MK 333/326
International Marketing
Chapter 2

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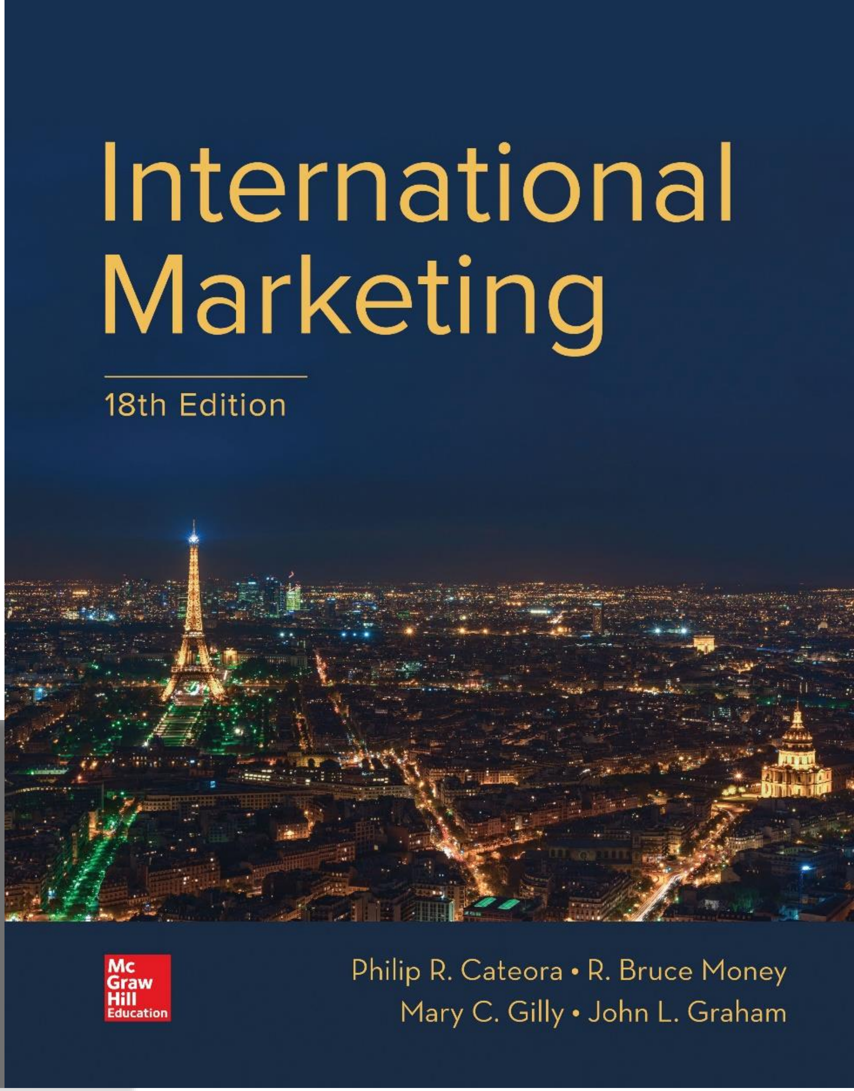
Chapter 2

The Dynamic Environment of International Trade



Learning Objectives 1 of 2

2-1 The basis for the reestablishment of world trade following World War II

2-2 The importance of balance-of-payment figures to a country's economy

2-3 The effects of perfectionism on world trade

2-4 The several types of trade barriers

Learning Objectives

2-5 The importance of GATT and the World Trade Organization

2-7 The emergence of the International Monetary Fund and the World Bank Group

Trade Barriers—An International Marketer's Minefield

Tariff and Nontariff Barriers

- Until recently, use has been reduced in recent years
- Election of nationalistic leaders threatens this effort
- Some countries attempt to control trade for their own advantage
- As competition increases, so does tendency toward protectionism

Global trade benefits all

- Provides more business opportunities for marketers
- Provides wider selection of goods and services for consumers

Exhibit 2.1 Top Ten 2017 U.S. Trading Partners

($ in billions, merchandise trade)

Rank	Country	Total Trade	Exports	Imports	Balance
	Total	3889.7	1546.8	2342.9	-796.1
1	China	636.0	130.4	505.6	-375.2
2	Canada	582.4	282.4	300.0	-17.6
3	Mexico	557.0	243.0	314.0	-71.1
4	Japan	240.2	67.7	136.5	-68.8
5	Germany	171.2	53.5	117.7	-64.3
6	South Korea	119.4	48.3	71.2	-22.9
7	United Kingdom	109.4	56.3	53.1	3.5
8	France	82.5	33.6	48.9	-15.3
9	India	74.3	25.7	48.6	-22.9
10	Italy	68.3	18.3	50.0	-31.6

Source: http://www.census.gov/foreign-trade/statistics/highlights/top/index.html, 2018.

Trade Balance Statistics

Statistics are greatly distorted

- Imports from China include parts from other countries
  - Often seen in electronic imports
- 2017 Apple imports from China
  - Approximately $16 billion in iPhones
  - Approximately $8 billion in iPads

Exhibit 2.2 Sources of Distortion in Prominent Trade Statistics

Value of iPhone Shipped from China to U.S. (components and labor)
Japan 34%
Germany 17%
South Korea 13%
United States 6%
China 3.6%
Others 27%

Value of Apple iPad Shipped from China Globally (costs and profits)
Chinese labor 2%
Non-Chinese labor 5%
Cost of materials 31%
Distribution and retail 15%
Apple profits 30%
Other U.S. profits 2%
South Korean profits 7%
Taiwanese profits 2%
Others' profits 6%

Sources: Andrew Batson, "Not Really 'Made in China'," *The Wall Street Journal*, December 16, 2010, pp. B1–2; "iPadded," *The Economist*, January 12, 2012, p. 84.

The Trade Deficit

© Lyroky/Alamy Stock Photo

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Even though the John Deere tractors lined up for shipment from its Waterloo, Iowa, plant appear impressive, the Hyundai cars stacked up by the water in Ulsan, South Korea, headed for the United States dwarf their numbers. The juxtaposition of the two pictures aptly reflects the persistence of America's broader merchandise trade deficit.

The Twentieth to the Twenty-First Century

Twentieth Century

- WWI lead to economic depression
  - Trade was halted due to high tariff walls
- United States set to spread capitalism after WWII
  - Benefitted all, new markets created as economies grew
- **General Agreement on Tariffs and Trade (GATT)**
  - Passed to prevent situation similar to post-WWI
  - Reduction of tariffs and trade barriers

World Trade and U.S. Multinationals

U.S. Multinational Corporations (MNCs)

- Companies branched out to foreign economies
- Many opportunities as economies grew after WWII
- U.S. dominance deemed as threatening by late 60s
  - Europe and Latin America put limits on U.S. investments
- The result was that economic power was more evenly distributed

World Trade and U.S. Multinationals 2 of 3

Balance of Merchandise Trade

- Role of U.S. in global trade evolved through time
  - Favorable balance until 1979, a constant trade deficit is now the norm
- Many important questions raised in 1980s
  - How to compete in foreign markets
  - Fairness of international trade policies

World Trade and U.S. Multinationals

Many changes to world trade by 1990

- Creation of organizations to facilitate trade
  - NAFTA (now USMCA), EU, AFTA, APEC
- Power expected to shift to more countries
  - New market opportunities
  - Countries with power investing in other countries
  - Companies expanding global reach

Balance of Payments

International Trade

- Financial transactions occur with each trade
- Money is constantly flowing in and out of country
- Important to keep track of transactions

Balance of Payments

Balance-of-payments statement

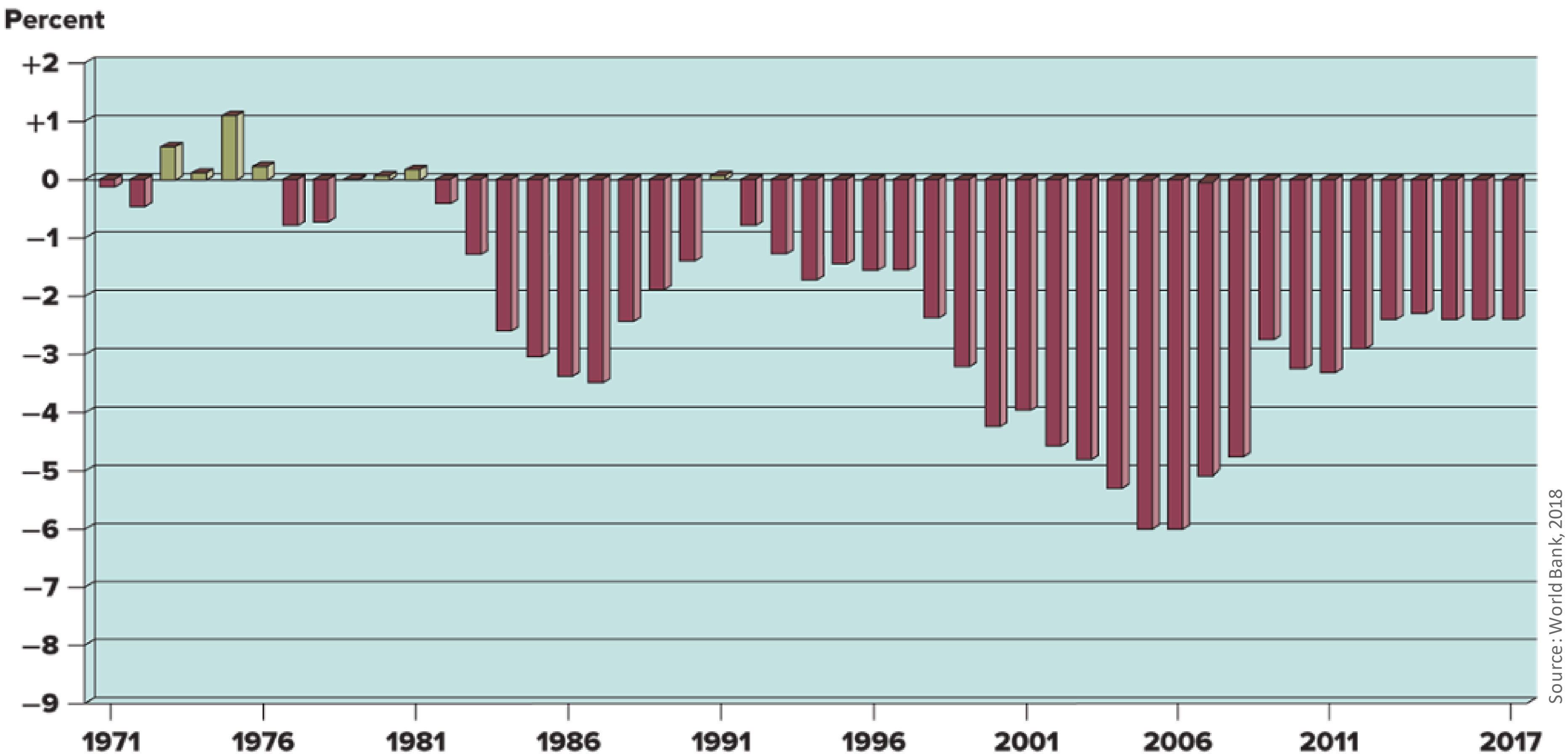
- Record of all financial transactions with other countries
  - Credits and debits must offset each other
  - Double-entry bookkeeping system
- Three main accounts
  - **Current account**
    - Of primary interest to international business
  - **Capital account**
  - **Reserves account**

Balance of Payments 3 of 3

Balance of Payments in the U.S.

- High merchandise trade deficit yields an imbalance
  - Value of U.S. currency low
    - Less purchasing power, less demand for imports
  - U.S. products cheap for foreign buyers
    - Higher exports

Exhibit 2.5 U.S. Current Account Balance (% of GDP)



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Protectionism

The Reality of World Trade

- Countries protect their own markets
  - Ward off unwanted foreign investments and imports
- Use barriers for protection
  - Tariffs
  - Quotas
  - Exchange barriers
  - Psychological barriers

Protectionism

Arguments for Protectionism

- Protection of an infant industry
- Protection of the home market
- Need to keep money at home
- Encouragement of capital accumulation
- Maintenance of the standard of living and real wages

Protectionism

Arguments for Protectionism continued

- Conservation of natural resources
- Industrialization of a low-wage nation
- Maintenance of employment
- Reduction of unemployment
- National defense
- Enhancement of business size
- Retaliation and bargaining

Protectionism

Protectionism can be harmful

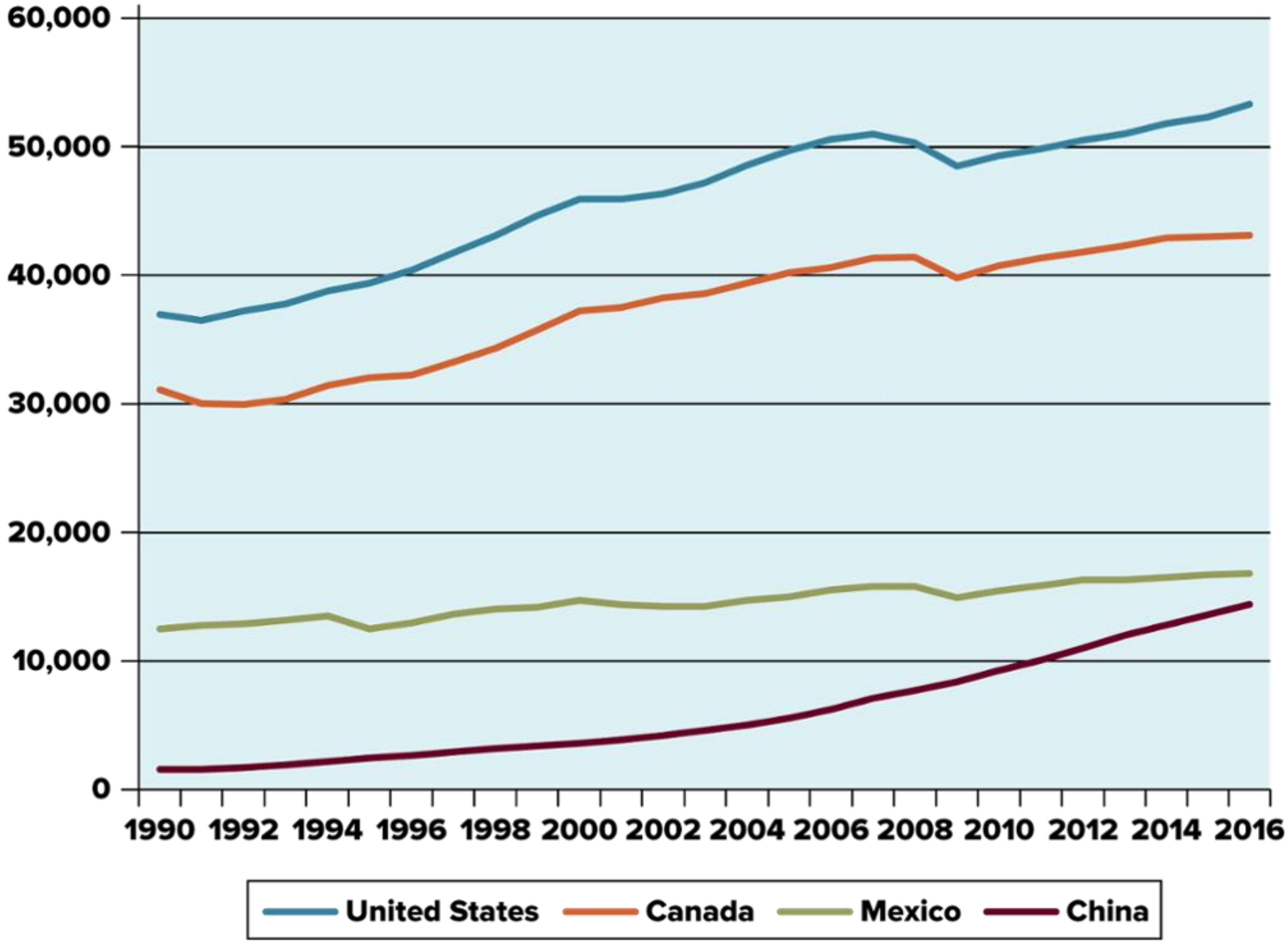
- Contributes to country's industrial inefficiency
- Detracts from nation's adjustment to world situation
- Tariffs cost consumers more money
  - Less likely to purchase, which in turn hurts the economy

Protectionism

Free trade is typically beneficial

- More people willing to purchase
- Higher purchasing power for the average consumer
- Increased income of all involved
- More job opportunities

Exhibit 2.6 Growth of Consumer Purchasing Power 1990 to 2016 (GDP per capital, PPP, constant 2011 $s)



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Source: World Bank, World Development Indicators, 2018.

Easing Trade Restrictions

General Agreement on Tariffs and Trade (GATT)

- Worldwide agreement after World War II
- Three main provisions
  - Trade shall be conducted on a nondiscriminatory basis
  - Protection shall be afforded domestic industries through customs tariffs, not through such commercial measures as import quotas
  - Consultation shall be the primary method used to solve global trade problems

GATT


WHAT IS GATT?
GATT
General Agreement
on Tariffs and Trade
Study.com

Easing Trade Restrictions 2 of 3

General Agreement on Tariffs and Trade (GATT) continued

- Eight rounds of negotiation since inception
- Tokyo Round (1974)
  - Tariff cuts, but still many issues
- Uruguay Round (1994)
  - Sector-specific agreements
    - **GATs, TRIMs, TRIPs**
  - Creation of the World Trade Organization

Easing Trade Restrictions 3 of 3

World Trade Organization (WTO)

- Expansion on the GATT structure as a stand-alone institution
- All 164 members must participate and adhere to rules
- Panel of experts to hear and resolve disputes
  - Continuous discussion, not just “rounds” like GATT
- Mostly accepted, but some detractors
  - Some countries find loopholes to rules

WTO

Trade
Policy
Review
WORLD TRADE ORGANIZATION

WTO


Map of World Trade Organization members and observers
Members
Members, dually represented by the European Union
Observers
Non-members
Financial University under the Government of the Russian Federation

The International Monetary Fund and World Bank Group 1 of 2

Two Global Institutions

- Help nations become and remain economically viable

International Monetary Fund (IMF)

- Goals of 188-country membership
  - Stabilize foreign exchange rates
  - Establish freely convertible currency
- Developed **special drawing rights (SDRs)**

The International Monetary Fund and World Bank Group 2 of 2

World Bank Group

- Goals
  - Reduce poverty and improve living standards
  - Promote sustainable growth and investment in people
- Made up of five institutions with separate objectives
  - Provides loans, technical assistance, and policy guidance to help developing nations achieve goals

Protests against Global Institutions

"Anti-capitalist Protesting"

- Emerged beginning in 1999
- Fight against unintended consequences of globalism
  - Environmental harm, worker exploitation and job loss, cultural extinction, higher oil prices, diminished sovereignty
- Some violent protests, terrorism
- Nonviolent protests have enacted policy change

Types of Protest

"Globalization" by Gifford Myers. Photo by John Graham

Gifford Myers showed this sculpture *Object (Globalization)–2001* in Faenza, Italy, as a peaceful protest.

Starbucks may be replacing McDonald's as the American brand foreigners most love to hate. Here local police fail to stop anti–World Trade Organization rioters in Seattle from breaking windows close to home.

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Appendix of Image Long Descriptions

Appendix 1 Exhibit 2.5 U.S. Current Account Balance (% of GDP)

For the majority of the period, the United States had an unfavorable current account balance. It was only favorable for a few years during the mid to late 70s, with the balance peaking at 1 percent in 1975.

Starting in the 1980s, the balance started to decrease, reaching negative 3.5 percent by 1987. By 1990, the balance of the current account was restored.

After 1990, the current account balance started to drop again, continuing to decrease each year until it reached its lowest at negative 6 percent in 2006.

After, the current account balance started to gradually increase most years, ending at negative 2.5 percent in 2017.

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Appendix 2 Exhibit 2.6 Growth of Consumer Purchasing Power 1990 to 2016 (GDP per capital, PPP, constant 2011 $s)

The graph shows growth in the average consumer’s purchasing power for all four countries.

The United States has had the highest average consumer purchasing power through the entire period. In 1990, it was just below 40,000. It gradually increased each year, reaching just above 50,000 by 2007. It dropped slightly in 2009, but recovered to about 52,000 by 2016.

In Canada, the average consumer purchasing power was at just above 30,000 in 1990. It gradually increased to above 40,000 by 2007, dropped slightly in 2009, but recovered to about 42,000 by 2016.

In Mexico, the average consumer purchasing power was at about 12,000 in 1990. It has grown very gradually each year and reached about 16,000 by 2016.

China has had the lowers average consumer purchasing power throughout the entire period. It started at around 100 and gradually increased to 500 by 2005, at which point it began to grow more quickly, reaching around 14,000 by 2016.

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