Cheat Sheet: The Global Business Environment

Essential Concepts

Globalization

Why do countries trade? Shouldn’t a strong country such as the United States produce all of the computers, television sets, automobiles, cameras, and VCRs it wants rather than import such products from Japan? Why do the Japanese and other countries buy wheat, corn, chemical products, aircraft, manufactured goods, and informational services from the United States?

Nations engage in global trade because they believe they have an advantage over their competitors, either through absolute advantage (producing a good or service at a lower cost) or comparative advantage (producing a good or service at a lower opportunity cost relative to competitors). Given a choice of producing one good or another, it is more efficient to produce the good with the lower opportunity cost, using the increased production of that good to trade for the good with the higher opportunity cost. By specializing in the products they can produce most efficiently, countries can benefit from greater availability and lower prices, driving their participation in international trade.

Measuring global trade involves assessing the impact of transactions on the economy, which helps inform trade policies and decisions. The balance of trade compares a country’s exports and imports, with a surplus indicating more exports than imports, and a deficit indicating the opposite. The balance of payments considers all economic transactions, including investments, loans, and aid, and provides a broader view of a country’s financial flows. However, interpreting these measurements and their implications depends on various factors and can be influenced by political considerations.

Participating in the Global Marketplace

The main strategies that companies use to enter the global market are exporting/importing, outsourcing/offshoring, licensing and franchising, joint ventures/strategic alliances, and foreign direct investment (FDI). Each has different advantages and disadvantages that must be weighed carefully.

Factors Affecting Global Business

Expanding globally requires businesses to navigate various factors, including sociocultural differences. This includes considerations such as language, customs, values, time and punctuality, business norms, and religious beliefs, all of which can significantly impact consumer behavior and business operations in different countries. Understanding and respecting these cultural factors is crucial for successful international ventures.

Political factors can impact global trade, with government policies often including economic objectives. Nationalism and government actions, such as discouraging foreign investment or imposing language requirements, can hinder trade. Trade barriers, such as tariffs, import quotas, embargoes, buy-national regulations, and exchange controls, also restrict international trade and protect domestic industries.

Governments worldwide enforce various laws and regulations that govern business practices, including contract law, intellectual property rights, consumer protection, pricing regulations, product safety, environmental protection, privacy laws, and financial reporting, among others, which businesses must understand and comply with in order to operate effectively.

Physical and environmental factors pose significant challenges for businesses operating in foreign countries, including inadequate infrastructure, limited access to essential resources, and environmental regulations. However, the increasing emphasis on corporate social responsibility is driving companies to find innovative and collaborative ways to address these challenges and conduct global business in a more sustainable manner.

International Cooperation

The World Trade Organization (WTO) is a powerful international institution that reduces trade barriers and promotes open markets among its 164 member countries, which account for a large majority of global trade and GDP. Its key functions include overseeing trade agreements, facilitating negotiations, settling disputes, and providing assistance to developing nations. The WTO promotes stability, predictability, and free trade while discouraging protectionist measures like tariffs and quotas.

The World Bank is an international financial institution that provides loans and grants to developing countries, focusing on projects related to education, infrastructure, environment, and public health, with the goal of reducing poverty and promoting shared prosperity. It also offers technical assistance, research, and policy advice to its member countries, and has supported various initiatives worldwide, including disaster response and improving access to broadband services.

The International Monetary Fund (IMF) was established in 1945 to promote trade and financial cooperation, provide emergency loans to financially troubled nations, and shape and manage global economic policy to prevent crises and ensure economic recovery.

Trade agreements, such as regional trade agreements (RTAs), customs unions, common markets, and economic unions, play a crucial role in promoting global trade and economic integration. These agreements facilitate the movement of goods and services among member countries, often by reducing tariffs and trade restrictions. Examples include the United States-Mexico-Canada Agreement (USMCA), the Association of Southeast Asian Nations (ASEAN), and the European Union (EU), which represents the highest level of economic integration.

Career Connection: Communication

Effective communication, both written and verbal, is a crucial skill for career development, requiring consideration of context, tone, and audience to convey information or persuade decision-makers or colleagues.

Glossary

absolute advantage

the ability of an entity to produce a good or service more efficiently than another

acquisition

one business buys another

balance of payments

the difference between the total flow of money coming into a country and the total flow of money going out of a country during a period of time

balance of trade

the difference between the value of a country's exports and the value of its imports during a specific time

buy-national regulations

government rules that give special privileges to domestic manufacturers and retailers

common external tariff

the agreed upon tax imposed on imports by members of a customs union

common markets

an agreement between nations that allows for free trade and free movement of resources such as capital and labor between member nations

comparative advantage

the ability of an entity to produce a good or service at a lower opportunity cost than another

communication

the ability to clearly and effectively exchange information with others

copyright

artistic, literary, or intellectually created works, such as novels, music, movies, software code, photographs, and paintings that are original and exist in a tangible medium, such as paper, canvas, film, or digital format

countertrade

a system of exchange in which goods and services are used as payment rather than money.

culture

the influence of religious, family, educational, and social systems on people, how they live their lives, and the choices they make

customs union

type of trade agreement where the countries within the union agree to allow free trade on certain products within the union and impose a tariff on the import of those products from outside the union

economic union

an agreement between nations that eliminate internal barriers, adopt common external barriers, permit free movement of resources, and adopt common set of economic policies

embargo

a complete ban against importing or exporting a product

exchange controls

laws that require a company earning foreign currency from its exports to sell the foreign exchange to a control agency, usually a central bank

exporting

taking goods that were produced within a company's home country and shipping them to another country

exports

goods and services made in one country and sold to others

foreign direct investment

an investment in the form of a controlling ownership in a business enterprise in one country by an entity based in another country

franchise agreement

owner of a business allows another party to acquire the knowledge, processes, and trademarks of a business and sell products or services under the franchise's name

franchisee

purchaser in a franchise agreement

franchisor

owner of a business and its associated knowledge, processes, and trademarks in a franchise agreement

global business

activity that happens when goods, services, or resources cross the borders of two or more nations; also known as international business

globalization

integration of the world's economies that involves the exchange of culture, ideas, and beliefs in addition to international business

greenfield venture

the company enters a foreign market by establishing a new business operation in another country

import quota

a government policy limiting the quantity of a certain good that can be imported

importing

the process by which a good is brought into a jurisdiction, especially across a national border, from an external source

imports

goods and services that are bought from other countries

inflow

money that comes into a country

intellectual property

ownership of intangible assets

International Monetary Fund

provides short-term loans to member nations that cannot meet their budgetary expenses

joint venture

establishes a new business that is jointly owned by two or more otherwise independent businesses

licensee

the party buying rights to use some else's intellectual property

licensing agreement

owner of intellectual property agrees to allow another party to use the property for a fee

licensor

owner of the intellectual property in a licensing agreement

merger

two businesses combining to form a new entity

nationalism

the sense of national consciousness that boosts the culture and interests of one country over those of all other countries

natural barriers to trade

physical or cultural conditions that prevent free trade

offshoring

relocation of a business process to another country

outsourcing

an agreement to contract a business process to be completed by an external company

outflow

money that goes out of a country

patent

technical inventions, such as chemical compositions like pharmaceutical drugs, mechanical processes like complex machinery, or machine designs that are new, unique, and usable in some type of industry

regional trade agreements

trade agreements between two or more partner nations

strategic alliance

an agreement of two or more corporations, each based in their home country, to cooperate for a specified period of time

tariff

a tax imposed by the government on imported goods

trade agreements

agreements between nations that regulate how trade will flow between countries

trade deficit

an unfavorable trade balance where a country imports more than it exports

trade secret

information that has either actual or potential independent economic value by virtue of not being generally known and cannot be legitimately obtained by others

trade surplus

a favorable trade balance where a country exports more than it imports

trademark

a word, phrase, design, or a combination that identifies your goods or services, distinguishes them from the goods or services of others, and indicates the source of your goods or services

World Bank

financial institution that provides low-interest loans and grants to developing countries to fund projects focused on education, infrastructure, natural-resource management, and public health; also provides technical assistance as well as research and policy advice to developing nations

World Trade Organization

international organization dedicated to reducing trade barriers and opening markets; also provides a forum to resolve trade disputes between nations