BBB4M: International Business Fundamentals

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Part I

Chapter 1: Introduction to BBB4M

0.1 What is Trade?

Definition 1 (Business)**.** The manufacturing and/or sale of goods and/or services to satisfy customer demands.

Trade is the exchange of goods and services between individuals, businesses, or nations. Trade allows for specialization, greater efficiency, and access to a wider variety of goods and services than would be available domestically.

0.1.1 Trade Balance

If a country is importing more than it is exporting, it is running a **trade deficit**. If a country is exporting more than it is importing, it is running a **trade surplus**.

A trade deficit is not necessarily bad; it depends on the context. For example, Canada and the United States have a strong trading relationship, and while Canada imports many consumer and industrial goods from the U.S., it also exports significant resources like crude oil. This exchange benefits both economies.

Definition 2 (Transaction)**.** An exchange of things of value.

0.1.2 Types of Business Transactions

1. **Domestic Business**: Transactions occur within the borders of one country.
2. **International Business**: Transactions occur between businesses in different countries.

Definition 3 (Domestic Business)**.** A business that makes most of its transactions within the borders of the country in which it is based.

Definition 4 (International Business)**.** The economic system of transactions conducted between businesses located in different countries.

0.1.3 Market Definitions

Definition 5 (Domestic Market)**.** The customers of a business who live in the country where the business operates.

Definition 6 (Foreign Market)**.** The customers of a business who live in a different part of the world where the business operates.

1. Own a retail or distribution outlet in another country
2. Own a manufacturing plant in another country
3. Export goods and services to businesses or consumers in another country
4. Import goods and services from businesses in another country
5. Invest in businesses located in another country

Definition 7 (Trading Partner)**.** When a business in Canada develops a relationship with a business in another country, that country becomes a trading partner with Canada.

It is important to note that international trade occurs between businesses, not entire countries.

0.1.4 Canada's Trade Dependence on the U.S.

Canada has a strong economic relationship with the United States. As of now (Feb. 2025), approximately 75% of Canadian exports go to the U.S. This close trade relationship makes Canada highly dependent on American economic policies and market conditions.

If tariffs or trade restrictions were imposed, it could have significant economic consequences for businesses and consumers on both sides.

TODO: Chapter 1 - February 5

- Go through and complete review package.
  - Notes:
    * Collect and organize all of your notes from the textbook, class slides, and class discussions, and create and commit to Git repo. These notes should cover all of the material that was discussed in Chapter 1.
    * Notes should be formatted in a logical, easy-to-follow manner. Include summaries, diagrams, and helpful material.
  - Provide detailed definitions for each term and explain their significance in the context of international trade. Use exaples when possible to illustrate the concepts. (**See Classroom Document for Reference.**)
  - Answer the Questions
    * Knowlegde – 2
    * Thinking – 12
    * Thinking – 13
    * Communication – 20
    * Application – 23
- Create Anki deck with key terms (use document on Classroom provided) and upload.

0.2 History of Canadian Trade

- Explorers from France and England landed in what is now Canada in the 1600s.
- Traded with the First Nations people, especially the Ojibwe and the Cree, for fur and food, then sent goods back to Europe.
- Success of international business led to the establishment of colonies and outposts in Canada, notably Hudson's Bay Company and North West Company.

0.2.1 (Past?) Trade with Europe

- Trade grew quickly after permanent settlements were established in Canada in the 1700s.
- Demand for raw materials (beaver pelt, fish, lumber) grew in Europe, where manufacturing took place.

- England defeated France in the Seven Years' War, which led to Canada's reliance on England for finished goods.
- Many major cities were established near ports to facilitate trade (Toronto, Montreal, etc.).

0.2.2 Trade with the United States

- The US declared independence from the UK in the late 1700s.
- It needed to become self-reliant.
- The invention of the steam engine and the cotton gin helped the rapid growth of American industry.
- Canada supplied raw materials that were needed in the US.
- The US became Canada's largest trading partner, which holds true to this day.

0.2.3 Trade with Asia

- Canada began trading with Japan after WWII.
- Japan became known for high-quality electronics and cars.
- China has more recently become a trading partner.
- Chinese-made products are inexpensive and popular with North American retailers.

(add bit on here from slide deck)

0.2.4 Trade with Mexico

- Developed since signing NAFTA in 1993.
- NAFTA has since been replaced with CUSMA, an agreement that aims to improve trade relations and economic co-operation among the three countries by setting rules for things like tariffs, IP rights, labor laws, and environmental standards.
- Mexico has since become one of Canada's top 5 trading partners.

0.2.5 Trade with Emerging Markets

Trade with the Middle East

- Has traditionally centred on oil, but this commodity is not sustainable.
- Political instability has limited trade at times.
- Saudi Arabia remains Canada's largest trading partner in the Middle East.
- Oil and gas, machinery, and defence lead the way.

Trade with India

- Population of almost 1.5 billion people.
- 66% of the population are below the age of 35.
- It has become a major centre of outsourcing and manufacturing.
- A lack of infastructure and widespread corruption are persistent.
- Indian companies are aggressively expanding into international markets.

Trade with Africa

- African imports to Canada are very low.
- Business opportunities at time are limited by unstable governments, lack of infastructure, and rural economies.
- Rich in primary resources (metals, lumber, etc.)
- Some countries, such as South Africa and Nigeria, are beginning to emerge as Canada's major trading partners.

Definition 8 (Globalization)**.** The process whereby national or regional economies and cultures have become integrated through many methods, such as foreign direct investment, international trade, migration, new forms of transportation, and the flow of money.

0.2.6 History of Globalization (not on test)

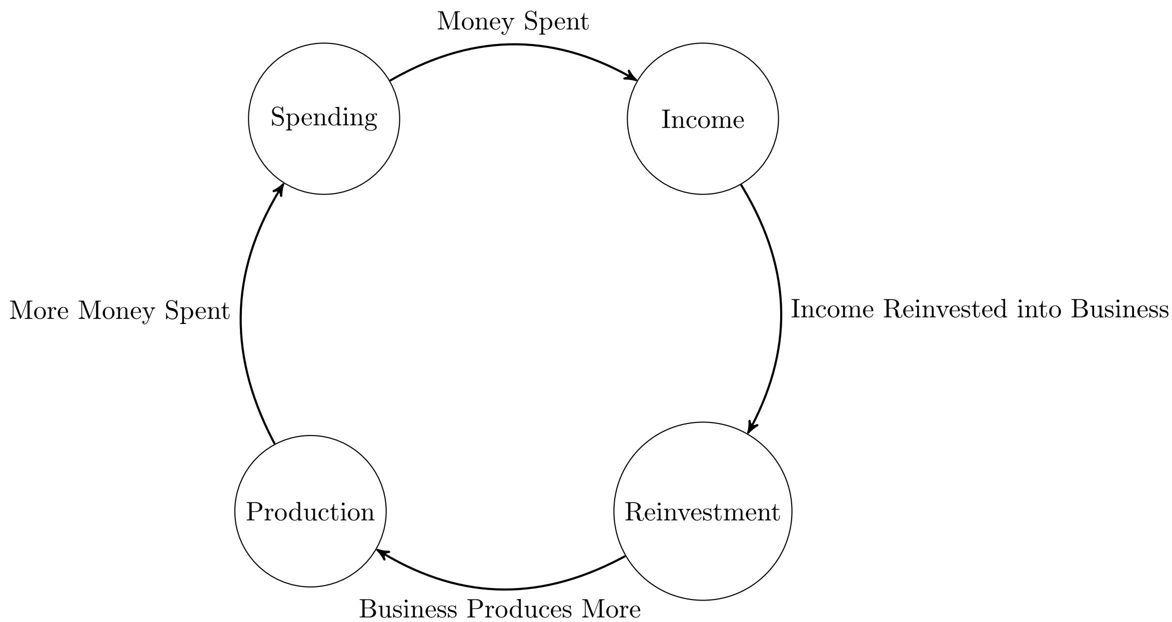
- Began after WWII with the establishment of the United Nations and fostering of trade relations between countries.
- Economic ties between countries strengthened – tax treaties were negotiated, tariffs abolished, global corporations developed
- New technology allows international business to occur in real time, transforming the globe into one market.
- Has increased interdependence of all nations, blurring political boundaries

Definition 9 (Interdependence)**.** The reliance of two or more nations on each other for products or services.

Three Main Areas of Interdependence:

- Primary industries
- Secondary industries
- Tertiary industries

Definition 10 (Multiplier Effect)**.** When an entity (such as the government, businesses, or individuals) spends money, it generates income for others, who in turn spend that income, creating a ripple effect through the economy.


Money Spent
Spending
Income
More Money Spent
Income Reinvested into Business
Production
Reinvestment
Business Produces More

0.3 TODO: February 10

- Complete the *I, Pencil* assignment (see Google Classroom)
- Finish Case Study if not complete.

Objects for I, Pencil:

- Fender Guitar (made in mexico)

Part II

Trade in the Modern World

0.4 Foreign Portfolio Investment

- Investment in businesses located outside of Canada through stocks, bonds and other financial instruments.
- Allows Canadians to spread out their investments, which is less risky than investing in just one area.
- Also providess greater choice and opportunity.

Canada has a pretty small percentage of world economy, about 3%. For the S&P/TSX 60 Index, half of it is weighted in energy and finance.
Most of the western world is very conservative in global GDP growth, as most of us are already there.

Definition 11 (Importing)**.** To bring products or service into a country, for use by another business or for resale.

Majority of the goods that Canada imports come from the United States.

Definition 12 (Global Sourcing)**.** The process of a company buying equipment, capital goods, raw materials, or services from around the world.

Definition 13 (Exporting)**.** A good produced in one country that is sold into another country. Seller of such good is an exporter; foreign buyers are importers.

Definition 14 (Value Adding)**.** The amount of worth that is added to a product at each stage of processing. It is the difference between the cost of the raw materials and the finished goods.

A value adding process could look like this: Raw Material (50$) $\Rightarrow$ Manufacturing of Good (300$) $\Rightarrow$ Retail (500$)

0.5 Trade Barriers

Definition 15 (Tariff)**.** Tariffs, the most common type of trade barrier, are taxes or duties put on imported GT's from another country to influence products or economics, raise revenues, or product competitive advantages.

It is not the consumer that pays for the tariff itself. Rather, the cost of the tariff is passed onto the conusmer.

Applied to Trump's tariffs plan between Canada and America:

- American companies sell goods to Canadian companies.
- A tariff is imposed by the American government onto all imports and exports.
- Canadian businesses continue importing American goods, but pass the cost onto the consumer.

0.5.1 Tariff Winners v. Losers (Pros and Cons)

Winners

- The domestic company collects additional taxes.
- Goods from local producers are more competitively priced.
- Workers in local companies keep employment.

Losers

- Goods from foreign producers are now more expensive.
- The price of products go up and consumers are forced to pay higher prices.
- Workers in foreign companies become at risk.

A trade imbalance is not inherently good or bad. With Canada and America, the latter has significant buying power.

0.5.2 Domestic and International Issues with Tariffs

Domestic Deadweight Loss

A tariff generally leads to a **deadweight loss** (an excess loss or burden above the amount actually paid in tax) as it decreases aggregate economic activity and incomes.

International Disequilibrium

A tariff would throw off an established market equilibrium. A surplus could occur, forcing sellers to sell at lower prices, but what would be guaranteed is a recession.

Overall Economic Slowdown

Global economic activity recesses, with less money being paid to the American government.

0.5.3 Trade Barriers

Canada is heavily dependent on the United States for their economy. About a third of Canada's GDP is dependent on exports, 75% of which goes to the United States.

Definition 16 (Protectionism)**.** The theory or practice of government policy shielding domestic industries from international trade, often through trade barriers such as tariffs.

0.5.4 What Motivates Protectionism?

- Response to "dumping"
- Response to chronic trade gap
- Employment protection
- Protect "fledgling" infant sectors
- Protect key/strategic industries
- Raise revenues for the government
- Response to a recession/low demand

Most important things to focus on are: **Response to chronic trade gap, employment protection, raise revenues for the government.**

Definition 17 (Trade Embargo)**.** A government-imposed ban on trade of a specific product or with a specific country, often declared to pressure foreign governments to change their policies.

Compared to a sanction, an embargo completely shuts down trade between a country. Russia as a good example.

Definition 18 (Trade Sanctions)**.** Economic action taken by a country to coerce another country to conform to an international agreement or norms of conduct.

North Korea – No weapons, commodities, luxury goods, travel, or financial services in or to.

Definition 19 (Trade Quota)**.** Government-imposed limit on the quantity, or in exceptional cases the value, of the goods or services that may be exported or imported over a specified period of time.

0.6 International Business Practices

TODO: Chapter 2 Review

- Complete review package – Anki deck and complete notes

Definition 20 (Licensing Agreement)**.** An agreement that grants permission to a company to use a product, service, brand name, or patent, in exchange for a fee or royalty.

Definition 21 (Exclusive Distribution Rights)**.** A form of licensing agreement that grants a company the right to be the only distributor of a product in a specific area or country.

This provides monopolistic power to the licensee. A good example of this would be through a streaming service and sports events, such as the NFL and Prime Video.

Definition 22 (Franchise)**.** An agreement granted to an individual or group by a company to use that company's name, services, products, and marketing. For a fee, the franchisor provides support to the franchisee in the areas of financing, operations, human resources, marketing, advertising, quality control, etc. A good example of this is fast food. If you open a fast food franchise, people will automatically come, and have expectations in mind, as advertising, ingredients, and preparation is provided by the franchisor.

Definition 23 (Joint Venture)**.** A common type of international business, in which, a new company with shared ownership is formed by two businesses, one of which is usually located in the country where the new company is established.

Joint Venture v. Merger A joint venture is an arrangement between two or more businesses to combine their resources. They choose the route of a joint venture agreement to accomplish a specific business task. Joint ventures, unlike mergers or acquisitions, are often temporary. Once the specific task is complete, the joint venture is dissolved.

Definition 24 (Foreign Subsidiaries)**.** Often referred to as a *wholly owned subsidiary*, a branch of a company that is run as an independent entity in a country outside of one in which the parent company is located.

The parent company often sets financial targets, and allows the subsidiary to manage its day-to-day operations, so long as those targets are being met.

0.6.1 Foreign investment restrictions

- Canadian law with the greatest impact is the *Investments Canada Act*.
- Ensures that all foreign investments are reviewed to determine how they will benefit Canada.

0.6.2 Standards

- Countries have different standards for products in areas such as environmental protection, voltage, health, and safety.
- The ISO (International Organization for Standardization) is a network of standardization groups from over 170 countries established to set quality regulations.