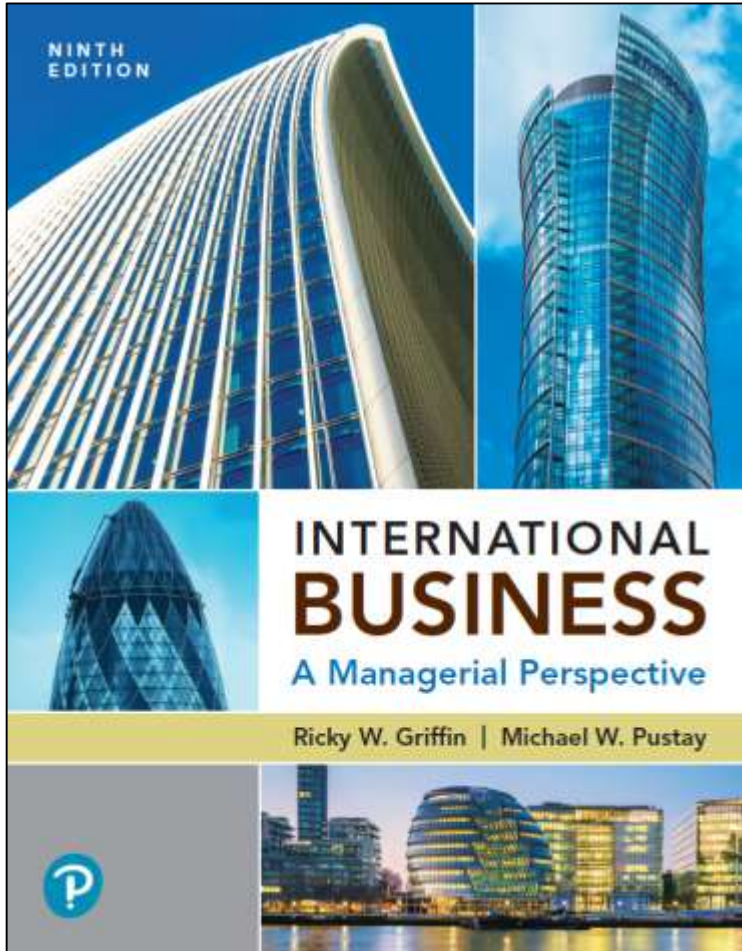


International Business: A Managerial Perspective

Ninth Edition



Chapter 1

An Overview of
International Business

Learning Objectives

- 1.1 Discuss the meaning of international business.
- 1.2 Explain the importance of understanding international business.
- 1.3 Identify and describe the basic forms of international business activities.
- 1.4 Discuss the causes of globalization.

What Is International Business?

- International business consists of business transactions between parties from more than one country
- **International Business vs Domestic Business**
 - Boundaries
 - Currencies
 - Legal Systems
 - Cultures
 - Availability of Resources

Why Study International Business?

- Provides the knowledge and skills that are essential for your career in the twenty-first century
- Helps you make better career assessments and interact effectively with managers around the world.
- Keep pace with future competitors
- Stay abreast of the latest business techniques and tools
- Obtain cultural literacy

International Business Activities

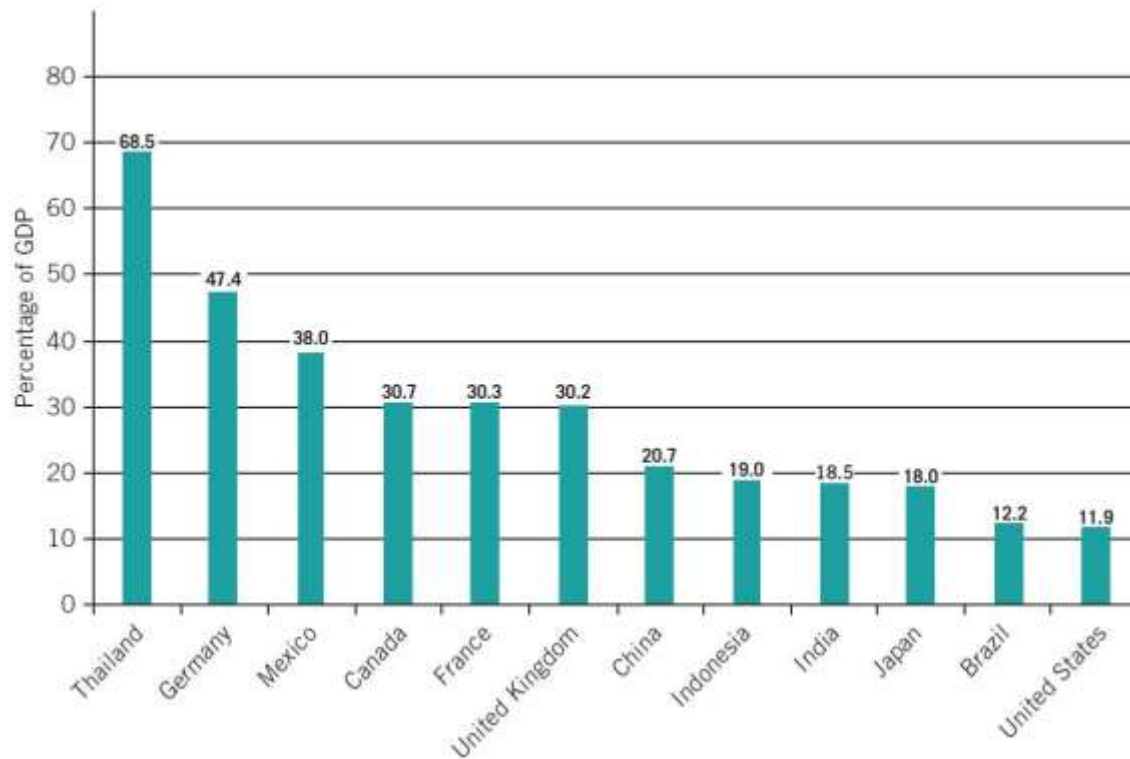
- Exporting & Importing
- International Investments
- International Licensing
- International Franchising
- International Management Contract

International Business Activities: Exporting and Importing (1 of 2)

- **Exporting:** selling of products made in one's own country for use or resale in other countries.
- **Importing:** buying of products made in other countries for use or resale in one's own country.
- Exporting and importing activities often are divided into two groups:
 - Trade in goods: tangible products (British – Visible Trade)
 - Trade in services: intangible products (UK – Invisible trade)

International Business Activities: Exporting and Importing (2 of 2)

Figure 1.1 Exports of Goods and Services as a Percentage of GDP for Some Key Countries (2017 data)



Source: Based on World Trade Organization Trade Profiles 2018.

International Business Activities: International Investments

- Foreign Direct Investments (FDI)
- Foreign Portfolio Investments (FPI)

International Business Activities: Other Forms

- **International licensing**

- the use of its intellectual property (patents, trademarks, brand names, copyrights, or trade secrets) to a firm in a second country in return for a royalty payment.

- **International franchising**

- when a firm in one country (the franchisor) authorizes a firm in a second country (the franchisee) to use its operating systems as well as its brand names, trademarks, and logos in return for a royalty payment. For e.g McDonald

- **International management contract**

- Management Services (Hotel Industry).

International Business Activities: An International Business

- Multinational Corporation (MNC)
- Multinational Organization (MNO)

The World's Largest Corporations in 2017 (1 of 2)

Table 1.1 The World's Largest Corporations

| | Revenues (in billions of U.S. dollars) 2017 | Revenues (in billions of U.S. dollars) 2007 |
|--------------------------|--|--|
| Walmart | 500.3 | 379.0 |
| State Grid | 348.9 | 132.9 |
| Sinopec Group | 327.0 | 159.3 |
| China National Petroleum | 326.0 | 129.8 |
| Royal Dutch Shell | 311.9 | 355.8 |
| Toyota Motor | 265.2 | 230.2 |
| Volkswagen | 260.0 | 149.1 |
| BP | 244.6 | 291.4 |
| Exxon Mobil | 244.4 | 372.8 |
| Berkshire Hathaway | 242.1 | 118.2 |
| Apple | 229.2 | 24.0 |
| Samsung Electronics | 211.9 | 106.0 |
| McKesson | 208.4 | 101.7 |

The World's Largest Corporations in 2017 (2 of 2)

Table 1.1 [Continued]

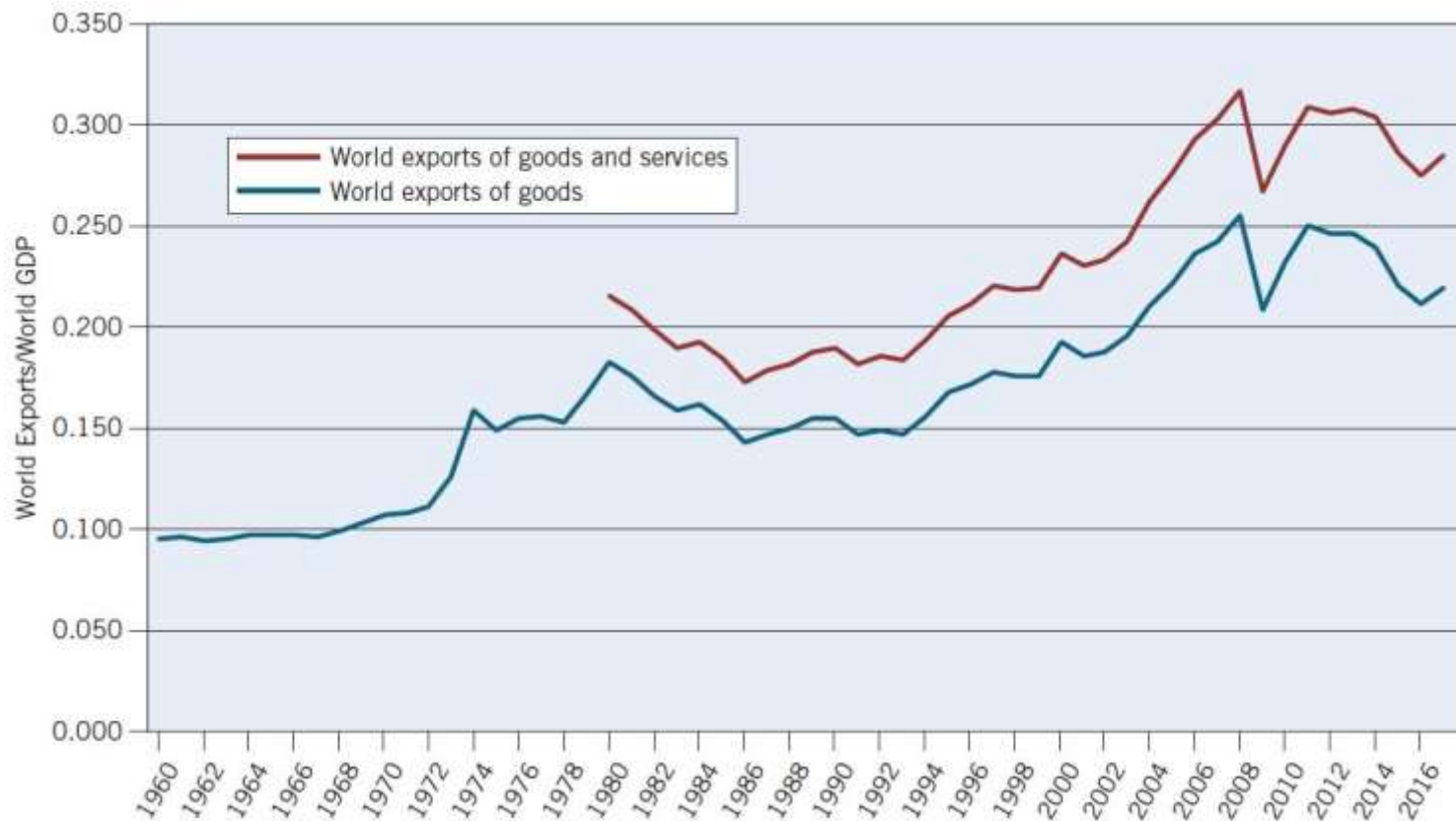
| | Revenues (in billions of U.S. dollars) 2017 | Revenues (in billions of U.S. dollars) 2007 |
|--------------------|--|--|
| Glencore | 205.5 | 142.0 |
| UnitedHealth Group | 201.2 | 75.4 |
| Daimler | 185.2 | 177.2 |
| CVS Health | 184.8 | 76.3 |
| Amazon | 177.9 | 14.8 |
| EXOR Group | 161.7 | n.a. |
| AT&T | 160.6 | 118.9 |

Sources: Based on www.fortune.com, accessed July 30, 2018; *Fortune*, July 21, 2008, pp. 161-171; “Glencore’s turnover soars to \$142 billion in 2007,” www.metalbulletin.com, March 11, 2008, various corporate websites.

Contemporary Causes of Globalization (1 of 2)

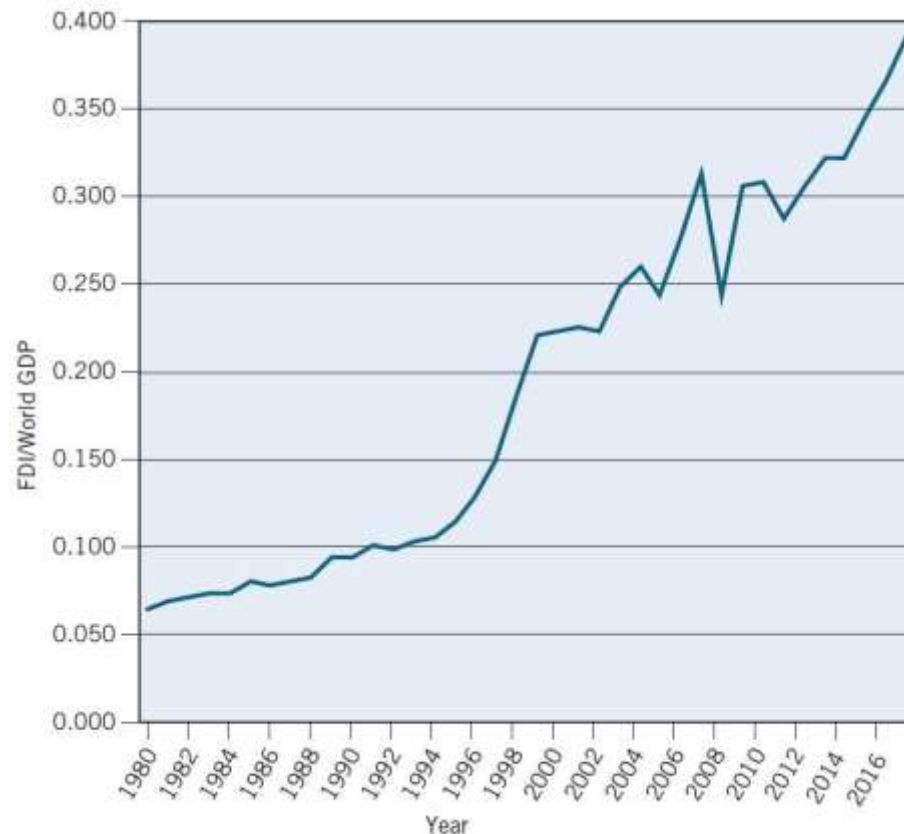
- What is Globalization?
 - the inexorable integration of markets, nation-states, and technologies... in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper, and cheaper than ever before

Figure 1.2 World Exports as a Percentage of World GDP



Source: Based on World Bank statistical database (for GDP data) and the World Trade Organization database (for exports of goods and exports of services).

Figure 1.3 Stock of Foreign Direct Investment (FDI) Relative to World GDP



Source: Based on World Bank, *World Development Indicators* data bank, accessed August 1, 2018; United Nations Conference for Trade and Development, *World Investment Report*, various issues.

Contemporary Causes of Globalization (2 of 2)

- Causes of Globalization
 - Strategic Imperatives
 - Environmental Changes

Contemporary Causes of Globalization: Strategic Imperatives

- To leverage core competencies
- To acquire resources and supplies
- To seek new markets
- To better compete with rivals

Contemporary Causes of Globalization: Environmental Causes

- Changes in the Political Environment
 - Reduction of trade and investment barriers
 - General Agreement on Tariffs and Trade (GATT)
 - World Trade Organization (WTO)
 - European Union (EU)
 - Regional accords (for e.g NAFTA)
- Changes in the Technological Environment
 - Advances in Transportation (the sailing ship)
 - Changes in Communications Technology (postman)
 - Improvement in Information Processing (pencil and paper)

Contemporary Causes of Globalization: Globalization and Emerging Markets (1 of 2)

- Transformed global marketplace
 - The collapse of European Communism
 - The ideological and policy changes undertaken by China and India
 - The reduction of trade barriers

Contemporary Causes of Globalization: Globalization and Emerging Markets (2 of 2)

- **Emerging Markets?**

Countries whose recent growth or prospects for future growth exceed that of traditional markets.

- BRIC Countries
- Big Ten (Argentina, Brazil, China, India, Indonesia, Mexico, Poland, South Africa, South Korea, and Turkey.)
- Non-High Income Countries

Table 1.2 Characteristics of Selected Emerging Markets, 2017

BRIC

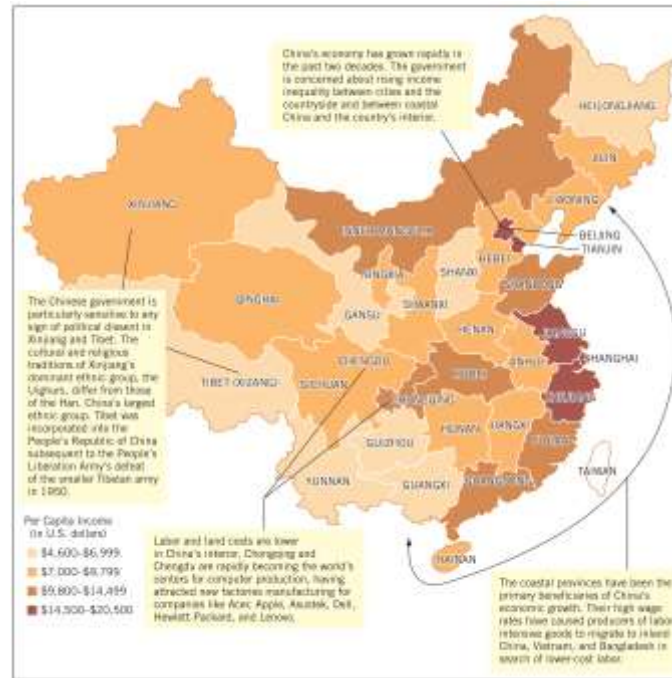
| Country | Total Population (millions) | Total GDP (billions of U.S. dollars) | Per capita GDP (in U.S. dollars) |
|--------------|-----------------------------|--------------------------------------|----------------------------------|
| Brazil | 209 | 2,055 | 9,821 |
| Russia | 144 | 1,578 | 10,743 |
| India | 1,339 | 2,597 | 1,940 |
| China | 1,386 | 12,237 | 8,827 |
| Total | 3,078 | 18,467 | |

Big Ten

| Country | Total Population (millions) | Total GDP (billions of U.S. dollars) | Per capita GDP (in U.S. dollars) |
|--------------|-----------------------------|--------------------------------------|----------------------------------|
| Argentina | 44 | 638 | 14,401 |
| Brazil | 209 | 2,055 | 9,821 |
| China | 1,386 | 12,237 | 8,827 |
| India | 1,339 | 2,597 | 1,940 |
| Indonesia | 264 | 1,016 | 3,847 |
| Mexico | 129 | 1,150 | 8,903 |
| Poland | 38 | 525 | 13,812 |
| South Africa | 57 | 349 | 6,161 |
| South Korea | 51 | 1,531 | 29,743 |
| Turkey | 81 | 851 | 10,541 |
| Total | 3,598 | 22,984 | |
| World total | 7,530 | 80,068 | 10,714 |

Source: Based on World Bank, *World Development Indicators* data bank.

Map 1.1 China's Regional Challenges



Source: Based on “China Quietly Releases 2017 Provincial GDP Figures,” *Forbes*, February 12, 2018; “Rich province, poor province,” *The Economist*, October 1, 2016; “Truckloads of notebooks mark first step of long march inland,” *Financial Times*, May 24, 2011, p. 17.; “Factory blast roils tech supply chain,” *Wall Street Journal*, May 24, 2011, p. B1; “China’s rising wage bill poses risk of relocation,” *Financial Times*, February 16, 2011, p. 3; Chinese National Statistics Bureau, 2010 Census.

Review Questions

- What is international business? How does it differ from domestic business?
- Why is it important for you to study international business?
- What are the basic forms of international business activity?
- How do merchandise exports and imports differ from service exports and imports?
- What is portfolio investment?
- What are the basic reasons for the recent growth of international business activity?

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