WELCOME to FLC 301/SOC 393-F
November 18, 2003

International Business Management and Global Trade

Guest presentation by Professor Robert Ettl, Business Management

At the end of this session, you should be able to understand
- Why do companies go global?
- What are the factors for global success of U.S. companies?
- What are potential risks for companies going global?
- What types of global activities are possible?
- What regional economic integration organizations exist? What are their pros & cons?
- What are the barriers to global economic business operation?

Introduction
- International Business is about two-way interaction
- Globalization opens up new markets and removes barriers to trade, capital investment, exchange of technologies/ideas/blueprints, movement of people
- Globalization is an opportunity for entrepreneurship of all sorts.
- Globalization also contains risks

Why do companies go global?
- Growth (increase revenue/profits/cost cutting=job loss/market expansion=if the domestic market is exhausted)
- Being closer to customer base
- Respond to competition
- Being closer to suppliers
- For political reasons (look for secure investment)
- Economic reasons (absolute & comparative advantage)
- To circumvent taxes, tariffs, labor and environmental laws, etc
- Managers want travel and change

Why are U.S. businesses successful on global markets?
- Global reach and strength of US multinationals
- Peace & stability among major trading partners (no submarines, air attacks, warlike situations…)
- International organizations provide framework (WTO, World Bank, IMF)
- Financial stability→relative stable currencies & exchange rates, treaties, legal and financial regulations (“Letters of credit”)
- Global communication network (email, fax, cell phones, videoconferencing…)
- Foreign demand for U.S. products→international consumerism, high product quality…)

What are the risks of going global?
- Ethnocentrism, cultural misunderstandings
- Economic problems, strength of dollar, dollar domination
Political and legal issues

Types of global activity
- Global sourcing (import parts from overseas, e.g. 80% of Chrysler parts are from non-U.S. source)
- Export/Import
- Licensing
- Franchising (McDonald)
- Contract Manufacturing (sweatshop problem ➔ Gap vs. Levy Strauss)
- Joint Ventures
- Direct Foreign Investment

Regional economic integration
- Regional economic integration processes can have both a positive and negative effect for business

Examples discussed:
- NAFTA/FTAA
- European Union
- APEC

Problems: Competition-closure of markets
Benefits: Sharing of resources

Barriers to Global Operations
- Natural barriers (oceans, mountains, distances…)
- Trade barriers (tariffs, quotas)
- Political barriers (embargos, import/export restrictions on technologies, etc)
- “Buy national” regulations (government bidding in defense technologies etc)