Flourishing," *USA Today Snapshots,* August 13, 1998, p. B1.

Once outside Canadian borders, businesspeople are likely to find that the laws of other nations differ from those of Canada. Many of the legal rights that Canadians take for granted do not exist in other countries, and a firm doing business abroad must understand and obey the laws of the host country. Many countries forbid foreigners from owning real property outright; others have strict laws limiting the amount of local currency that can be taken out of the country and the amount of foreign currency that can be brought in.

Some countries have copyright and patent laws that are less strict than those of Canada, and some countries fail to honor Canadian laws. China, for example, has recently been threatened with severe trade sanctions by the U.S. because of a history of allowing U.S. goods to be copied or counterfeited there. Such unauthorized Chinese goods cost US providers of software, movies, books, and music recordings billions of dollars in lost sales and the problem extends to other industries as well. Of the 574 million business software applications installed worldwide in 1997, 40 percent were stolen.[8] Figure 4.1 shows the piracy rates by regions of the world. North American companies are angry because the fakes harm not only their sales, but also their reputations if the knockoffs are of poor quality. Such counterfeiting is not limited to China, and in countries where these activities occur, laws against them may not be sufficiently enforced, if counterfeiting is in fact deemed illegal. Thus, businesses engaging in foreign trade may have to take extra steps to protect their products because local laws may be insufficient to do so. Transparency International provides a listing of the most corrupt countries in the world. Its Corruption Perceptions Index has triggered meaningful reform in many countries by raising public awareness of the problem.

Tariffs and Trade Restrictions. Tariffs and other trade restrictions are part of a country's legal structure but may be established or removed for political reasons. An

import tariff
a tax levied by a nation on goods imported into the country

import tariff is a tax levied by a nation on goods imported into the country. A *fixed tariff* is a specific amount of money levied on each unit of a product brought into the country, while an *ad valorem tariff* is based on the value of the item. Most countries allow citizens traveling abroad to bring home a certain amount of merchandise without paying an import tariff. A Canadian citizen may bring $50 worth of merchandise into Canada duty free after 24 hours outside of Canada, $200 worth of merchandise after 48 hours, and $750 after 7 days. After that, Canadian citizens must pay a duty based on the cost of the item and the country of origin. Thus, identical items purchased in different countries might have different tariffs.

Countries sometimes levy tariffs for political reasons, as when they impose sanctions against other countries to protest their actions. However, import tariffs are more commonly imposed to protect domestic products by raising the price of imported ones. Such protective tariffs have become controversial, especially for Americans as they become concerned over the US trade deficit. Protective tariffs allow more expensive domestic goods to compete with foreign ones for example, many advocate the imposition of tariffs on products imported from Japan, particularly luxury automobiles, audio components, and computers. However, governments fear economic reprisals from Japan if the tariffs are levied on Japanese products.

Critics of protective tariffs argue that their use inhibits free trade and competition. Supporters of protective tariffs say they insulate domestic industries, particularly new ones, against well-established foreign competitors. Once an industry matures, however, its advocates may be reluctant to let go of the tariff that protected it. Tariffs also help when, because of low labor costs and other advantages, foreign competitors can afford to sell their products at prices lower than those charged by domestic companies. Some Protectionists argue that tariffs should be used to keep domestic wages high and unemployment low.

exchange controls
regulations that restrict the amount of currency that can be bought or sold

Exchange controls restrict the amount of currency that can be bought or sold. Some countries control their foreign trade by forcing businesspeople to buy and sell foreign products through a central bank. If John Deere, for example, receives payments for its tractors in a foreign currency, it may be required to sell the currency to that nation's central bank. When foreign currency is in short supply, as it is in many Third World and Eastern European countries, the government uses foreign currency to purchase necessities and capital goods and produces other products locally, thus limiting its need for foreign imports.

quota
a restriction on the number of units of a particular product that can be imported into a country

A **quota** limits the number of units of a particular product that can be imported into a country. A quota may be established by voluntary agreement or by government decree. The United States has imposed an import quota on some Japanese economy cars in an effort to reduce the amount of dollars leaving the country.

embargo
a prohibition on trade in a particular product

An **embargo** prohibits trade in a particular product. Embargoes are generally directed at specific goods or countries and may be established for political, economic, health, or religious reasons. The US forbids the importation of cigars from Cuba for political reasons. However, demand for Cuban cigars is so strong that corporate pressure to end such sanctions is increasing.[9] Health embargoes prevent the importing of various pharmaceuticals, animals, plants, and agricultural products. Muslim nations forbid the importation of alcoholic beverages on religious grounds.

dumping
the act of a country or business selling products at less than what it costs to produce them

One common reason for setting quotas is to prohibit **dumping,** which occurs when a country or business sells products at less than what it costs to produce them. Canadian and US steelmakers have accused firms in South Korea, Japan, and Russia of dumping steel in North America for less than what it cost to be produced in their home countries. This in turn would cause domestic producers to lose business and jobs.

A company may dump its products for several reasons. Dumping permits quick entry into a market. Sometimes dumping occurs when the domestic market for a firm's product is too small to support an efficient level of production. In other cases, technologically obsolete products that are no longer salable in the country of origin are dumped overseas. Dumping is relatively difficult to prove, but even the suspicion of dumping can lead to the imposition of quotas.

Political Barriers. Unlike legal issues, political considerations are seldom written down and often change rapidly. Nations that have been subject to economic sanctions for political reasons in recent years include China, Iraq, Iran, Syria, and South Africa. While these were dramatic events, political considerations affect international business daily as governments enact tariffs, embargoes, or other types of trade restrictions in response to political events.

Businesses engaged in international trade must consider the relative instability of countries such as Iraq, South Africa, and Honduras. Political unrest in countries such as Peru, Haiti, Somalia, and Russia may create a hostile or even dangerous environment for foreign businesses. Civil war, as in Sudan and Sri Lanka, may disrupt business activities and place lives in danger. And, a sudden change in power can result in a regime that is hostile to foreign investment. Some businesses have been forced out of a country altogether, as they were when Fidel Castro closed Cuba to American business. Whether they like it or not, companies are often involved directly or indirectly in international politics. Many Canadian companies have replaced the U.S. firms that left Cuba despite U.S. pressure to cease doing business with Cuba.

Political concerns may lead a group of nations to form a **cartel,** a group of firms or nations that agrees to act as a monopoly and not compete with each other, to generate a competitive advantage in world markets. Probably the most famous cartel is OPEC, the Organization of Petroleum Exporting Countries, founded in the 1960s to increase the price of petroleum throughout the world and to maintain high prices. By working to ensure stable oil prices, OPEC hopes to enhance the economies of its member nations. At the same time, they do not try to stifle the economies of their client nations.

cartel
a group of firms or nations that agrees to act as a monopoly and not compete with each other, in order to generate a competitive advantage in world markets

Social and Cultural Barriers

Most businesspeople engaged in international trade underestimate the importance of social and cultural differences; but these differences can derail an important transaction. Australians spend only one-third of their food budget on food prepared outside the home, whereas Americans spend over one-half. Anticipating growth in Australians' consumption of fast food, however, Burger King has opened a restaurant in Sydney.[10] Unfortunately, cultural norms are rarely written down, and what is written down may well be inaccurate.

Cultural differences include differences in spoken and body language. Although it is certainly possible to translate words from one language to another, the true meaning is sometimes misinterpreted or lost. In Italy, an advertising campaign for Schweppes Tonic Water translated the name into "Schweppes Toilet Water." An ad in Mexico for Parker ballpoint pens was supposed to say "It won't leak in your pocket and embarrass you." Parker assumed that *embarazar* means "to embarrass," but it actually means "to impregnate." So, the ad read "It won't leak in your pocket and make you pregnant."[11] While such examples make us laugh, they also illustrate the difficulty of conducting business in other languages and cultures.

Value Diversity

Cultural Awareness in Global Marketing

Coors's slogan "Turn it loose" was translated into Spanish where it was read as "Suffer from diarrhea." Colgate introduced Cue toothpaste in France, only to discover that *Cue* is a French pornographic magazine. Translated into Chinese, Pepsi's "Come alive with the Pepsi generation" became "Pepsi brings back your ancestors from the grave." Clairol introduced the Mist Stick curling iron in Germany where "mist" is German slang for manure.

These examples underscore that firms that want to market a product globally and reach consumers of varying cultures need to become thoroughly acquainted with the language, customs, prejudices, and tastes of the intended market. Failing to do so can be costly in terms of unproductive advertising, lost sales, and lost goodwill. Words, images, gestures, and even colors and numbers have different meanings in different countries.

Marketers should avoid using the number four when addressing Chinese, Korean, and Japanese consumers. Although advertising that says "four times the savings" would probably appeal to American consumers, it would not appeal to an Asian audience because four is the number for death in Asian numerology. Korean and Japanese consumers will recognize a promotion that uses red and gold colors as one that was created for Chinese consumers. Not only are they less likely to respond to the ad, but they may feel insulted.

Marketers must find out what is important or relevant in a particular market and recognize that American icons, holidays, and heroes are often meaningless in other cultures. For example, there are few beauty magazines in Latin America, so the idea of a "cover girl" or supermodel like Cindy Crawford is unknown. However, beauty pageants are common. Therefore, when Cover Girl cosmetics entered the Latin American market, it selected a former Venezuelan Miss Universe to become the product spokesperson.

Global marketers should never assume they know who the audience is or what it desires. Such an assumption may be based on inaccurate or even offensive stereotypes. Successful marketing must include the creation of messages that appeal to the sensitivities of the intended audience. Products and promotions must be culturally relevant and understanding of a group's values and customs. Successful marketing demands a commitment to a community, as well as a specific advertising campaign. For instance, understanding the importance of soccer to the Hispanic culture, Budweiser sponsored Major League Soccer, the US and Mexican national soccer teams, and three World Cups. As the popularity of this sport continues to increase among all groups, the investment is paying off for Budweiser.

Companies that are successful in global marketing realize that it requires a long-term commitment. Coca-Cola, McDonald's, and Procter & Gamble support the communities to which they try to sell their products. They are involved in community events, provide good places for minorities to work, and are good corporate citizens.[12]

Differences in body language and personal space also affect international trade. Body language is nonverbal, usually unconscious communication through gestures, posture, and facial expression. Personal space is the distance at which one person feels comfortable talking to another. North Americans tend to stand a moderate distance away from the person with whom they are speaking. Arab businessmen tend to stand face to face with the object of their conversation. Additionally, gestures vary from culture to culture, and gestures considered acceptable in North American society—pointing, for example—may be considered rude in others. Such cultural differences may generate uncomfortable feelings or misunderstandings when businesspeople of different countries negotiate with each other.

Family roles also influence marketing activities. Many countries do not allow children to be used in advertising, for example. Advertising that features people in nontraditional social roles may not be successful, either. Procter & Gamble has been experimenting with ads in India that depict men doing housework, a nontraditional role. Although some Indian men do help with housework, ads that show men performing such chores may not appeal to Asian women. However, two firms, Korea's LG Electronics and Kuala Lumpur's National Panasonic, have successfully used such advertising.[13]

The people of other nations quite often have a different perception of time as well. North Americans value promptness; a business meeting scheduled for a specific time seldom starts more than a few minutes late. In Mexico and Spain, however, it is not unusual for a meeting to be delayed half an hour or more. Such a late start might produce resentment in a North American negotiating in Spain for the first time.

Companies engaged in foreign trade must observe the national and religious holidays and local customs of the host country. In many Islamic countries, for example, workers expect to take a break at certain times of the day to observe religious rites. Companies also must monitor their advertising to guard against offending customers. In Thailand and many other countries, public displays of affection between the sexes are unacceptable in advertising messages; in many Middle Eastern nations, it is unacceptable to show the soles of one's feet.

With the exception of the United States, most nations use the metric system. This lack of uniformity creates problems for both buyers and sellers in the international marketplace. American sellers, for instance, must package goods destined for foreign markets in liters or meters, and Japanese sellers must convert to the English system if they plan to sell a product in the United States. Tools also must be calibrated in the correct system if they are to function correctly. Hyundai and Honda service technicians need metric tools to make repairs on those cars. This provides Canada with an advantage compared to US competitors as we don't have to convert our packaging.

The literature dealing with international business is filled with accounts of sometimes humorous but often costly mistakes that occurred because of a lack of understanding of the social and cultural differences between buyers and sellers. Such problems cannot always be avoided, but they can be minimized through research on the cultural and social differences of the host country.

Technological Barriers

Many countries lack the technological infrastructure found in North America, and some marketers are viewing such barriers as opportunities. For example, cellular and wireless phone technology is actually less expensive in some countries than traditional telephone systems. With installation costs of $440 and months on waiting lists, few households in China have private phone lines. Many Chinese consumers are bypassing these expensive private lines and turning instead to wireless communications, doubling the mobile phone market in China to 13 million units. With the market expected to increase to 50 million units, many firms, including Motorola, Nokia, and Ericsson, have started marketing wireless communications in China.[14] Nortel, of course, has been operating in China since the 1980s.

TRADE ALLIANCES, SPECIFIC MARKETS, AND TRADE SUPPORTERS

Although these economic, political, legal, and sociocultural issues may seem like daunting barriers to international trade, there are also organizations and agreements—such as the General Agreement on Tariffs and Trade, the World Bank, and the International Monetary Fund—that foster international trade and can help managers get involved in and succeed in global markets. Various regional trade agreements, such as the North American Free Trade Agreement and the European Union, also promote trade among member nations by eliminating tariffs and trade restrictions. In this section, we'll look briefly at these agreements and organizations, as well as the specific market in the Pacific Rim.

General Agreement on Tariffs and Trade (GATT)
a trade agreement, originally signed by 23 nations in 1947, that provides a forum for tariff negotiations and a place where international trade problems can be discussed and resolved

World Trade Organization (WTO)
"Is the only international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible." It is the continuation of GATT. WTO website, Source: www.wto.org/wto/about/about/htm, November 15, 2001.

General Agreement on Tariffs and Trade (GATT)

During the Great Depression of the 1930s, nations established so many protective tariffs covering so many products that international trade became virtually impossible. By the end of World War II, there was considerable international momentum to liberalize trade and minimize the effects of tariffs. The **General Agreement on Tariffs and Trade (GATT),** originally signed by 23 nations in 1947, provides a forum for tariff negotiations and a place where international trade problems can be discussed and resolved. Currently, more than 140 nations abide by its rules, managed by the **World Trade Organization (WTO).**

WTO sponsors rounds of negotiations aimed at reducing trade restrictions. Two of the most successful of these sessions were the Kennedy and Tokyo rounds. The Kennedy Round, named for President John F. Kennedy, reduced tariffs on more than 60,000 items by an average of 40 percent among 50 members of GATT. The Tokyo Round (1973–1979) involved 100 nations. It reduced many tariffs by 30 percent, and the negotiators were able to eliminate or ease nontariff trade restrictions such as import quotas, red tape in customs procedures, and "buy national" agreements. The Tokyo Round also worked to increase the availability of foreign currency. The Uruguay Round (1988–1994), further reduced trade barriers for most products and provided new rules to prevent dumping. The Qator round of negotiations were established in November 2001 to further reduce trade barriers and encourage global economic growth for more than 140 nations.

World Trade Organization, **www.wto.org/wto/about/about/htm**

Each of the previous GATT rounds has reduced trade barriers and has been followed by a period of strong economic growth. By the year 2002, falling trade barriers are

Barriers to international trade were significantly reduced by the General Agreement on Tariffs and Trade resulting in an increase in international cargo ship traffic.

expected to add $250 billion to the value of goods and services worldwide, which translates into an 8 percent boost in the global domestic product.[15] It is hoped that, by reducing trade barriers, nations will develop closer relationships. As this happens, global markets should become more efficient, and possibly political strife will decrease.

The North American Free Trade Agreement (NAFTA)

The **North American Free Trade Agreement (NAFTA),** which went into effect on January 1, 1994, effectively merged Canada, the United States, and Mexico into one market of about 400 million consumers. NAFTA eliminates most tariffs (import taxes) and trade restrictions on agricultural and manufactured products among the three countries over a period of 15 years. It is estimated that output for this trade alliance is $7 trillion U.S.

North American Free Trade Agreement (NAFTA)
agreement that eliminates most tariffs and trade restrictions on agricultural and manufactured products to encourage trade among Canada, the US, and Mexico

For the United States, NAFTA makes it easier for businesses to invest in Mexico and Canada, provides protection for intellectual property (of special interest to high technology industries), and expands trade by requiring equal treatment of US firms in both countries. Although most tariffs on products going to the United States will be eliminated, duties on products such as household glassware, footwear, and some fruits and vegetables will be phased out over the 15-year period. South Dakota farmers have recently protested what they say is the dumping of agricultural commodities by Canada. The farmers have staged blockages, halting Canadian trucks carrying grain and livestock into the US. The farmers claim that Canadian agricultural imports are depressing US prices, and, as one farmer said, "We want fair trade, not just free trade."[16]

Although NAFTA has been controversial, it has become a positive factor for North American firms wishing to engage in international business. Retailers such as Wal-Mart and AutoZone are opening stores in Mexico and the U.S. Canada's Research in Motion exports its Blackberry throughout the U.S. and Mexico. And because licensing requirements have been relaxed under the pact, smaller businesses that previously could not afford to invest in Mexico and the U.S. are able to do business in those markets without having to locate there. NAFTA's long phase-in period provides ample time for adjustment by those firms affected by reduced tariffs on imports. Furthermore, increased competition should lead to a more efficient market, and the long-term prospects of including most countries in the Western Hemisphere in the alliance promise additional opportunities for Canadian marketers.

Specifically, NAFTA has increased trade for Canadian businesses affording access to the world's largest market, the United States. At the same time Canada has become a prime location for foreign companies to access the North American market by locating in Canada and exporting to the United States. For example, Honda has located in Alliston, Ontario and Toyota in Cambridge, Ontario. Food is transferred quickly across the border for the benefit of both countries, providing Canadian hothouse vegetables to the US and field grown vegetables to Canadians. Still the relationship is not all smooth sailing. In the 90's and again in 2001, the United States placed tariffs and duties on Canadian softwood lumber, accusing federal and provincial governments of providing unfair subsidies to the lumber industry in B.C. and the Maritimes, and hence hurting the U.S. lumber industry. This dispute, and others like it, can then be resolved through either negotiation, a tribunal hearing under NAFTA rules or ultimately by the WTO.

The European Union's Official Website, **userpage.chemie.fu-berlin.de/adressen/eu.html**

The European Union (EU)

The **European Union (EU),** also called the European Community or Common Market, was established in 1958 to promote trade among its members, which initially

European Union (EU)
a union of European nations established in 1958 to promote trade among its members; one of the largest single markets today

Solve the Dilemma

Global Expansion or Business as Usual?

Audiotech Electronics, founded in 1959 by a father and son, currently operates a 35,000-square-foot factory with 75 employees. The company produces control consoles for television and radio stations and recording studios. It is involved in every facet of production—designing the systems, installing the circuits in its computer boards, and even manufacturing and painting the metal cases housing the consoles. The company's products are used by all the major broadcast and cable networks. The firm's newest products allow television correspondents to simultaneously hear and communicate with their counterparts in different geographic locations. Audiotech has been very successful meeting its customers' needs efficiently.

Audiotech sales have historically been strong in Canada, but recently growth is stagnating. Even though Audiotech is a small, family-owned firm, it believes it should evaluate and consider global expansion.

1. What are the key issues that need to be considered in determining global expansion?
2. What are some of the unique problems that a small business might face in global expansion that larger firms would not?
3. Should Audiotech consider a joint venture? Should it hire a sales force of people native to the countries it enters?

included Belgium, France, Italy, West Germany, Luxembourg, and The Netherlands. In 1991, East and West Germany united, and by 1993, the United Kingdom, Spain, Denmark, Greece, Portugal, and Ireland had joined as well. Cyprus, Poland, Hungary, the Czech Republic, Slovenia, and Estonia have begun formal negotiations to join the EU; Latvia, Lithuania, Slovakia, Romania, and Bulgaria have requested membership as well.[17] Until 1993, each nation functioned as a separate market, but at that time, they officially united into one of the largest single world markets, with nearly 340 million consumers. Should the other nations join, their total population will exceed North America's.

To facilitate free trade among its members, the EU is working toward the standardization of business regulations and requirements, import duties, and value-added taxes; the elimination of customs checks; and the creation of a standardized currency for use by all members. Many European nations (Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal, and Spain) have already begun linking their exchange rates together in preparation for a common currency, the *euro,* which debuted on January 1, 1999. Greece entered in 2001, and the UK, Denmark, and Sweden have decided to delay entry.[18] January 2002 launches the Euro for individuals to use and the elimination of each country's notes and coins.

The common currency may require many marketers to modify their pricing strategies and will subject them to increased competition. However, the use of a single currency will free those companies that sell goods among European countries from the nuisance of dealing with complex exchange rates.[19] The long-term goals are to eliminate all barriers for trade within the EU, improve the economic efficiency of the EU nations, and stimulate economic growth—thus making the union economy more competitive in global markets, particularly against Japan, the rest of the Pacific Rim, and North America. However, several disputes and debates still divide the member nations, and many barriers to completely free trade remain. Consequently, it may take many years before the EU is truly one deregulated market.

The Pacific Rim Nations

Despite economic turmoil and a recession in Asia in recent years, companies of the Pacific Rim nations—Japan, China, South Korea, Taiwan, Singapore, Hong Kong, the Philippines, Malaysia, Indonesia, Australia, and Indochina—have become increasingly competitive and sophisticated in global business over the last three decades. They represent tremendous opportunities for marketers who understand these markets.

The Japanese in particular have made inroads into the world consumer markets for automobiles, motorcycles, watches, cameras, and audio and video equipment. Products from Sony, Sanyo, Toyota, Mitsubishi, Canon, Suzuki, and Toshiba are sold all over the world. Despite the high volume of trade between the US and Japan, the two economies are less integrated than is the US economy with Canada and Western Europe. Economists estimate that if Japan imported goods at the same rate as other major nations, the US would sell $50 billion more annually to Japan.[20] The US and Japan continually struggle with cultural and political differences and are, in general, at odds over how to do business with each other.[21] Among the Japanese markets opening for the US are telecommunications products, such as cell phones and personal computers.

The People's Republic of China, a country of 1.4 billion people, has launched a program of economic reform designed to stimulate its economy by privatizing many industries, restructuring its banking system, and increasing public spending on infrastructure (including railways and telecommunications).[22] The potential of China's consumer market is so vast that it is almost impossible to measure, but there are risks associated with doing business in China. Political and economic instability, especially inflation, combined with corruption and erratic policy shifts have undercut marketers' efforts to stake a claim in what could become the world's largest market.[23]

Despite an economic crisis in the late 1990s, South Korea has been quite successful in global markets with familiar brand names such as Samsung, Daewoo, and Hyundai. Korean companies are grabbing market share from Japanese companies in global markets for videocassette recorders, color televisions, and computers.

Less visible and sometimes less stable Pacific Rim regions, such as Thailand, Malaysia, Singapore, Taiwan, and Hong Kong, have become major manufacturing and financial centers. Singapore boasts huge global markets for rubber goods and pharmaceuticals. Taiwan may have the most promising future of all the Pacific Rim nations, with a strong local economy and low import barriers that are drawing increasing imports. Firms from Thailand and Malaysia are carving out niches in world markets for a variety of products, from toys to automobile parts.[24] And Vietnam is becoming one of Asia's fastest growing markets for North American businesses.

World Bank

The **World Bank,** more formally known as the International Bank for Reconstruction and Development, was established by the industrialized nations, including Canada, in 1946 to loan money to underdeveloped and developing countries. It loans its own funds or borrows funds from member countries to finance projects ranging from road and factory construction to the building of medical and educational facilities. The World Bank and other multilateral development banks (banks with international support that provide loans to developing countries) are the largest source of advice and assistance for developing nations. The International Development Association and the International Finance Corporation are associated with the World Bank and provide loans to private businesses and member countries.

World Bank
an organization established by the industrialized nations in 1946 to loan money to underdeveloped and developing countries; formally known as the International Bank for Reconstruction and Development

International Monetary Fund

International Monetary Fund (IMF)
organization established in 1947 to promote trade among member nations by eliminating trade barriers and fostering financial cooperation

The **International Monetary Fund (IMF)** was established in 1947 to promote trade among member nations by eliminating trade barriers and fostering financial cooperation. It also makes short-term loans to member countries that have balance-of-payment deficits and provides foreign currencies to member nations. For example, the IMF approved $56 million for the Dominican Republic after Hurricane Georges left an estimated $1.3 billion in damages.[25] The International Monetary Fund also tries to avoid financial crises and panics by alerting the international community about countries that will not be able to repay their debts.[26] The IMF's Internet site provides additional information about the organization, including news releases, frequently asked questions, and members.

GETTING INVOLVED IN INTERNATIONAL BUSINESS

Businesses may get involved in international trade at many levels—from a small Kenyan firm that occasionally exports African crafts to a huge multinational corporation such as Shell Oil that sells products around the globe. The degree of commitment of resources and effort required increases according to the level at which a business involves itself in international trade. This section examines exporting and importing, trading companies, licensing and franchising, contract manufacturing, joint ventures, direct investment, and multinational corporations.

Statistics Canada's website for general information and research, **www.statcan.ca**

Strategis Canada, Statistics Canada's Website of business information. **http://strategis.ic.gc.ca**

Exporting and Importing

Many companies first get involved in international trade when they import goods from other countries for resale in their own businesses. For example, a grocery store chain may import bananas from Honduras and coffee from Colombia. A business may get involved in exporting when it is called upon to supply a foreign company with a particular product. Such exporting enables enterprises of all sizes to participate in international business. According to The Daily, Statistics Canada's report on March 28, 2001, exporters of less than $1,000,000 per year represented 62% of all exporters but only 65% of all exports. Still, from 1993 to 1999, the number of exporters has doubled as exports increased 84%.

countertrade agreements
foreign trade agreements that involve bartering products for other products instead of for currency

Exporting sometimes takes place through **countertrade agreements,** which involve bartering products for other products instead of for currency. Such arrangements are fairly common in international trade, especially between Western companies and Eastern European nations. An estimated 40 percent or more of all international trade agreements contain countertrade provisions.

Although a company may export its wares overseas directly or import goods directly from their manufacturer, many choose to deal with an intermediary, commonly called an *export agent.* Export agents seldom produce goods themselves; instead, they usually handle international transactions for other firms. Export agents either purchase products outright or take them on consignment. If they purchase them outright, they generally mark up the price they have paid and attempt to sell the product in the international marketplace. They are also responsible for storage and transportation.

An advantage of trading through an agent instead of directly is that the company does not have to deal with foreign currencies or the red tape (paying tariffs and handling paperwork) of international business. A major disadvantage is that, because the export agent must make a profit, either the price of the product must be increased or the domestic company must provide a larger discount than it would in a domestic transaction.

Trading Companies

A **trading company** buys goods in one country and sells them to buyers in another country. Trading companies handle all activities required to move products from one country to another, including consulting, marketing research, advertising, insurance, product research and design, warehousing, and foreign exchange services to companies interested in selling their products in foreign markets. Trading companies are similar to export agents, but their role in international trade is larger. By linking sellers and buyers of goods in different countries, trading companies promote international trade.

Canada has few trading companies but one of the oldest is the Canadian Commercial Corporation (CCC), a crown corporation in existence since 1942, with a primary goal of assisting Canadian companies involved in producing military products for our allies. The CCC may assist in the negotiating or financing of the receivable for the producing company. The Export Development Company (EDC), another crown corporation, and some private companies, get involved in financing commercial transactions that may be too large for a Canadian company to finance through normal methods or require waiting long periods to receive payment.

trading company
a firm that buys goods in one country and sells them to buyers in another country

licensing
a trade agreement in which one company—the licensor—allows another company—the licensee—to use its company name, products, patents, brands, trademarks, raw materials, and/or production processes in exchange for a fee or royalty

Licensing and Franchising

Licensing is a trade arrangement in which one company—the *licensor*—allows another company—the *licensee*—to use its company name, products, patents, brands, trademarks, raw materials, and/or production processes in exchange for a fee or royalty. The Coca-Cola Company and PepsiCo frequently use licensing as a means to market their soft drinks in other countries. Yoplait is a French yogurt that is licensed for production in North America to General Mills.

Franchising is a form of licensing in which a company—the *franchiser*—agrees to provide a *franchisee* a name, logo, methods of operation, advertising, products, and other elements associated with the franchiser's business, in return for a financial commitment and the agreement to conduct business in accordance with the franchiser's standard of operations. Wendy's, McDonald's, Pizza Hut, and Holiday Inn are well-known franchisers with international visibility.

Licensing and franchising enable a company to enter the international marketplace without spending large sums of money abroad or hiring or transferring personnel to handle overseas affairs. They also minimize problems associated with shipping costs, tariffs, and trade restrictions. And, they allow the firm to establish goodwill for its products in a foreign market, which will help the company if it decides to produce or market its products directly in the foreign country at some future date. However, if the licensee (or franchisee) does not maintain high standards of quality, the product's image may be hurt; therefore, it is important for the licensor to monitor its products overseas and to enforce its quality standards.

franchising
a form of licensing in which a company—the franchiser—agrees to provide a franchisee a name, logo, methods of operation, advertising, products, and other elements associated with a franchiser's business, in return for a financial commitment and the agreement to conduct business in accordance with the franchiser's standard of operations

Contract Manufacturing

Contract manufacturing occurs when a company hires a foreign company to produce a specified volume of the firm's product to specification; the final product carries the domestic firm's name. Spalding, for example, relies on contract manufacturing for its sports equipment; Reebok uses Korean contract manufacturers to manufacture many of its athletic shoes.

contract manufacturing
the hiring of a foreign company to produce a specified volume of the initiating company's product to specification; the final product carries the domestic firm's name

Joint Ventures and Alliances

joint venture
the sharing of the costs and operation of a business between a foreign company and a local partner

strategic alliance
a partnership formed to create competitive advantage on a worldwide basis

Many countries, particularly LDCs, do not permit direct investment by foreign companies or individuals. Or, a company may lack sufficient resources or expertise to operate in another country. In such cases, a company that wants to do business in another country may set up a **joint venture** by finding a local partner (occasionally, the host nation itself) to share the costs and operation of the business. For example, the Campbell Soup Company markets and distributes soup in Japan through a joint venture with Nakano Vinegar Company.[27]

In some industries, such as automobiles and computers, strategic alliances are becoming the predominant means of competing. A **strategic alliance** is a partnership formed to create competitive advantage on a worldwide basis. In such industries, international competition is so fierce and the costs of competing on a global basis are so high that few firms have the resources to go it alone, so they collaborate with other companies. One such collaboration is Star Alliance, including Air Canada, Lufthansa, SAS, United Airlines, All Nippon Airways and others, formed to improve service and reduce costs.[28]

Direct Investment

direct investment
the ownership of overseas facilities

outsourcing
a form of direct investment that involves the transferring of manufacturing or other tasks—such as data processing—to countries where labor and supplies are less expensive

Companies that want more control and are willing to invest considerable resources in international business may consider **direct investment,** the ownership of overseas facilities. The business may control the facilities outright, or it may hold the majority ownership interest in the company that controls the facilities. For example, Motorola, Inc., the world's largest cellular phone maker, owns 51 percent of Appeal Telecom Co., a small Korean competitor. Steelcase, Inc., owns 25 percent of Thailand's largest furniture maker. And Wal-Mart paid $179 million for a majority interest in four stores and six store sites in Korea.[29]

Outsourcing, a form of direct investment, involves transferring manufacturing or other tasks (such as data processing) to countries where labor and supplies are less expensive. When Sears decided to outsource its Craftsman brand bench and stationary tools overseas, Home Depot formed a partnership with the Emerson Tool Company in Paris, Tennessee. The employees of Emerson had been building the Craftsman tools for Sears for 30 years, and the 400 current employees would have lost their jobs if Home Depot had not intervened.[30] Many North American computer, apparel, and shoe makers, for example, have transferred production to Asian countries, where labour costs are lower than in the United States. Some companies have transferred selected operations to Mexican plants under the *maquiladora* system. Under this system, US and Canadian companies supply labour-intensive assembly plants, called *maquilas,* with components for assembly, processing, or repair. The Mexican plant returns the finished products to the United States or Canada for further processing or shipment to customers. The company pays a tariff or duty only on the value added to the product in Mexico. Canada and US businesses benefit from Mexico's proximity, low labour rates, and relatively cheap peso, while Mexico benefits from the increased economic development and the creation of new jobs. *Maquilas* are not limited to North American firms; increasingly, firms from Japan and other countries are outsourcing to Mexico.

Multinational Corporations

multinational corporation (MNC)
a corporation that operates on a worldwide scale, without significant ties to any one nation or region

The highest level of international business involvement is the **multinational corporation (MNC),** a corporation, such as IBM and Exxon, that operates on a worldwide scale, without significant ties to any one nation or region. MNCs are more than simple corporations. They often have greater assets than some of the countries in which

Embrace Technology

Online Global Marketing

Many North American companies are expanding their Internet marketing overseas. There is great opportunity for savvy firms to capitalize on the growth of the Internet throughout Europe, Asia, and the rest of the world. Research indicates that the number of overseas web surfers will continue to increase, outpacing growth in North America. To utilize the web as a global marketing tool, however, companies must take a number of issues into consideration, including language, culture, regulations and laws, differing standards for telecommunication infrastructures, and privacy concerns.

The most dominant language on the Internet is English, but 44 percent of users (56 million people worldwide) use a language other than English. The most popular non-English languages on the Net are Spanish (24 percent), Japanese (22 percent), German (13 percent), and French (10 percent). Other languages, including Chinese, Swedish, Italian, and Dutch, make up the remainder. Problems can occur when web sites try to adapt to a foreign country. For example, when MSNBC launched its first European site, it had to completely rewrite the code to accommodate the German language. Also, since NBC is not a recognized name in Germany, the company partnered with a German news organization to develop content locally. MSNBC is planning additional overseas ventures and will probably follow the same format that it did in Germany.

Content also must be changed to reflect cultural differences. For instance, baseball is not widely followed in Great Britain, so a web site catering to baseball enthusiasts would be unsuccessful there. However, cricket is very popular, and a site incorporating the sport would probably do well. In addition to sports, other cultural and social concerns to be addressed include buying and eating habits, entertainment, family values and roles, and other lifestyle issues. To be successful, web content must take into account local, regional, and country tastes.

Privacy is another key issue in online global marketing. Many web publishers in some European and Latin American countries do not share data about site visits. Advertising deals are often made in these areas because of personal relationships rather than potential revenue. North American companies that want to develop a web presence must understand local laws, regulations, and even customs to be successful. Many struggle with other countries' commercial policies.

Creating customized content to fit local tastes is essential to successful online global marketing. Based on the potential growth of Internet users abroad, many firms are doing just that.[31]

they do business. General Motors, Ford Motors, and General Electric, for example, have sales higher than the GDP of many of the countries in which they operate. Nestlé, with headquarters in Switzerland, operates more than 300 plants around the world and receives revenues from Europe; North, Central, and South America; Africa; and Asia. The Royal Dutch/Shell Group, one of the world's major oil producers, is another MNC. Its main offices are located in The Hague and London. Other MNCs include BASF, British Petroleum, Cadbury Schweppes, Matsushita, Mitsubishi, Siemens, Texaco, Toyota, and Unilever.

INTERNATIONAL BUSINESS STRATEGIES

Planning in a global economy requires businesspeople to understand the economic, legal, political, and sociocultural realities of the countries in which they will operate. These factors will affect the strategy a business chooses to use outside its own borders.

Explore Your Career Options

Preparing for the Borderless World

To be a successful businessperson in the 21st century, you will need to be globally aware, looking beyond your own region or country to the whole world. Being globally aware requires objectivity, tolerance, and knowledge. Objectivity is crucial in assessing opportunities, evaluating potential markets and opportunities, and resolving problems. Tolerance of cultural differences does not mean that you have to accept as your own the cultural ways of other countries, but it does mean that you must permit others to be different but equal. Being globally aware requires staying informed about social and economic trends because a country's prospects can change, sometimes almost overnight, as social, political, and economic trends change direction or accelerate.

Both trade agreements like NAFTA and new technologies are reducing borders among nations and creating many exciting career opportunities. Most new jobs will have at least some global component. Examples of exciting careers in global business include export and import management, product management and distribution, and advertising. An export manager is responsible for managing all of a large company's exporting activities and supervises the activities of foreign sales representatives who live and work abroad. Since products may be sold in many countries, product management and distribution transcends national boundaries, but may have to be customized for a particular country or region. Students interested in advertising will find an exciting career meeting the challenges of communicating information to people of diverse languages and needs.

While the likelihood of receiving a foreign assignment in your first job is low, the possibility of developing and implementing global strategies is high. Today, many colleges and universities are encouraging study in international business, foreign languages, cross-cultural communications, and related areas to prepare students for the borderless world. In the future, you can expect that it will be a requirement, not an option, to have global business skills.[32]

Developing Strategies

multinational strategy
a plan, used by international companies, that involves customizing products, promotion, and distribution according to cultural, technological, regional, and national differences

Companies doing business internationally have traditionally used a **multinational strategy,** customizing their products, promotion, and distribution according to cultural, technological, regional, and national differences. Campbell Soup Company divides its world product advertising between two separate advertising agencies to accommodate customized ad messages. BBDO Worldwide handles most of Campbell's soup business in the US, Canada, Mexico, and Australia, and Young and Rubicam handles the soup and sauce business in Europe, Asia, and the UK. Young and Rubicam also has the "chunky" soup brand in North America, as well as the Pepperidge Farm and V-8 brands and the Prego, Pace, and Franco American lines.[33] As another example of a multinational strategy, many soap and detergent manufacturers have adapted their products to local water conditions, washing equipment, and washing habits. For customers in some less-developed countries, Colgate-Palmolive Co. has developed an inexpensive, plastic, hand-powered washing machine for use in households that have no electricity. The Campbell Soup Company tailors its soups to suit local tastes by selling cream of pumpkin soup in Australia, watercress-and-duck gizzard soup in Hong Kong, and corn potage and *tappuri yasai* in Japan.[34] Even when products are standardized, advertising often has to be modified to adapt to language and cultural differences. Celebrities used in advertising in North America, for example, may be unfamiliar to foreign consumers and thus would not be effective in advertising products in other countries.

More and more companies are moving from this customization strategy to a **global strategy (globalization),** which involves standardizing products (and, as much as possible, their promotion and distribution) for the whole world, as if it were a single entity. Examples of globalized products are North American clothing, movies, music, and cosmetics. Sony televisions, Levi jeans, and American cigarette brands seem to make year-to-year gains in the world market.

global strategy (globalization)
a strategy that involves standardizing products (and, as much as possible, their promotion and distribution) for the whole world, as if it were a single entity

Before moving outside their own borders, companies must conduct environmental analyses to evaluate the potential of and problems associated with various markets and to determine what strategy is best for doing business in those markets. Failure to do so may result in losses and even negative publicity. Schlotzsky's, the Texas-based sandwich chain, experienced slower than expected sales when it opened a new restaurant in Beijing. The Chinese are less accustomed to eating foods with their hands, and they often like to share meals with a companion. Schlotzsky's hopes that, by training staff and placing pictures on restaurant tables that demonstrate how to hold and eat sandwiches, Chinese customers will learn to appreciate the large sandwiches—and, hopefully, sales will increase.[35] Some companies rely on local managers to gain greater insights and faster response to changes within a country. Astute businesspeople today "think globally, act locally," that is, while constantly being aware of the total picture, they adjust their firms' strategies to conform to local needs and tastes.

Managing the Challenges of Global Business

As we've pointed out in this chapter, many past political barriers to trade have fallen or been minimized, expanding and opening new market opportunities. Managers who can meet the challenges of creating and implementing effective and sensitive business strategies for the global marketplace can help lead their companies to success. Multinational corporations such as General Electric and Ford, which derive a substantial portion of their revenues from international business, depend on savvy managers who can adapt to different cultures. Lucent Technologies is investing more than $24 million in a design center in China in an effort to aid in China's modernization of its infrastructure and telecommunications technology. The income potential from Lucent, which manufactures, designs, and delivers products for networking, communications systems, software, data networking systems, business telephone systems, and microelectronic components, is enormous.[36] Small businesses, too, can succeed in foreign markets when their managers have carefully studied those markets and prepared and implemented appropriate strategies. Being globally aware is therefore an important quality for today's managers and will become a critical attribute for managers of the 21st century.

Review Your Understanding

Explore some of the factors within the international trade environment that influence business.

International business is the buying, selling, and trading of goods and services across national boundaries. Importing is the purchase of products and raw materials from another nation; exporting is the sale of domestic goods and materials to another nation. A nation's balance of trade is the difference in value between its exports and imports; a negative balance of trade is a trade deficit. The difference between the flow of money into a country and the flow of money out of it is called the balance of payments. An absolute or comparative advantage in trade may determine what products a company from a particular nation will export.

Investigate some of the economic, legal-political, social, cultural, and technological barriers to international business.

Companies engaged in international trade must consider the effects of economic, legal, political, social, and cultural differences between nations. Economic barriers are a country's level of development (infrastructure) and exchange rates. Wide-ranging legal and political barriers include differing laws (and enforcement), tariffs, exchange controls, quotas, embargoes, political instability, and war. Ambiguous cultural and social barriers involve differences in spoken and body language, time, holidays and other observances, and customs.

Specify some of the agreements, alliances, and organizations that may encourage trade across international boundaries.

Among the most important promoters of international business are the World Trade Organization, The North American Free Trade Agreement, the European Union, the World Bank, and the International Monetary Fund.

Summarize the different levels of organizational involvement in international trade.

A company may be involved in international trade at several levels, each requiring a greater commitment of resources and effort, ranging from importing/exporting to multinational corporations. Countertrade agreements occur at the import/export level and involve bartering products for other products instead of currency. At the next level, a trading company links buyers and sellers in different countries to foster trade. In licensing and franchising, one company agrees to allow a foreign company the use of its company name, products, patents, brands, trademarks, raw materials, and production processes, in exchange for a flat fee or royalty. Contract manufacturing occurs when a company hires a foreign company to produce a specified volume of the firm's product to specification; the final product carries the domestic firm's name. A joint venture is a partnership in which companies from different countries agree to share the costs and operation of the business. The purchase of overseas production and marketing facilities is direct investment. Outsourcing, a form of direct investment, involves transferring manufacturing to countries where labor and supplies are cheap. A multinational corporation is one that operates on a worldwide scale, without significant ties to any one nation or region.

Contrast two basic strategies used in international business.

Companies typically use one of two basic strategies in international business. A multinational strategy customizes products, promotion, and distribution according to cultural, technological, regional, and national differences. A global strategy (globalization) standardizes products (and, as much as possible, their promotion and distribution) for the whole world, as if it were a single entity.

Assess the opportunities and problems facing a small business considering expanding into international markets.

The "Solve the Dilemma" box presents a small business considering expansion into international markets. Based on the material provided in the chapter, analyze the business's position, evaluating specific markets, anticipating problems, and exploring methods of international involvement.

Learn the Terms

absolute advantage 82
balance of payments 84
balance of trade 83
cartel 89
comparative advantage 83
contract manufacturing 97
countertrade agreements 96
direct investment 98
dumping 88
embargo 88
European Union (EU) 93
exchange controls 88
exchange rate 85
exporting 83
franchising 97
General Agreement on Tariffs and Trade (GATT) 92
global strategy (globalization) 100
importing 83
import tariff 88

Check Your Progress

1. Distinguish between an absolute advantage and a comparative advantage. Cite an example of a country that has an absolute advantage and one with a comparative advantage.
2. What effect does devaluation have on a nation's currency? Can you think of a country that has devaluated or revaluated its currency? What have been the results?
3. What effect does a country's economic development have on international business?
4. How do political issues affect international business?
5. What is an import tariff? A quota? Dumping? How might a country use import tariffs and quotas to control its balance of trade and payments? Why can dumping result in the imposition of tariffs and quotas?
6. How do social and cultural differences create barriers to international trade? Can you think of any additional social or cultural barriers (other than those mentioned in this chapter) that might inhibit international business?
7. Explain how a countertrade agreement can be considered a trade promoter. How does the General Agreement on Tariffs and Trade (GATT) encourage trade?
8. At what levels might a firm get involved in international business? What level requires the least commitment of resources? What level requires the most?
9. Compare and contrast licensing, franchising, contract manufacturing, and outsourcing.
10. Compare multinational and global strategies. Which is best? Under what circumstances might each be used?

Get Involved

1. If the United States were to impose additional tariffs on cars imported from Japan, what would happen to the price of Japanese cars sold in the United States? What would happen to the price of American cars? What action might Japan take to continue to compete in the US automobile market?
2. Although NAFTA has been controversial, it has been a positive factor for Canadian firms desiring to engage in international business. What industries and specific companies have the greatest potential for opening stores in the US and Mexico? What opportunities exist for small businesses that cannot afford direct investment in Mexico and the US?
3. Identify a local company that is active in international trade. What is its level of international business involvement and why? Analyze the threats and opportunities it faces in foreign markets, as well as its strengths and weaknesses in meeting those challenges. Based on your analysis, make some recommendations for the business's future involvement in international trade. (Your instructor may ask you to share your report with the business.)

Build Your Skills

Global Awareness

Background: As businesspeople travel the globe, they encounter and must quickly adapt to a variety of cultural norms quite different from North America. When encountering individuals from other parts of the world, the best attitude to adopt is "Here is my way. Now what is yours?" The more you see that you are part of a complex world and that your culture is different from, not better than, others, the better you will communicate and the more effective you will be in a variety of situations. It takes time, energy, understanding, and tolerance to learn about and appreciate other cultures. Naturally you're more comfortable doing things the way you've always done them. Remember, however, that this fact will also be true of the people from other cultures with whom you are doing business.

Task: You will "travel the globe" by answering questions related to some of the cultural norms that are found in other countries. Form groups of four to six class members and determine the answers to the following questions. Your instructor has the answer key, which will allow you to determine your group's Global Awareness IQ, which is based on a maximum score of 100 points (10 points per question).

Match the country with the cultural descriptor provided.

A. Saudi Arabia
B. Japan
C. Great Britain
D. Germany
E. Venezuela

_____ 1. When people in this country table a motion, they want to discuss it. In the U.S., "to table a motion" means to put off discussion.

_____ 2. In this country, special forms of speech called *keigo* convey status among speakers. When talking with a person in this country, one should know the person's rank. People from this country will not initiate a conversation without a formal introduction.

_____ 3. People from this country pride themselves on enhancing their image by keeping others waiting.

_____ 4. When writing a business letter, people in this country like to provide a great deal of background information and detail before presenting their main points.

_____ 5. For a man to inquire about another man's wife (even a general question about how she is doing) is considered very offensive in this country.

Match the country with the cultural descriptor provided.

F. China
G. Greece
H. Korea
I. India
J. Mexico

_____ 6. When in this country, you are expected to negotiate the price on goods you wish to purchase.

_____ 7. While North Americans want to decide the main points at a business meeting and leave the details for later, people in this country need to have all details decided before the meeting ends, to avoid suspicion and distrust.

_____ 8. Children in this country learn from a very early age to look down respectfully when talking to those of higher status.

_____ 9. In this country the husband is the ruler of the household, and the custom is to keep the women hidden.

_____ 10. Many businesspeople from Canada experience frustration because *yes* does not always mean the same thing in other cultures. For example, the word *yes* in this country means, "OK, I want to respect you and not offend you." It does not necessarily show agreement.

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Cyberzone

Introduction to the Internet

The Internet (or the "Net") is a collection of connected computers; it is a network of business, university, government, and Internet-access providers that enables users to share information across the globe. Many people describe the Internet as a highway system (it is often referred to as the "information superhighway"). However, the highway analogy implies a system that is well planned, organized, and heavily regulated, which the Internet is not. It might be more constructive to think of the Internet as a river of data with thousands of tributaries (representing the networks linked to the Net) feeding into and out of it, with many of the tributaries having tributaries of their own. Of course, you'll have to imagine a river that flows in multiple directions because information on the Net flows in all directions. Like a river system, the Net is constantly changing, with new tributaries feeding into the river, channels deepening with greater use and new technology, channel routes changing to take advantage of new technology and access points, and so on.

To go online, you need a computer, a modem (typically an internal device that connects the computer to a phone line), and access to the Internet through an Internet-service provider, which is a local or national business that connects customers to the Internet with basic services, or through a national online service, such as America Online. These services provide access to discussion groups, downloadable files, chat rooms, news, entertainment, shopping, and much more.

One of the most common uses of the Internet is e-mail, electronic messages that are transmitted—usually in a matter of seconds—from one user to another via the Internet. People use e-mail to keep in touch with out-of-town friends and relatives; have private conversations with people they "meet" online; communicate and share information with coworkers, suppliers, and customers across the globe, country, or within the office; and find information about products, companies, and ideas. A recent survey showed that one-fourth of CEOs use the Internet for one hour or more each day, and 84 percent use it to send and receive e-mail.[1]

The World Wide Web (WWW) organizes much of the vast information available on the Internet into a series of interconnected "pages" or "sites" that may include text, graphics, sound, and video. Web search engines and directories such as Yahoo!, Excite, Google, Alta Vista, and Infoseek keep track of and index the information available on the WWW. Finding useful information without the aid of one of the search engines or directories can be difficult and slow. However, using the search capabilities provided by them allows users to access a wealth of information on hundreds of thousands of topics. It is easy to see why these are some of the most heavily visited sites on the Internet.

In order to access a particular Web site, you will need the address or uniform resource locator (URL). Typically, the URL for a site is the name of the company, magazine, newspaper, or government office. For example, the URL for *Canadian Business* is **http://www.canadianbusiness.com,** and the address for Saturn is **http://www.saturn.com.** However, the first firm to register a particular URL with the Inter-Networking Information Center has the exclusive right to use that URL as its site address. So, in some cases, your first thought on a company's URL may be incorrect. The web site for Coca-Cola is not **http://www.coke.com,** as you might expect, because that URL was registered first by another firm.

The Internet is useful to both individuals and businesses. Individual uses include accessing news on both local and international levels, conducting research on products, companies, and various topics of interest, making online purchases of everything from toys to stocks to airline tickets, and for entertainment purposes. Businesses initially used the Net to facilitate communications between widespread operations and suppliers, but over time it has become an increasing source of revenue.

The Internet environment has five basic characteristics: addressability, interactivity, control, memory, and accessibility.[2] Each is discussed below.

Addressability refers to the ability to identify users. Internet technology makes it possible for visitors to a web site to identify themselves and provide information about their wants and needs. Many sites encourage, or even require, visitors to register in order to maximize their use of the site or to gain access to certain areas of the site. Registration forms typically ask for name, e-mail address, age, occupation, and sometimes preferences. Some web sites offer contests or prizes to encourage registration by users.

Interactivity allows Net users to express their needs and wants in real time or nearly real time. Users can communicate with other users. Community sites on the Net provide a sense of group membership or a feeling of belonging among individual members of a group. One such community is Tripod, a site where Generation Xers can chat, exchange messages on virtual bulletin boards, and share information on various topics.

Control refers to the user's ability to control the type, rate, and sequence of the information he or she views. Users who encounter an offensive site or one accessed in error can simply click to close that site and move on to another. Most web sites use hyperlinks that offer users the ability to move from one point in a site to others or even to different sites depending on their preferences.

Memory is the ability to access databases or data warehouses that contain individual user profiles and to use this information in real time. Current technology allows instantaneous access to the identity of a site visitor; if a profile for a particular visitor exists, a company can display past purchases or suggest new products based on past purchases while the user is visiting the site. Bluefly, for example, is an online clothing retailer that asks visitors to provide their e-mail address, clothing preferences, and sizes. It then offers "My Catalog" which is an online catalog of clothing that matches that particular visitor's preferences. When new items that match a user's preferences are added to the firm's inventory, the individual is alerted via e-mail.

Accessibility refers to the wealth of information available to Internet users. A vast amount of information on products, including features, prices, and reviews, allows users to make informed decisions on purchases without ever leaving the privacy and comfort of their home or office. Access to other types of information, including financial, medical, and educational material, is quick and generally very easy. The survey of CEOs found that 81 percent use the Internet for general research, and 80 percent search for data on other companies.[3]

Because of the increasing importance of the Internet in the world of business today, each of the remaining Cyberzone features in this text cover Internet applications to specific concepts and ideas. Part Two (Starting and Growing a Business) addresses Internet uses for small businesses and entrepreneurs. The application of the Internet to general managerial decision making is covered in Part Three (Managing for Quality and Competitiveness), and Part Four (Creating the Human Resource Advantage) covers Internet use for human resource managers. Electronic commerce is addressed in Part Five (Marketing: Developing Relationships), and online finance is examined in Part Six (Financing the Enterprise).