

3. Doing Business in Global Markets

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The Dynamic Global Market

- What is **Globalization** means?

Def: The **worldwide** movement toward economic, financial, trade, and **communications integration**.

- 90% of the companies doing business globally
- US is a market of 310 million people, but 6,9 billion potential customer in the 194 countries that make up the **global market**

- **World population:**

- Asia 60,2%
- Africa 14,9%
- Europe 10,7%
- North America 7,4%
- South America 6,3%
- Australia 0,5%



Importing

Importing is buying products from another country.

Exporting

Exporting is selling products to another country.

Which one is better for a country? Why?
Which nation is the largest in importing?

United States

Which nations are the largest in exporting?



1. China
2. Germany
3. United States

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Why trade with other nations?

- No nation can produce all the products **its people want and need.**
- **Self-sufficient nations**
- **Venezuela and Russia:** abundance of natural resources, but limited technological know-how
- **Japan and Germany:** have sophisticated technology, but few natural resources
- **Global trade:** enables nation to produce what it is most capable and buy what it needs from others



Free Trade



- **Def: Free trade** is the movement of goods and services among nations without political or economic barriers.

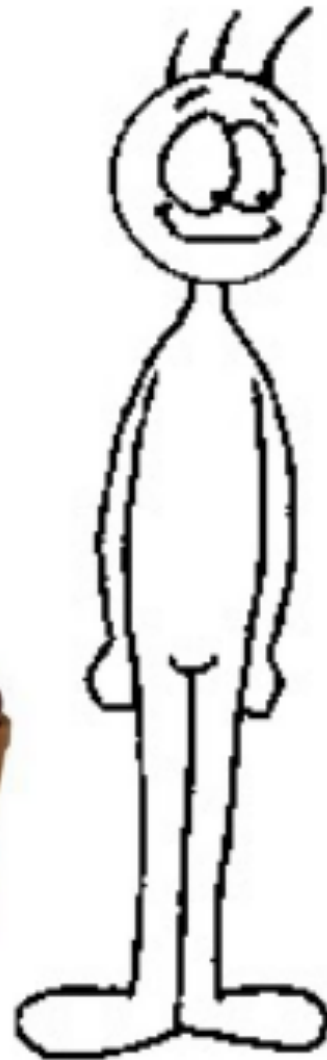
Pros:

- Global market - **6,9 bil pot.cust.**
- **Productivity grows** when they produce g&s in which comp.ad.
- Global competition & less costly imports **keep prices down**, so inflation does not curtail ec.growth
- **Inspires innovation** for new products
- Continuous flow of capital gives **countries access to foreign investments**, which help keep interest rate low.

Cons:

- **Domestic workers can lose jobs** due to increased imports or production shifts to low-wage global market
- Workers may **be forced to accept pay cuts** from employers
- **Moving operations overseas**, because of intense competitive pressure.
- Domestic **companies can lose their comp. ad.** when competitors build production in low-wage countries.

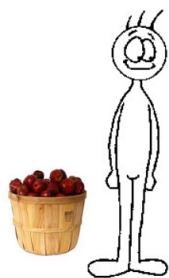
Comparative advantages theory



Tall dude should specialise in apple picking



Short dude should specialise in strawberry picking



Tall dude should specialise in apple picking



Short dude should specialise in strawberry picking



Absolute advantages theory

Def: The **advantage** that exists when a **country has a monopoly on producing a specific product** or is able to produce it more efficiently than all other countries.

- absolute advantages **in natural resources does not last forever**
- e.g.: South Africa once had an absolute advantage in *diamond production*, but that is no longer that case



Comparative vs. Absolute advantages

Units per worker per hour



Chocolate



Olive Oil

Switzerland



8

2

Palestine



3

3

Importing Goods and Services

Students attending colleges and universities abroad often notice that **some products widely available in their countries are unavailable or more expensive elsewhere.**

- e.g.: Howard Schultz ???
- CEO of Starbucks
- found his opportunity while traveling in Italy
- He liked: **the ambience, the aroma, and especially the sense of community** in the 200.000 Italian coffee and espresso bars
- He felt such gathering places **would be great in the US.**
- He **bought** the original Starbucks coffee shop in Seattle and **transformed it according to his vision.**



Measuring Global Trade

Balance of trade

Def: The total value of a nation's **exports compared to its imports** measured over a particular period.

Trade surplus

Def: A **favorable** balance of trade; occurs when the value of a country's **exports exceeds that of its imports.**

Trade deficit

Def: An **unfavorable** balance of trade; occurs when the value of a country's **imports exceeds that of its exports.**

e.g.: The US imports most of its toys from China
- and so does the rest of the world.

China now produces and exports 80% of the toys
manufactured in the world.



The highest US trade deficit is with China.

- What are the products do you use that are imported from China?

Balance of payments

Def: The **balance of payments** is the *difference between money coming into a country* (from exports) and *money leaving the country* (for imports) *plus money flows coming into or leaving a country from other factors* such as tourism, foreign aid, military expenditures, and foreign investment.

Goal: is to have more money flowing into the country than out!

Dumping

Def: Dumping is **selling products in a foreign country at lower prices** than those charged in the producing country.

- predatory pricing tactic
- goals:
 - sometimes used to **reduce surplus** products in foreign markets
 - to **gain a foothold** in a new market
- Some **governments may offer financial incentives** to certain industries to **sell goods in global markets for less** than they sell them at home.
- China, Brazil, Russia, etc. have been **penalized for dumping steel** in the US

