CHAPTER 6

Importing, Exporting, and Trade Relations

6-1 Importing Procedures
6-2 Exporting Procedures
6-3 Importance of Trade Relations
6-4 The Nature of Competition
The Scoop on Ice Cream Exports

What’s your favorite ice cream flavor? Popular flavors in Japan include octopus, seaweed, corn, and sweet potato. In Venezuela, people eat tuna and carrot ice cream. While these are not the most common flavors in these countries, local preferences need to be considered when exporting ice cream.

In addition to figuring out what flavors to offer, U.S. producers of ice cream face other concerns as they seek new international customers. Refrigeration, or rather the lack of it, can greatly influence market potential. In many areas of China, for example, few homes have freezers. As a result, most Chinese prefer their ice cream in the form of small snacks and consume at the point of purchase.

During the late 1980s, annual exports of U.S. ice cream to Japan were only $200,000. This was due to a Japanese import quota for ice cream and frozen yogurt. With the elimination of that trade barrier, Japanese customers bought more ice cream from U.S. companies. After ice cream sales in Asian countries dropped in the late 1990s due to poor economic conditions, demand started to increase when the economy improved.

In Costa Rica and other Central American countries, there was little or no market for ice cream in the mid 1990s. The market improved when Costa Rica honored its commitment to the World Trade Organization by reducing a 44 percent tariff and increasing the 500-ton import quota.

Another strong growth area for ice cream exports is the Caribbean market. The hot climate attracts many tourists to the region where they create a strong demand for frozen snacks and desserts.

Think Critically

1. What factors have increased the demand for U.S. ice cream in other countries?
2. What obstacles might an ice cream exporter encounter when doing business in other countries?
3. Go to the web site of the Foreign Agricultural Service of the U.S. Department of Agriculture to obtain current information about ice cream exports.
The Importance of Importing

Imagine how life in the United States would be without international business. Most television sets, athletic shoes, and coffee bought in the United States come from other countries. And these products are only a few of the imported products in use each day. Importing provides a wide variety of products and services for U.S. consumers. Exporting creates jobs and expands business opportunities. Importing and exporting are primary international business activities.

Imports are services or products bought by a company or government from businesses in other countries. Businesses can get involved in international trade by importing goods and services and selling them in their own country. The importing business can create new sales or expand sales with existing customers. Companies get involved in importing for one of three reasons: (1) consumer demand for products unique to foreign countries, (2) lower costs of foreign-made products, or (3) sources of parts needed for domestic manufacturing.

Product Demand Customers who want a unique item or a certain quality may purchase a foreign-made product. Some goods and services may be available only from other countries. Almost all bananas, cocoa, and coffee consumed in the United States are imported.

Lower Costs The prices of goods and services are constantly changing. An item from one country may be less expensive than the same item from another country. Electronic products manufactured in Asian countries are frequently less expensive than similar items produced elsewhere.
Importing Procedures

What does a company have to do to become an importer? Importing usually involves four main activities or steps, as shown in Figure 6-1 on the next page.

**STEP 1 DETERMINE DEMAND**

The first activity is to determine potential consumer demand for imports. Companies must conduct market research to find out if people will buy certain imported products. As with any business venture, there are risks. Sometimes companies import goods, only to have these items remain in a warehouse because no one wants them due to differences in buying habits.

**STEP 2 CONTACT SUPPLIERS**

The second importing activity is to contact foreign suppliers. It takes time and energy to locate foreign companies that are able to provide what you want when you want. By using information sources, such as government agencies and foreign business contacts, importers can identify the companies that will best serve their needs.

**STEP 3 FINALIZE PURCHASE**

The third importing activity is to finalize the purchase agreement. The importing company must come to an agreement with the supplier on specific terms for the purchase. The agreement must include the price the importer will pay for the goods, but there are other things that need to be agreed upon. Who will pay for shipping? When will items be delivered? How will payment be made?

**CheckPoint**

What are the three main reasons companies import?

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**Production Inputs**

Companies regularly purchase raw materials and components for processing or assembly from other countries. These production inputs may not be easily available in the company’s home country. For example, the radios, engines, transmissions, and windshield washer systems for many cars assembled in the United States come from companies in Canada, Mexico, Brazil, Japan, Korea, and other countries.

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**Work as a Team**

Work with your team to identify 20 items that you own or use regularly that were imported. Examine labels and other marks on clothing and other items to determine the country of origin.
be made? Will payment be made in advance, during shipping, or after the receipt of the goods? These are just some of the details that need to be described in the purchase agreement.

**STEP 4 RECEIVE GOODS**

The fourth activity is to receive the goods and make payment. This includes checking the order for accuracy and damage, paying for the order, and paying any import duties. This tax can be based on either the value of goods or other factors, such as quantity or weight.

Import duties are paid to customs officials. A **customs official** is a government employee authorized to collect the duties levied on imports. The term **customs** also refers to the procedures involved in the collection of duties. You may have heard a person traveling to another country say “I have to go through customs.” This means travelers must report to customs officials the value of anything bought in the country they are leaving or anything they plan to sell in the country they are entering.

**IMPORT ASSISTANCE**

U.S. government agencies are available to assist companies and individuals interested in importing. For example, Customs and Border Protection (CBP), part of the Department of Homeland Security, provides current information on import regulations. The Food and Drug Administration (FDA) and the Department of Agriculture (USDA) are resources for companies importing agriculture products, food, drugs, cosmetics and medical devices.

**GLOBAL BUSINESS SPOTLIGHT**

**AN IMPORTING ERROR**

Clear and complete communication for foreign suppliers is vital. Misunderstandings or lack of oversight can result in costly mistakes as demonstrated by the following example.

A U.S. retailer contracted with a foreign company to manufacture cashmere sweaters. The contract stated that the sweaters must be made of 100 percent cashmere. The manufacturer provided shirt labels to that effect. The manufacturer produced sweaters that were 20 percent cashmere and 80 percent wool. Without verifying the material content, the U.S. company accepted the shirts and sold them with the incorrect information on the label. The Federal Trade Commission fined the company for deceptive labeling.

**Think Critically**

How might this situation have been avoided?
People who work in import and export careers face these kinds of concerns each day. Businesses involved in importing and exporting offer a wide variety of career opportunities. Some positions that deal with regulations, transportation, and finance are unique to international business.

Businesses involved in importing or exporting need professionals who understand the rules and regulations related to cross-border transactions. For example, an export document control specialist creates and maintains databases of required licenses and agreements. These documents are required for both sides of the transactions. They allow products to be shipped out of the exporting country and they permit products to enter the receiving nation. In addition to knowing and understanding import and export regulations, this position requires strong communication skills for interacting with colleagues, suppliers, and customers around the world. Adaptability to change and willingness to learn are required because import-export regulations change frequently.

Working for a freight forwarder as a logistics coordinator is an example of a career in the transportation aspect of importing and exporting. A freight clerk plans travel routes and prepares necessary shipping documents. In some cases, a freight clerk may also be involved in negotiating cargo space and pricing. This position requires strong math and computer skills, along with a working knowledge of geography. Time management skills and the ability to work under pressure are important.

With over 300,000 U.S. import companies bringing goods worth more than $600 billion into the country each year, financing activities create other career opportunities. The Export-Import Bank, for example, employs loan specialists, accountants, financial analysts, and economists. Preparation for these careers usually requires a college degree in business. Some positions require graduate degrees.

In addition to the skills required for a specific position, interpersonal skills and the ability to work well with people from different cultural backgrounds are critical in the international business environment. The ability to speak more than one language is an asset for any career related to importing and exporting.

**Think Critically**

1. What skills required for import-export careers are you interested in developing?
2. Conduct an Internet search to obtain additional information about career opportunities in importing and exporting.
REVIEW GLOBAL BUSINESS TERMS
Define the following term.
1. customs official

REVIEW GLOBAL BUSINESS CONCEPTS
2. What are the main reasons companies import goods?
3. What is the purpose of the customs department of a country’s government?

SOLVE GLOBAL BUSINESS PROBLEMS
For each of the following situations, predict whether the imports will be successful in your country. Explain your reasons.

4. Imported ice skates that are more expensive than those already on the market but that have the reputation of being the best in the world.
5. Ten thousand cases of shampoo in bottles with foreign-language labels that can be sold for a price matching the lowest-price shampoo on the market.
6. An imported soy-based dessert called Zenzip.
7. Imported clothing sized in an inconsistent manner compared with other brands.
8. An imported packaged dinner entrée that contains blue pasta.

THINK CRITICALLY
9. What types of imports should not be allowed to enter the United States?
10. Do imports threaten the jobs of people in the importing country?

MAKE ACADEMIC CONNECTIONS
11. STATISTICS If South Korea has exports of $419 billion, Singapore $235 billion, and Taiwan $255 billion, what is the average value of exports for the three countries?
12. TECHNOLOGY Find a web site for one of the larger countries in the Asia-Pacific Rim Country Regional Profile. List the country and its five largest imports.
13. VISUAL ARTS Prepare a flow chart or other visual representation of the importing process.
14. CULTURAL STUDIES Collect examples of unusual food products imported from other countries.
The Exporting Process

Companies commonly export goods or services to companies in other countries. *Indirect exporting* occurs when a company sells its products in a foreign market without actively seeking out those opportunities. More often, however, a business will conduct *direct exporting* by actively seeking export opportunities.

Exporting activities are the other side of the importing transaction. As exporters, however, businesses face different decisions. The process of exporting involves five steps, as shown in Figure 6-2.

**Figure 6-2** Successful exporting can help a nation expand its economic activities and create additional jobs.
STEP 1 FIND POTENTIAL CUSTOMERS

Before you sell anything, you have to find buyers. Who are the people who want to buy your goods and services? Where are these people located? Are the potential customers willing and able to purchase your products?

Answers to these questions may be found through an Internet search and library research. Businesses use many sources to find out about the buying habits of people in different countries. Also, businesspeople familiar with foreign markets have experience helping companies that want to sell in other countries.

The U.S. Department of Commerce and other agencies and organizations provide trade leads listing export opportunities for companies planning to do business overseas. For example, a recent listing identified an opportunity to sell cosmetics manufacturing machinery in Chennai, India. The U.S. Commercial Service, the Foreign Agricultural Service, and the Federation of International Trade Associations are sources for information on potential customers in other countries.

STEP 2 MEET THE NEEDS OF CUSTOMERS

Next, determine if people in other countries can use your product or service. Sending company representatives to possible markets around the world is one way to make sure your product can be sold there. If visits are not possible, companies can obtain reliable information from other sources.

Will your product be accepted by foreign customers exactly as it is, or will it be necessary to adapt it? Product adaptation may need to be in the form of smaller packages, different ingredients, or revised label information to meet geographic, social, cultural, and legal requirements.

Some products are standardized or sold the same around the world. Popular soft drinks, some clothing, and many technical products (such as cameras,
Computers, and home entertainment systems) are frequently sold in various geographic areas with only minor changes. However, food products, personal care items, and laundry detergent usually need to be adapted to the tastes, customs, and culture of a society.

**STEP 3 AGREE ON SALES TERMS**

Every business transaction involves shipping and payment terms. These terms require businesses to answer a number of important questions. What is the price of the items? How will the products be shipped? Who will pay for shipping costs, the buyer or the seller? In what currency will the payment be made? What foreign exchange rate will be used? When is the payment due?

Shipping costs vary for different types of transportation. Airfreight is more costly than water transportation. However, it is much quicker. Items in high demand or perishable products might require the quickest available method of delivery.

Transportation costs can be a major portion of the cost of exporting. It is important to consider which party will pay transportation costs. Sometimes the seller pays for shipping. In other situations, the buyer pays. Certain terms are used to describe the shipping and payment methods. **Free on board (FOB)** means the selling price of the product includes the cost of loading the exported goods onto transport vessels at the specified place. **Cost, insurance, and freight (CIF)** means that the cost of the goods, insurance, and freight are included in the price quoted. **Cost and freight (C&F)** indicates that the price includes the cost of the goods and freight, but the buyer must pay for insurance separately.

Banks and other financial institutions are likely to be involved in the payment phase of export transactions. A company may have to borrow funds to finance the cost of manufacturing and shipping a product for which payment will not be received until a later date. Besides loans, international financial institutions may also offer other exporting services.
STEP 4 DELIVER PRODUCTS OR SERVICES

After agreement is reached on selling terms, the products or services must be delivered. This means raw materials, parts, or finished goods are shipped. If the exchange involves a service, the company must now perform the required tasks for its foreign customers.

Some exporters make arrangements for shipping their own products, but others prefer to rely on experts for help with shipping. A freight forwarder is a company that arranges to ship goods to customers. Like a travel agent for cargo, these companies take care of the reservations needed to get an exporter’s merchandise to the required destination.

GLOBAL BUSINESS SPOTLIGHT

EXPORTING CULTURE

The demand for U.S. clothing, soft drinks, fast food, candy, movies, music, television programs, and other entertainment is very strong in many parts of the world. Jeans, T-shirts, sports team hats, and athletic shoes are top sellers around the globe. People in some nations will wait in line for hours to pay for Coca-Cola or for a McDonald’s hamburger.

Television programs such as *The Simpsons*, *Grey’s Anatomy*, *Survivor*, and *Lost* are seen by hundreds of millions of television viewers each day. CNN, ESPN, and MTV have created international channels for worldwide viewing. Movie characters such as Batman, Spiderman, Indiana Jones, Lara Croft, James Bond, and Harry Potter earn film studios millions of dollars in profits outside the United States. The music of Miley Cyrus, Beyoncé, Usher, and the Jonas Brothers is played on radio stations, in stores, and in homes in more than 150 countries.

While soccer (called football in most countries) remains the world’s most popular sport, others are attempting to gain ground. National Basketball Association (NBA) teams have held games in 10 countries outside of North America. In recent years, the World Baseball Classic has included teams representing 16 nations. And, the National Football League (NFL) has a European league, while NFL games have been played in England, Japan, Germany, and Mexico.

Think Critically

1. What effect could exporting of U.S. culture have on the cultural environment of other countries?
2. What are the benefits associated with exporting culture?
3. Locate a web site with information about a country’s cultural exports. What are the country’s largest cultural exports? How does the volume of cultural exports compare with other exported goods and services?
Often a freight forwarder will accumulate several small export shipments and combine them into one large shipment to get lower freight rates. Because these companies are actively involved in international trade, freight forwarders are excellent sources of information about export regulations, shipping costs, and foreign import regulations.

Companies must prepare export documents for shipping merchandise to other countries. Customers, insurers, government agencies and others involved in the process have specific documentation requirements. Two common shipping documents are a bill of lading and a certificate of origin. A bill of lading is a document stating the agreement between the exporter and the transportation company. This document serves as a receipt for the exported items. A certificate of origin is a document that states the name of the country in which the shipped goods were produced. This document may be used to determine the amount of any import tax.

STEP 5 COMPLETE THE TRANSACTION
If payment has not already been received, it would be due when the products are received by the purchaser. Often, payment involves exchanging one country’s currency for another’s. Financial institutions convert currency and are usually involved in the payment step. Electronic payments are common.

✓ CheckPoint
What are the five steps of the exporting process?

Other Exporting Issues
In addition to the five steps of exporting described above, companies face a variety of obstacles. Also, the exporting of services must be addressed in a slightly different manner than the global selling of a tangible product.

OBSTACLES TO EXPORTING
The United States Department of Commerce estimates that thousands of small and medium-sized businesses could easily get involved in international business, but they don’t. There are several reasons companies may not export.

- No company representatives in foreign countries
- Products not appropriate for foreign consumers
- Insufficient production facilities to manufacture enough goods for exporting
- High costs of doing business in other countries
- Difficulty understanding foreign business procedures
- Difficulty obtaining payment from foreign customers

Many of these obstacles could be overcome if companies obtained assistance from agencies...
such as the U.S. Department of Commerce, the U.S. Small Business Administration, and the USA Trade Center.

**EXPORTING SERVICES**

Most people can relate to selling, packing, and shipping a tangible item. However, a major portion of U.S. exports involves the sale of *intangible* items—services. Service industries account for about 70 percent of GDP in the United States. International trade by service industries is significant. Services provided by U.S. companies are more than 20 percent of the world’s total cross-border sales of services.

Companies export services with some of the same techniques they use to export products. These techniques include international consulting, direct exporting, licensing, franchising, and joint venture.

The most commonly exported services include hospitality (hotels and food service), entertainment (movies, music, television production, and amusement parks), and financial services (insurance and real estate). Other areas of expanding service exports involve health care, information processing, distribution services, and education and training services. Exporting of services, such as health care, occurs when a company provides on-site training, technical assistance, or medical treatment services in another country.

✓ **CheckPoint**

What services are most commonly exported by U.S. companies?
REVIEW GLOBAL BUSINESS TERMS
Define each of the following terms.

1. free on board (FOB)  
2. cost, insurance, and freight (CIF)  
3. cost and freight (C&F)  
4. freight forwarder  
5. bill of lading  
6. certificate of origin

REVIEW GLOBAL BUSINESS CONCEPTS
7. How can exporting companies determine if their products can be sold in other countries?  
8. Why are banks often involved in export transactions?  
9. What determines whether an exporter ships by air or water?

SOLVE GLOBAL BUSINESS PROBLEMS
For each of the following exporting situations, decide whether the company should sell the same product (standardize) as in other countries or adapt the product (customize) to local tastes, customs, and culture. Explain your reasons.

10. Exporting World Cup championship shirts and hats.  
12. Exporting electrical appliances to a country with a different voltage system.  
13. Exporting plain, unflavored yogurt to a country in which the people do not usually eat yogurt.  

THINK CRITICALLY
15. How does the exporting of services differ from exporting goods?  
16. Why are governments frequently interested in encouraging exports?

MAKE ACADEMIC CONNECTIONS
17. TECHNOLOGY Visit the web site of the Bureau of Industry and Security to learn more about exporting regulations faced by U.S. companies.  
18. SCIENCE Describe recent scientific developments that have improved the speed and efficiency of exporting.  
19. HISTORY Research the effect of various inventions on the major exports of a country.  
20. TECHNOLOGY Use the Internet to research local rules and regulations for exporting from various countries around the world.
The Economic Effect of Foreign Trade

Every importing and exporting transaction has economic effects. The difference between a country's exports and imports is called its balance of trade. Some countries continually buy more foreign goods than they sell. The result is a trade deficit, which is the result of importing more goods and services than the country is exporting. In contrast, a trade surplus occurs when a country exports more than it imports.

The United States, despite being the largest exporter in the world, has had a trade deficit for many years. This situation can result in a country borrowing from other countries. Borrowing means the country must pay back money in the future, reducing the amount available for other spending. Balance of trade does not include all international business transactions, just imports and exports. Another economic measure is needed to summarize the total economic effect of foreign trade. Balance of payments, illustrated in Figure 6-3, measures the total flow of money coming into a country minus the total flow going out. Included in this economic measurement are exports, imports, investments, tourist spending, and financial assistance. For example, tourism can help a country's balance of payments as a result of an increase in the flow of money entering the nation.

A country's balance of payments can be either positive or negative. A positive, or favorable, balance of payments occurs when a nation receives more money in a year than it pays out. A negative balance of payments is unfavorable. It is the result when a country sends more money out than it brings in.
Balance of Payments

Figure 6-3 Balance of payments is the total flow of money coming into a country minus the total flow of money going out of a country. A country may have a favorable balance of payments some years, as shown on the left. In other years the balance of payments may be unfavorable, as shown on the right.

✓ CheckPoint
What action results in a country having a trade deficit?
Trade Agreements

How can a country improve its international trade situation? One answer is by negotiating trade agreements. Trade agreements between countries promote economic development on a worldwide basis or in a geographic region. In some cases individual nations and companies enter agreements that encourage international business activities.

THE WORLD TRADE ORGANIZATION

After World War II, world leaders who wanted to promote peaceful international trade developed a set of ground rules to guide the conduct of international trade. The General Agreement on Tariffs and Trade (GATT) was negotiated in 1947 and began operating in January 1948 when 23 countries signed the treaty agreement.

This multicountry agreement intended to reduce trade barriers and to promote trade. The goals of GATT were to promote world trade through negotiation and to make world trade secure. Working toward these goals helped increase global economic growth and development.

In 1995, GATT was replaced by a new organization—the World Trade Organization (WTO). With over 150 member countries, WTO has many of the same goals as GATT. But in addition, WTO has the power to settle trade disputes and enforce the free-trade agreements between its members.

Based in Geneva, Switzerland, the WTO deals with the rules of trade between nations. Its goal is to help producers of goods and services, exporters, and importers conduct their business. The WTO encourages international trade in several ways.

- Lowering tariffs that discourage free trade
- Eliminating import quotas, subsidies, and unfair technical standards that reduce competition in the world market
- Recognizing protection for patents, copyrights, trademarks, and other intellectual properties, such as software
- Reducing barriers for banks, insurance companies, and other financial services
- Assisting poor countries with trade policies and economic growth

REGIONAL COOPERATION

An economic community is an organization of countries that work together to allow a free flow of products. The group acts as a single country for business activities with other regions of the world. An economic community is also called a common market. Membership in an economic community has several main benefits.

- Expanded trade with other regions of the world
- Reduced tariffs for the member countries
- Lower prices for consumers within the group
- Expanded employment and investment opportunities

Work as a Team

Prepare a list of benefits and concerns associated with economic communities and countertrade.

The World Trade Organization (WTO) is a major international organization that helps assure that trade flows smoothly and freely. WTO focuses on the global rules of trade between nations. To learn more about the history and functions of this organization, access the web site shown below and click on the link for Chapter 6. After navigating this web site and reading the information, discuss one benefit of and one misunderstanding about the WTO trading system.

www.cengage.com/school/genbus/intlbiz
GLOBAL BUSINESS SPOTLIGHT

EUROPEAN UNION

The European Union (EU) is an economic and political organization with member nations across Europe. This relationship allows over 500 million consumers to purchase products from any of the countries without paying import or export taxes.

The European Union is headquartered in Brussels, Belgium. The EU Commission has 20 commissioners who are responsible for areas such as labor, health, the environment, education, transportation, and trade. The policy-setting body is the Council of the European Union consisting of the heads of state or government from the member countries. Voters in each member country elect the European Parliament. The parliament, with more than 700 representatives, is in Strasbourg, France. This economic community works toward several goals.

- Eliminating tariffs and other trade barriers
- Creating a uniform tariff schedule
- Forming a common market for free movement of labor, capital, and business enterprises
- Establishing common agricultural and food safety policies
- Channeling capital from more advanced to less developed regions

In 1999, the EU introduced a common currency—the euro. During the transition to full use of this new monetary unit, prices in the stores of EU countries were stated in both euros and the previous national currencies such as the franc, lira, and deutsche mark.

After starting with six countries, today the EU has 27 members. Bulgaria and Romania are the most recent additions.

Think Critically

1. What are some concerns with a highly integrated economic community such as the European Union?

2. Go to the web site of the European Union to obtain current information about the activities of this economic community. Which countries, if any, are currently members of the EU? Which countries, if any, are seeking to gain membership to the EU?

Examples of this type of regional economic cooperation among countries include the European Union (EU), Latin American Free Trade Association (LAFTA), the Association of Southeast Asian Nations (ASEAN), the Economic Community of West African States (ECOWAS), and the North American Free Trade Agreement (NAFTA).

BARTER AGREEMENTS

Most people have traded one item for another at some time. The exchange of goods and services between two parties with no money involved is direct barter. A company may use this method for international business transactions.

Because trading items of equal value is difficult, a different barter method is used. Countertrade is the exchange of products or services between companies in different countries with the possibility of some currency exchange. For example, when PepsiCo owned Pizza Hut, it sold soft drinks in China in exchange for mushrooms used on pizzas. Countertrade can involve companies in several countries, as shown in Figure 6-4 on the next page.

Because countertrades are quite complex, they usually involve large companies. Smaller companies, however, can get involved in countertrade by working with large trading agents who bring together many buyers and sellers.

Companies use countertrade to avoid the risk of receiving payment in a monetary unit with limited value. Currencies from some nations are not in demand due to the weakness of those countries’ economies. Countertrade...
also occurs when the government of an importing country requires the selling company to purchase products in return. This helps the importing country to avoid a trade deficit while stimulating economic growth.

**FREE-TRADE ZONES**

A *free-trade zone* is an area designated by a government for duty-free entry of nonprohibited goods. Free-trade zones are commonly located at a point of entry into a nation, such as a harbor or an airport. Merchandise may be stored, displayed, or used without duties being paid. Duties (import taxes) are imposed on the goods only when the items pass from the free-trade zone into an area of the country subject to customs.

**CheckPoint**

What are examples of trade agreements among countries?
REVIEW GLOBAL BUSINESS TERMS
Define each of the following terms.

1. trade deficit
2. trade surplus
3. balance of payments
4. economic community
5. direct barter
6. countertrade

REVIEW GLOBAL BUSINESS CONCEPTS
6. How can a trade deficit affect a country’s economy?
7. Why is countertrade used in international business?

SOLVE GLOBAL BUSINESS PROBLEMS
For the company or country mentioned in each of the following situations, decide whether the balance of payments or the trade balance is affected and whether the effect would be favorable or unfavorable.

8. A country in Europe receives foreign aid from the government of another country.
9. A six-month long World’s Fair is held in the United States and attracts over a million tourists from other countries.
10. An Asian country imports oil that it will pay for later.
11. A multinational company in England pays cash for a factory in India.
12. A new advance in genetic testing is made in Argentina, and the technology is exported all over the world.

THINK CRITICALLY
13. What can a government do to improve a trade deficit?
14. What are some possible concerns of labor unions, environmental groups, and public interest organizations regarding actions of the World Trade Organization?

MAKE ACADEMIC CONNECTIONS
15. MATHEMATICS If a country has inflows of $376 billion and outflows of $402 billion, what is the amount of the favorable (or unfavorable) balance of payments?
16. HISTORY Research the start of the European Economic Community in the 1950s. What factors influenced the start of this common market?
17. COMMUNICATIONS Without using words, demonstrate a barter transaction between people from different cultures.
Most likely you have participated in a sport or an activity in which you attempted to do better than others or better than you had done previously. While winning may not always be the main goal, competition is an on-going activity for people, companies, and nations. In an effort to improve a country’s economic situation, a strong competitive effort may be beneficial.

Companies compete in both domestic and international markets. The *domestic market* is made up of all the companies that sell similar products within the same country. In contrast, the *international market* is made up of companies that compete against companies in several countries. For example, major soft drink companies have competition in other countries with Crazy Cola in Russia and Thums Up Cola in India.

For companies or countries to gain a competitive advantage they need to do something better, faster, or cheaper than others do. While many people believe the best product is always successful, sometimes a company can also succeed through an effective delivery system. For example, candy products from Nestlé are available around the world. This distribution program creates a competitive advantage and makes it difficult for other candy manufacturers to gain sales.

Companies can also compete by successfully doing one thing and doing it well. For example, the demand for airplanes made in Japan is not as high as
The demand for planes made in the United States. Japanese companies, however, have specialized in producing components used by U.S. aircraft manufacturers, such as fuselage parts, landing-gear doors, and on-board computers. In addition to direct exporting, the airline parts companies are involved in hundreds of joint ventures and licensing agreements. These efforts have resulted in a significant increase in Japanese aerospace exports.

**FACTORS AFFECTING COMPETITION**

Three major factors affect the degree of competition among businesses. These factors are the number of companies, business costs, and product differences.

**Number of Companies** When many companies are selling the same product, there may appear to be a high degree of competition. However, if just a few large firms control the major portion of sales, then competition is limited.

**Business Costs** The cost of doing business often affects competition. Expensive equipment or having to compete against well-known brands might prevent new companies from starting. Conditions that make it extremely difficult to enter a business are called *barriers to entry*. For example, if a business needs large amounts of capital and equipment to start operations, only a few companies are likely to enter the market. Or, if an existing company has an established brand name, it will be very costly for new companies to make their name known.

**Product Differences** The third factor that creates competition is product differences. Companies use advertising, brand names, packages, and ingredients to convince consumers that their products are different and better. The addition of flavoring to toothpaste and packaging that can be reused for other purposes are examples of attempts by companies to gain a competitive advantage. Companies use advertising messages to inform consumers about the benefits of their products and to persuade them to buy.

**UNDERSTANDING ASIAN NAMES**

When communicating with Asians about trading opportunities, it is important to realize that their naming practices may be different from yours.

A surname, also known as a family name, is the name that links family members. Many surnames have their origins in occupations and locations. In the United States, a surname often is called a last name.

In many Asian countries, the family name comes first, followed by the given name. In Korea, Kim Yun is Mr. Kim, not Mr. Yun.

In the People’s Republic of China, more than 100 million people, about 10 percent of the population, have the same surname—Zhang. Fewer than 20 surnames account for more than 60 percent of the population. In Korea, four surnames account for more than 50 percent of the population. Thus, the surnames in some Asian countries are not as distinctive an identifier as they are in the United States. Therefore, it is necessary to learn full names, titles, and divisions within a business in order to communicate with the desired Asian business associates.

**Think Critically**

1. What kind of an impression will you create if you reverse the order of the names of a potential Asian business partner?
2. What question should you ask to find out about the naming customs in another country?
BENEFITS AND CONCERNS OF COMPETITION

Competition can improve the economic situation and living conditions of a nation. Individual and company efforts to create better goods and services in less time have been a benefit for many nations. Some business competition, however, can result in major concerns. If a company becomes so large that it controls a geographic area or a portion of an economy, many people may suffer. Consumers will have to pay whatever the business charges. Workers will have to work for the amount the company wants to pay because other jobs may not be available. For these reasons, most countries have laws that limit the power of companies.

✓ CheckPoint
What are common barriers to entry for new competitors in an industry?

Types of Competitive Situations

Have you ever wondered why there are so many breakfast cereals or why only a few stores sell a certain brand of shoes? These questions can be answered with an understanding of the competitive situations in an industry. An industry refers to companies in the same type of business. For example, Kellogg, General Mills, Kraft General Foods, and Quaker are the major companies in the breakfast cereal industry. Nike, Reebok, and Adidas are in the athletic shoe industry. The competitive situation among companies is also called the market structure of an industry. Four main competitive situations may be present in a country’s economy, as shown in Figure 6-5.

PURE COMPETITION

Pure competition is a market situation with many sellers, each offering the same product. For example, when farmers sell their wheat or corn, there is little difference from one bushel to another. Supply and demand determines the price. Rivalry among businesses is most free when many companies offer identical or very similar products to buyers. Various factors in our economy and society, however, limit pure competition.
MONOPOLISTIC COMPETITION

In order for companies to attract customers, they make their products slightly different. One fast-food hamburger restaurant offers a special sauce, another adds bacon and cheese, while another gives away a game or toy with the sandwich. **Monopolistic competition** refers to a market situation with many sellers, each with a slightly different product. The difference in products can be actual (such as ingredients) or implied (such as different advertisements, a brand name, or a package design).

OLIGOPOLY

When a few large companies control an industry, an **oligopoly** exists. In this market situation, the few sellers usually offer products that are slightly different. However, competition is mainly the result of large companies being able to advertise and sell their goods in many geographic areas. For example,
only a few large companies make automobile tires. Therefore, these large manufacturers are able to control the market. Another example is that with only a few countries having oil as a natural resource, companies in these nations can influence the availability and price of oil.

**MONOPOLY**

When one company controls the total supply of a product or service, there is no competition. A *monopoly* is a situation in which one seller controls the entire market for a product or service. It is very unusual for this to happen without actions by government or other businesses. Like pure competition, few examples of true monopolies exist. Situations that are near monopolies include South Africa’s diamond mines and a small village or town served by only one store. Monopolies that exist in the United States, such as cable television, local water service, and first-class mail delivery service, are government regulated.

**Check Point**

What are the four types of competitive situations?
6-4 Assessment

REVIEW GLOBAL BUSINESS TERMS
Define each of the following terms.
1. industry
2. pure competition
3. monopolistic competition
4. oligopoly
5. monopoly

REVIEW GLOBAL BUSINESS CONCEPTS
6. What are the main factors that affect the amount of business competition?
7. What are the advantages of competition?
8. What is the difference between actual and implied differences in monopolistic competition?

SOLVE GLOBAL BUSINESS PROBLEMS
For each of the follow situations, decide which competitive situation is present: pure competition, monopolistic competition, oligopoly, or monopoly.
9. A country in Asia allows only one company to manufacture a product.
10. In a European country, four companies control over 85 percent of sales in the supermarket industry.
11. In a region of western Africa, minerals are mined and sold by many extracting companies.
12. In an area of the Middle East, many small shops offer a variety of clothing styles.

THINK CRITICALLY
13. What types of actions could consumers and government take to promote competition?
14. What kind of competition exists in the microcomputer operating systems market today?

MAKE ACADEMIC CONNECTIONS
15. CULTURAL STUDIES Select a product that you use frequently. Determine what appeals to you about the product, including how it is advertised. Consider whether the elements you have determined would appeal to people in other countries. Write a summary of your findings.
16. LAW Research the start of antitrust legislation in the United States. What applications of those laws are in the news today?
CHAPTER SUMMARY

6-1 IMPORTING PROCEDURES

A. Importing is important to business for meeting consumer demand, lowering operating costs, and obtaining production inputs.

B. The four steps of importing are (1) determine demand, (2) contact suppliers, (3) finalize purchases, and (4) receive goods.

6-2 EXPORTING PROCEDURES

A. The five steps of the exporting process are (1) find potential customers, (2) meet the needs of customers, (3) agree on sales terms, (4) provide products or services, and (5) complete the transaction.

B. The exporting of services can be a significant percentage of a country’s export activities.

6-3 IMPORTANCE OF TRADE RELATIONS

A. A country’s balance of payments measures the total flow of money coming into a country minus the total flow going out and may be positive or negative. A trade deficit is the total amount a country owes to other countries as a result of importing more goods and services than are exported.

B. The main types of trade agreements are the World Trade Organization, economic communities, barter agreements, and free-trade zones.

6-4 THE NATURE OF COMPETITION

A. The competitive situation in a country is affected by (1) the number of companies, (2) business costs, and (3) product differences.

B. The four main types of competitive markets are pure competition, monopolistic competition, oligopoly, and monopoly.

GLOBAL REFOCUS

Read the Global Focus at the beginning of this chapter, and answer the following questions.

1. What actions might an ice cream company take to expand export activities?

2. How could foreign companies become more competitive in the global ice cream industry?
REVIEW GLOBAL BUSINESS TERMS
Match the terms listed with the definitions. Some terms may not be used.

1. Government employee who is authorized to collect the duties levied on imports.
2. A company that arranges to ship goods to customers.
3. The exchange of products or services between companies in different countries with the possibility of some currency exchange.
4. Control of an industry by a few large companies.
5. A document that states the agreement between the exporter and the transportation company.
6. The total flow of money coming into a country minus the total flow going out.
7. A market situation with many sellers, each with a slightly different product.
8. An organization of countries that bond together to allow a free flow of products.
9. Terms of sale that mean the selling price of the product includes the cost of loading the exported goods onto transport vessels at the specified place.
10. A situation in which one seller controls the entire market for a product or service.
11. The cost of the goods, insurance, and freight are included in the price quoted.
12. The exchange of goods and services between two parties with no money involved.
13. A group of companies in the same type of business.
14. A document that states the name of the country in which the shipped goods were produced.
15. A market situation with many sellers, each offering the same product.
16. The result of a country importing more goods and services than the country is exporting.
17. The price includes the cost of the goods and freight, but the buyer must pay for insurance separately.

MAKE GLOBAL BUSINESS DECISIONS

18. Name some examples of imported products that the people in the United States need and want.
19. Why are taxes imposed on products imported into various countries?
20. List some resources you could use to determine the buying habits in different countries.
21. What factors would affect whether the buyer or the seller pays for the shipping costs in an international business transaction?
22. Why might a country’s balance of payments be a better measurement of its international business activities than its balance of trade?

23. What problems might arise when nations create an economic community for international trade?

24. Describe some examples of countertrade involving products from different countries with which you are familiar.

MAKE ACADEMIC CONNECTIONS

25. TECHNOLOGY Go to the web site of the World Trade Organization to obtain additional information about the current activities of this global trade association.

26. LAW Investigate the duties and customs procedures of one of the following countries: Malaysia, Australia, Taiwan, China, India, South Korea, Singapore, or New Zealand.

27. GEOGRAPHY Find the location of the free-trade zone closest to your city. Draw a map that includes your state, the location of the free-trade zone, and all states in between. Then draw a line between your city and the free-trade zone. Mark the distance above the line. If the free-trade zone is in your city, draw a map of your city, and identify the location of the free-trade zone.

28. COMMUNICATIONS Talk to someone who has shipped goods to another country. Prepare a short oral report about the procedures for transporting merchandise to a foreign country.

29. CULTURAL STUDIES Collect advertisements, packages, and other information about products made in another country and sold in the United States. Ask five friends or relatives to identify the country of origin for the product.

30. SCIENCE Many products in our society compete on the basis of very minor differences. Collect information on five different brands of soap, toothpaste, breakfast cereal, or shampoo from advertisements, packages, and periodicals. Based on your analysis and comments from others, list the similarities and differences of the brands selected. Consumer Reports is a good source of information for this activity.

31. CAREER PLANNING Obtain information about the imports and exports of a country of your choice. What types of job opportunities would be created by these foreign business activities?

32. TECHNOLOGY Use the Internet to find examples of businesses that are involved in pure competition, monopolistic competition, oligopolies, and monopolies.

33. ECONOMICS Go to the web site of an economic community. Make a list of the members of that community and some of the activities in which it engages.
CREATING AN INTERNATIONAL BUSINESS PLAN

Developing an Exporting Plan

Use a product or service that your chosen company is actively exporting or that you believe has potential for sales in other countries. Then select a country that would provide a market opportunity for that product or service. Use information collected for Chapters 1–5 and additional research to prepare an exporting plan. Include the following components.

1. Product description
   - Describe the product or service in detail, including specific features.
   - Describe any changes in the product or service that may be necessary before exporting.

2. Foreign business environment
   - List cultural and social factors that may affect the sale of the product.
   - Discuss the geography of the country to which you have chosen to export this product or service.
   - Describe economic conditions that may affect exporting this product.
   - Report any political or legal factors that could affect exporting activities.

3. Market potential
   - Describe the type of customer who is best suited for this product or service in the country you have chosen.
   - Identify methods that could be used to contact potential buyers in the country you have chosen.
   - Estimate sales for the product or service based on country size, market demand, and competition.

4. Export transaction details
   - Describe import taxes or other restrictions that may affect exporting costs.
   - Discuss the shipping and documentation requirements for the country you have selected.
   - Identify the amount of time the exporting plan will take to execute.

Sources of information for researching your exporting plan are listed below.

- reference books such as encyclopedias, almanacs, and atlases
- current news, business, and travel articles, including news stories, company profiles, and advertisements
- web sites for exporting information
- materials from companies, airlines, travel bureaus, government agencies, and other organizations involved in international business
- interviews with people who have been to the country