1. INTRODUCTION TO INTERNATIONAL BUSINESS

Asst. Prof. Dr. Ilke Kardes

Spring 2016
Read chapter 1
Learning Objectives

1. What is international business?
2. What are the key concepts in international trade and investment?
3. How does international business differ from domestic business?
4. Why do firms internationalize?
We will learn ...

- Globalization of markets
- International trade
- Entry strategies
- International investment
- Participants: Firms, intermediaries, facilitators, governments
- Risks

Dimensions of international business
A. Overview

B. Key concepts

C. Internationalization of companies
   C-1. Motives for internationalization
   C-2. Risks of internationalization
A. Overview

B. Key concepts

C. Internationalization of companies
   C-1. Motives for internationalization
   C-2. Risks of internationalization
Your Day in the Global Economy
The ‘Flows’ of International Business
Value of cross-border goods flows


International vs. Domestic Business

International business ....

☞ is conducted across national borders.
☞ uses distinctive business methods.
☞ is in contact with countries that differ in terms of culture, language, political system, legal system, economic situation, infrastructure, and other factors.
Video Session: Global Trade Flows
A. Overview

B. Key concepts

C. Internationalization of companies
   C-1. Motives for internationalization
   C-2. Risks of internationalization
Performance of international trade and international investment activities by firms across national borders.

Also called cross-border business
Exchange of products and services across national borders; typically through **exporting** and **importing**.

**Exporting:**
Sale of products or services to customers located abroad from a base in the home country or a third country.

**Importing:**
Procurement of products or services from suppliers located abroad for consumption in the home country or a third country.
Transfer of own *assets* to another country

or

The acquisition of *assets* of a foreign company established in that country

*Asset: Factors of production such as capital, technology, managerial talent, and manufacturing infrastructure

Types of international investment:

- Foreign direct investment
- International portfolio investment
Foreign Direct Investment (FDI)

- A foreign-market entry strategy
- Refers a physical existence abroad through
  - Establishment of wholly owned subsidiaries
  - Acquisition of a company
Passive ownership of foreign securities such as stocks and bonds, in order to generate financial returns.

Does NOT refer physical existence, in form of factory, management facility, etc., in another country.
<table>
<thead>
<tr>
<th>GDP, % change on a year ago</th>
<th>Consumer prices, % change on a year ago</th>
<th>Unemployment rate, %</th>
<th>Trade balance $bn</th>
<th>Interest rates (10-year government bonds)</th>
<th>Currency, per $</th>
</tr>
</thead>
<tbody>
<tr>
<td>latest</td>
<td>latest</td>
<td>latest</td>
<td>latest</td>
<td>latest</td>
<td>Jan 11th</td>
</tr>
<tr>
<td>Brazil</td>
<td>-4.5</td>
<td>7.5</td>
<td>+19.7</td>
<td>16.0</td>
<td>4.05</td>
</tr>
<tr>
<td>Britain</td>
<td>2.1</td>
<td>5.2</td>
<td>-195.4</td>
<td>1.82</td>
<td>0.69</td>
</tr>
<tr>
<td>Canada</td>
<td>1.2</td>
<td>7.1</td>
<td>-18.8</td>
<td>1.32</td>
<td>1.42</td>
</tr>
<tr>
<td>China</td>
<td>6.9</td>
<td>4.1</td>
<td>+591.8</td>
<td>2.74</td>
<td>6.58</td>
</tr>
<tr>
<td>Germany</td>
<td>1.7</td>
<td>6.3</td>
<td>+277.1</td>
<td>0.55</td>
<td>0.92</td>
</tr>
<tr>
<td>Greece</td>
<td>-0.9</td>
<td>24.5</td>
<td>-19.8</td>
<td>8.66</td>
<td>0.92</td>
</tr>
<tr>
<td>India</td>
<td>7.4</td>
<td>4.9</td>
<td>-121.9</td>
<td>7.75</td>
<td>66.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4.7</td>
<td>6.2</td>
<td>+7.8</td>
<td>8.59</td>
<td>13,875</td>
</tr>
<tr>
<td>Japan</td>
<td>1.6</td>
<td>3.3</td>
<td>-9.9</td>
<td>0.23</td>
<td>117</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.7</td>
<td>3.1</td>
<td>+24.6</td>
<td>4.23</td>
<td>4.38</td>
</tr>
<tr>
<td>Mexico</td>
<td>2.6</td>
<td>4.1</td>
<td>-13.3</td>
<td>6.21</td>
<td>17.0</td>
</tr>
<tr>
<td>Russia</td>
<td>-4.1</td>
<td>5.8</td>
<td>+153.7</td>
<td>10.0</td>
<td>76.0</td>
</tr>
<tr>
<td>S. Korea</td>
<td>2.7</td>
<td>3.1</td>
<td>+90.4</td>
<td>2.02</td>
<td>1,209</td>
</tr>
<tr>
<td>Turkey</td>
<td>4</td>
<td>10.3</td>
<td>-63.1</td>
<td>11.0</td>
<td>3.03</td>
</tr>
<tr>
<td>U.S.</td>
<td>2.1</td>
<td>5.0</td>
<td>-760.9</td>
<td>2.15</td>
<td>-</td>
</tr>
<tr>
<td>Venezuela</td>
<td>-2.3</td>
<td>6.1</td>
<td>-36.2</td>
<td>10.0</td>
<td>6.31</td>
</tr>
</tbody>
</table>

Source: The Economist, "Economic and financial indicators"

What does it mean? The total dollar value of all goods and services produced over a specific time period. Everything produced by people and businesses, incl. salaries.

Why important? Because it measures the economical health in a country.

GDP growth is positive:
- Low unemployment
- Wage increases
- Businesses demand labor.
- A growing economy

GDP growth is slowing down or negative or stable:
- Layoffs and unemployment
- Declining business revenues
- Declining consumer spending
- Lower stock prices for some firms
- The possibility of a recession


More on https://www.pinterest.com/drkardes/ch-1-what-is-ib/
Gross National Income (GNI)

The total value that is produced within a country (GDP)

\[
\text{GNI} = \text{GDP} + \text{The income obtained from other countries (dividends, interests)}
\]

<table>
<thead>
<tr>
<th>GDP</th>
<th>GNI</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ based on location</td>
<td>▪ based on ownership</td>
</tr>
<tr>
<td>▪ the value produced within a country’s borders</td>
<td>▪ the value produced by all the citizens</td>
</tr>
<tr>
<td>▪ strength of a country’s local income</td>
<td>▪ economic strength of the citizens of a country</td>
</tr>
</tbody>
</table>

Example:

- Suppose a firm in the United States has an establishment in Canada.
- The profits from the products will not be part of the U.S. GDP, as production has taken place in another area.
- The profits would count towards the U.S. Gross National Income, as the firm is owned by U.S. citizens even though it is located in another country.
• GINI index measures the degree of inequality in the distribution of family income in a country.
• The more nearly equal a country's income distribution, the lower its GINI index.
• It can take any value between 1 and 100 points (or 0 and 1). The closer the value is to 100 the greater is the inequality.
• 40 or 0.4 is the warning level set by the United Nations.
This work is protected by United States copyright laws and is provided solely for the use of instructors in teaching their courses and assessing student learning. Dissemination or sale of any part of this work (including on the World Wide Web) will destroy the integrity of the work and is not permitted. The work and materials from it should never be made available to students except by instructors using the accompanying text in their classes. All recipients of this work are expected to abide by these restrictions and to honor the intended pedagogical purposes and the needs of other instructors who rely on these materials.