Chapter 3 Questions Notes

How has NAFTA impacted the US? Overall do you think it was a positive move for the United States? Why?

* Similar to the trade agreements in Europe, NAFTA has decreased cost and increased quality of goods due to increased competition.
* Although it was predicted that there would be a devastating number of U.S. Jobs moving to Mexico as part of NAFTA, all 3 countries thrived leading up to the global economic crisis.
* NAFTA has widened trade trade deficit between the US and Mexico/Canada. Threatening the long term health of the US enonomy.
* Many countries in the EU appear to want out, including the UK, which just this year left the EU – many of older brits feared that the increased immigration would hinder the social services available to British citizens and that the unemployment rate would be problematic. Many of these concerns are shared by amrican citizens.

Pro/Cons of 3 Key strategies for developing foreign markets

Exporting

Pros :

* Less Expensive than building factories
* Good for smaller firms just getting started
* Strong opportunity for smaller firms when demand is high in foreign markets

Cons:

* Firms that are only exporting have a low level of control over how they develop in the foreign market

Licensing & Franchising

Pros :

* Foreign Licensing allows licensor to make money from the fees it charges the licensee, requires little to no investment – literally getting paid to let someone use their name/product
* Circumvents the government restrictions on importing
* Foreign Franchising allows the Franchisor to maintain a little bit more control
* Foreign franchising allows a franchisor to generate revenue from franchising fees and percentage of sales

Cons:

* Foreign licensees can be hard to control and may even help developing firms turn into competitor- giving away their secrets.
* Foreign franchising can lead to increased liability

Direct Investment

Pros :

* Far more control than exporting / licensing & franchising
* Increasingly popular approach allows companies to team up in “strategic alliances” - or “partnerships” -allowing multiple firms to share the risks/ resources required
* Foreign acquisition allows companies to quickly enter a market and get a foothold
* “offshoring”offers complete control over how a company develops in a foreign market
* Popular among large companies that can afform massive up-front investment

Cons:

* Much higher risk
* Much higher cost
* “offshoring” is the highest cost direct investment, making it a significant risk