IBUS1101- Global Business

Introduction

What is International Business?

Definition: firms' performance of trade and investment in activities across national border (*AKA cross-border business*)

- Firms organise, source, manufacture, market and conduct other value-adding activities on an international scale
- While international business is performed mainly by individual firms, governments and international agencies also participate in cross-border activities
- gives access to a wider variety of products and services to enhance quality of life and economic well-being
- Internationalisation is the tendency of companies and firms to deepen their international business activities systematically –> widespread diffusion of products, technology and knowledge globally

International business is characterised by 6 major dimensions;

1) Globalisation of markets
2) International trade
3) International Investment
4) International Business Risks
5) Participants
6) Foreign Market Entry Strategies

Globalisation has given rise to international business and refers to the increasingly interconnectedness of the world through international transactions, cooperation and competition among firms. Modern platforms such as Facebook, Alibaba and Amazon are expressions of ongoing economics integration and growing interdependency of countries *(Globalisation of markets)*.

- has enabled internationalisation to become easier
- traditionally, only multinational firms could break international barriers - now firms of all types are able to benefit from active international participation

Example: China has become one of the most active trading nations within the globalised world. China's pursuit in transforming itself into an industrial economy

Key Concepts

INTERNATIONAL TRADE

Definition: describes the exchange of products (merchandise) and services (intangibles) across international borders. This generally occurs through *exporting* (the sale of products and services to overseas customers) and *importing* (the purchasing of products or services from overseas suppliers). Finished products, intermediate goods, raw materials and components can all be imported/exported

- Eg. Boeing and Airbus export $billions in commercial aircrafts every year
- Eg. Toyota imports many parts from China

The Nature of International Trade

- export growth has outpaced the growth of domestic production during the past few decades (indicative of the increase in globalisation)
- growth of world exports has increased faster than world gross domestic product (total value of products and services produced by countries in a given year) since the 1980s
- world trade declined in 2009 (following a 27 year boom) due to a global recession –> returned to normal levels in 2012
    - trade was a key factor in reducing the impact of the global recession
    - since 2008, annual rate of growth in world exports surpassed that of world GDP by almost a factor of 2 (5.4% versus 2.8%)
- in 1960 global trade was US$100 billion per year; today would exports amount to US$18trillion annually

Why has world trade growth outpaces world GDP growth?

1. rise of emerging markets during the past 3 decades
    - Rapidly growing and developing economies
    - home to rapidly growing middle-class with substantial disposable income
2. Outsourcing
    - advance economies such as USA and EU are sourcing many of the products they consume from such low-cost manufacturing locations in China, India and Mexico
3. Advances in information and transportation technologies, deregulation and liberalisation of markets all contribute to rapid growth between nations

TOP COUNTRIES IN INTERNATIONAL GOODS TRADE:

1. China (surpassed USA to become leading exported during global recession)
    - trade accounts for 45% of China's GDP
2. United States
    - trade accounts for 23% of US GDP
3. Germany
4. Japan
5. France

Merchandise trade is a larger component of economic activity in countries such as Belgium (125%) and the Netherlands (118%) –> indicative of how countries depend very heavily on international trade relative to the value of all goods and services they produce domestically.

How can trade activity surpass 100% of a nation's GDP?

Countries can be *entrepôt economies ("intermediate depot");* countries that import a large volume of products, some of which they process into higher value-added products or re-export to other destinations.

- Eg. Singapore is a major entrepôt for petroleum products from the Middle East and then exports it to China and other Asian countries.

INTERNATIONAL INVESTMENT

Definition: refers to the transfer of assets to another country or the acquiring of assets in a specific country

Such assets are referred to as the 'factors of production' and include capital, technology, managerial talent and manufacturing infrastructure.

While trade implies that products/services cross national borders, investment implies that the firm itself crosses the border to secure ownership of assets located abroad.

International Portfolio investment: passive ownership of foreign securities such as stocks and bonds to gain financial return.

- does not entail active management or control over these assets
- investors have short-term interest in the ownership of these assets

Foreign Direct Investment (FDI): an internationalisation strategy that entails a firm establishing a physical presence abroad in an acquisition or productive assets such as land, plant, equipment, capital and technology

- it is a foreign market entry strategy that gives investors partial or full ownership of the enterprise
- typically dedicated to manufacturing, marketing or management activities
- Long-term interest involving extensive planning
- firms establish a new legal business entity in the host country, subject to host government regulations
- dollar volume of FDI has grown immensely since the 1980s - especially in advanced economies such as Japan, Europe and North America
- is common among large, resourceful companies with substantial international operations

  Eg. European and US firms have invested in China, India and Russia to establish plants to manufacture or assemble products, taking advantage of their low-cost labour or natural resources.
- increasingly, FDI inflows to developing economies began overtaking those to advanced economies in 2010 - this growth is significant as those economies need modern industrial infrastructure and it reflects the growing important of developing economies and emerging markets as a target market and source base

SERVICES AS WELL AS PRODUCTS

- Firms production of services (intangibles) have increasingly become key to international business success (includes performances, efforts in banks, hotels, consulting, retailers, education)
- international trade in services account for about 1/4 of all trade and is rapidly growing
- is not as much as trading merchandise as services are met with greater challengers and barriers such as regulations, licensing etc
- some services cannot be exported (Eg. repaid work on a car)
  - most service providers can only operate internationally when establishing a physical presence abroad through FDI (Eg. setting up restaurants / retail stores)

CASE EXAMPLE: eBAY

- is a giant internet retailer with strong potential for internationalisation
- earned more than $75billion in 2014 –> over 50% came from international sales
- was developed in India acquiring Mumbai-based e-retailer Baazee which followed its expansion into China, Korea and Europe

Service industries rapidly internationalising:

- Architectural, construction and engineering
- Banking, finance and insurance
- Education training and publishing
- Information services
- Entertainment
- Travel and tourism

TOP COUNTRIES IN INTERNATIONAL SEVICE TRADE:

1. US
2. China
3. UK

INTERNATIONAL FINANCIAL SERVICES SECTOR

- international banking sector and financial services has experienced explosive growth leading to the emergence of capital markets worldwide
- resulted from the internationalisation of banks and the massive flow of money across national borders into pension funds or portfolio investment
- in developing economies, banks and financial institutions have fostered economic activity by increasing the availability of local investment capital which stimulates the development of financial markets and encourages locals to save money
- International banking is flourishing the the Middle East

  Eg. The return on equity in Saudi Arabia often exceed 20% (compared to 15% in USA and less in France or Germany). The biggest bank in the region (National Commercial Bank) calculates that non-interest-bearing deposits comprise nearly 50% of total deposits. Banks lend free money to companies and consumers at high margins. By structuring loans as partnerships, they comply with Islamic rules that forbid banks to pay interest.

Domestic vs International Business

Globalisation does not operate without risks. As companies engage in international business, they are exposed to a number of risks and are forced to manage such risks to avoid loss or failures;

1) Cross-cultural risk: occurs when a cultural misunderstanding puts some human value at stake
    - arises from differences in language, lifestyles, mindsets, customs and religion
        - when translating from one language to another it can be difficult to find words that contextually mean the same –> creates challenges and room for miscommunication
    - Negotiation patterns are required in many types of business transactions (Eg. Where Mexicans are friendly, Americans are assertive)
    - Decision-making styles - managers make decisions continually on the operations and future direction of the firm (Eg. Japanese take considerable time to make decisions while Canadians tend to be impulsive)
    - Ethical practices- standards of right and wrong vary considerably around the world (Eg. Bribery in Africa is tolerated but not in Sweden)
    - can still occur domestically when managers meet with customers or business associates who visit the company from abroad

2) Country (political) risk: refers to potentially different effects on company operations and profitability caused by development in the political, legal, and economic environment in a foreign country
    - countries have extreme institutional development differences - can have unstable political systems
    - Law and regulations (legislation) can be unfavourable to foreign firms where governments may restrict access to markets or impose bureaucratic procedures
    - can experience bureaucracy and red tape, administrative delays, corruption
    - protectionism and barriers to trade and investment can be evident in the foreign country
    - Mismanagement or failure of the national economy; economic mismanagement
    - Lack of legal safeguards for intellectual property rights

CASE EXAMPLES:

- Lack of legal safeguards for intellectual property rights
- US imposes tariffs on imports of sugar and now steel/aluminium
- Doing business in Russia often requires paying bribes to govt. officials
- Venezuela's govt. has interfered much with the operations of foreign firms
- Argentina has suffered high inflation and other economics turmoil
- Singapore and Ireland are economically liberal countries
- Russia and China's governments regularly intervene with business affairs