

**MK 326**  
**International Marketing**  
**Chapter 2**

**By Ajarn Suwalya K.**

## Chapter 2

# The Dynamic Environment of International Trade

# International Marketing

18th Edition



# 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
- 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

# WHAT IS A TARIFF?

**A tariff is a tax imposed by a government of a country or of a supranational union on imports or exports of goods.** Besides being a source of revenue for the government, import duties can also be a form of regulation of foreign trade and policy that taxes foreign products to encourage or safeguard domestic industry.



# Trade Barriers—An International Marketer's Minefield

## Tariff and Nontariff Barriers

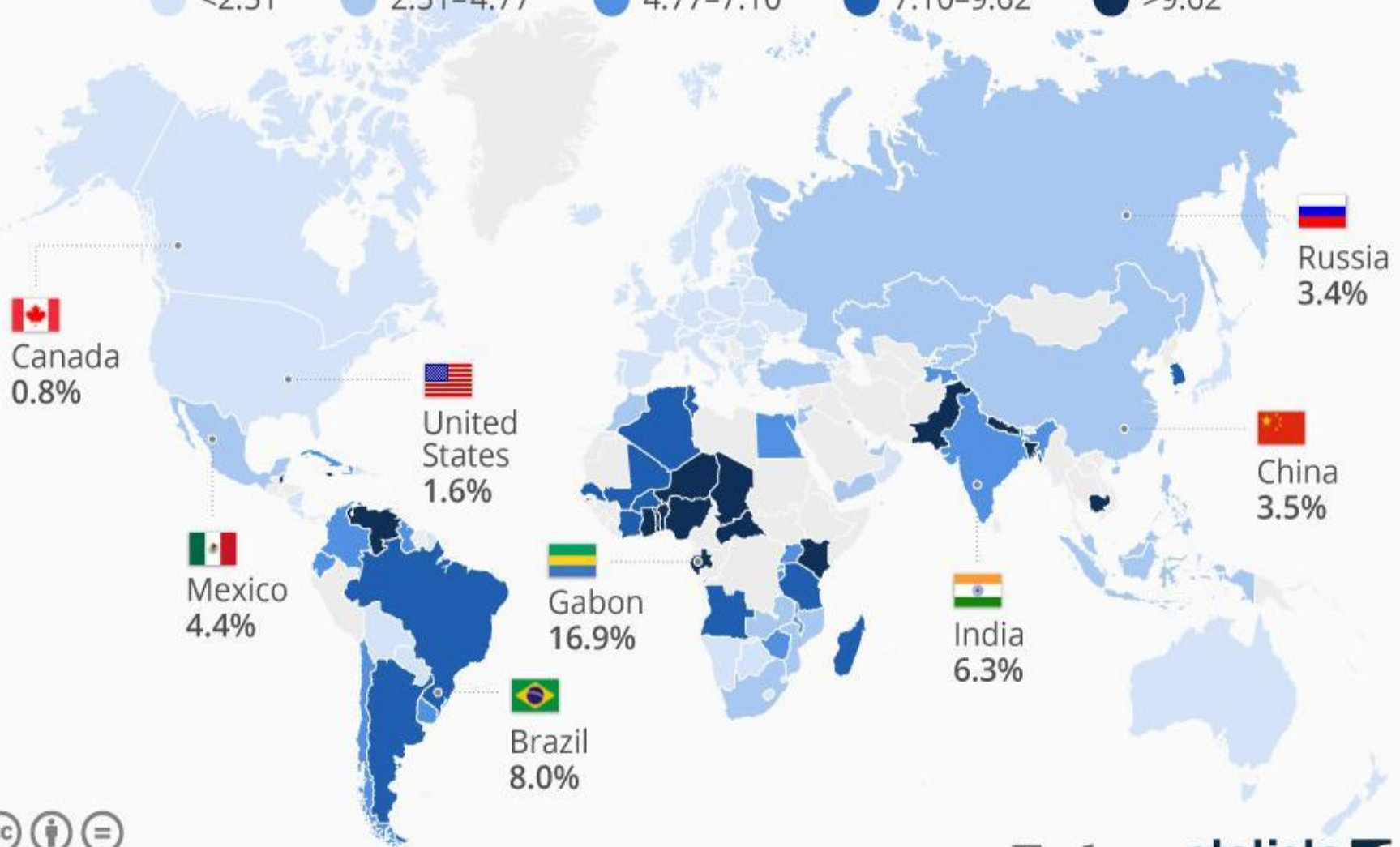
- Until recently, use has been reduced in recent years
- Election of nationalistic leaders threatens this effort
- Some **countries attempt to control trade for their own advantage**
- As competition increases, so does tendency toward protectionism

## Global trade benefits all

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

# Where Global Tariffs Are Highest And Lowest

Average weighted tariff rate applied across all products in 2016 (%)



@StatistaCharts

Source: World Bank

Forbes **statista**

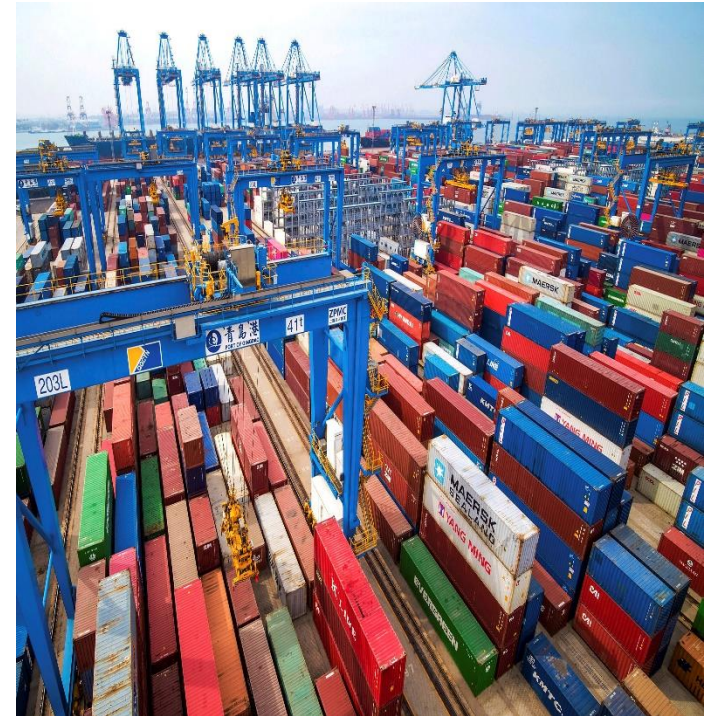
## Exhibit 2.1 Top Ten 2017 U.S. Trading Partners (\$ in billions, merchandise trade)

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

# 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%

# The Trade Deficit

A trade deficit occurs **when the value of a country's imports exceeds the value of its exports**—with imports and exports referring both to goods, or physical products, and services. In simple terms, a trade deficit means a country is buying more goods and services than it is selling.



© Lyroky/Alamy Stock Photo



© Allstarphotos/Newscom

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 1 of 3

## 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

# Multinationals



A **multinational corporation** (MNC) is one that has business operations in two or more countries. These companies are often managed from and have a central office headquartered in their home country, but with offices worldwide. Simply exporting goods to be sold abroad does not make a company a multinational.

# 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 3 of 3

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 1 of 3

## 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 2 of 3

## 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

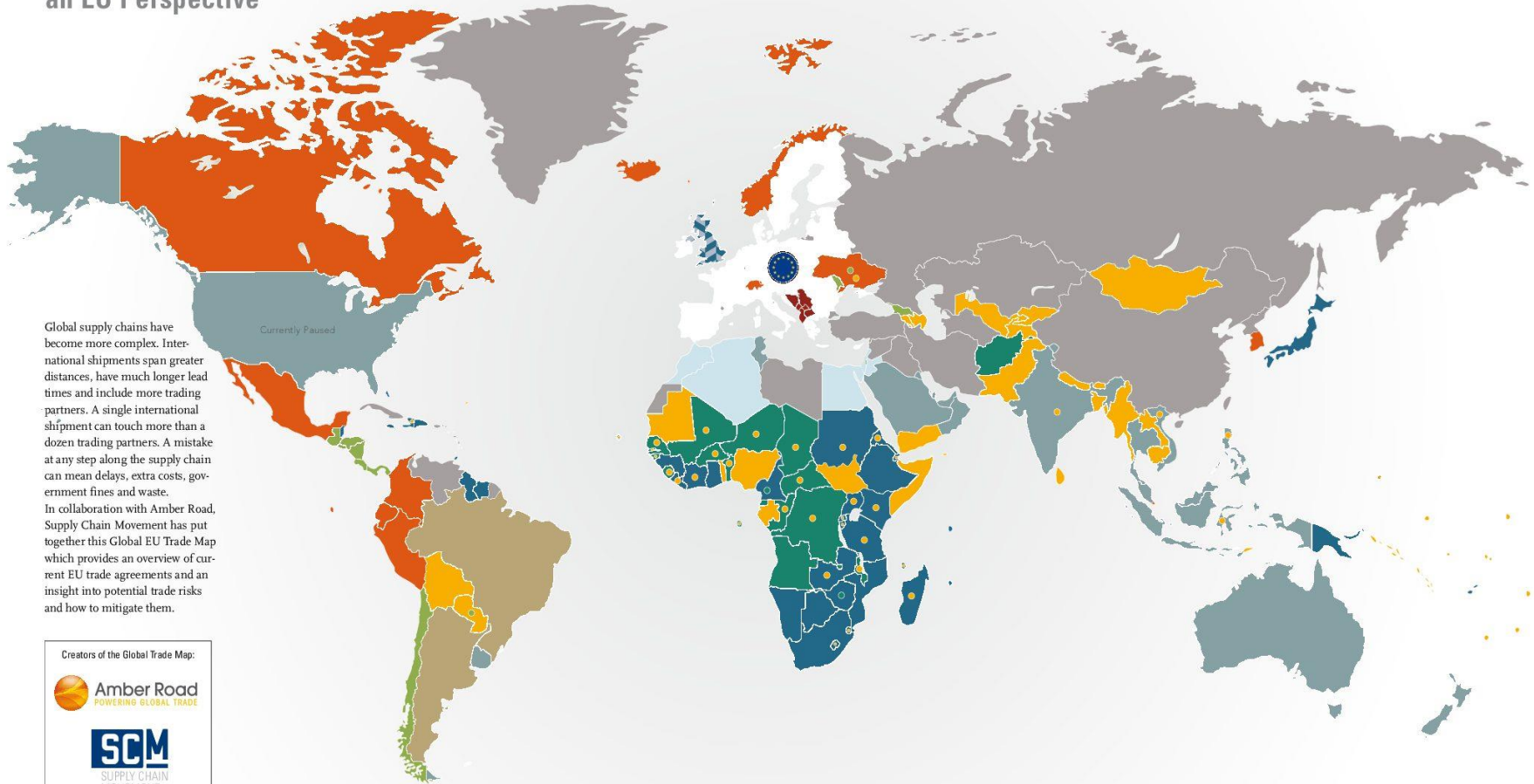
## Balance of Payments in the U.S.

- 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



# Global Trade Map 2018

## Trade Agreements from an EU Perspective



Global supply chains have become more complex. International shipments span greater distances, have much longer lead times and include more trading partners. A single international shipment can touch more than a dozen trading partners. A mistake at any step along the supply chain can mean delays, extra costs, government fines and waste.

In collaboration with Amber Road, Supply Chain Movement has put together this Global EU Trade Map which provides an overview of current EU trade agreements and an insight into potential trade risks and how to mitigate them.

Creators of the Global Trade Map:

- |  |   |   |   |  |
|--|---|---|---|--|
| <p><b>FTA/PTA</b></p> <ul style="list-style-type: none"> <li><span style="color: orange;">●</span> Free Trade Agreement (FTA) / Preferential Trade Agreement (PTA)</li> <li><span style="color: grey;">●</span> Negotiating Underway / Free Trade Agreement</li> </ul> | <p><b>EPA</b></p> <ul style="list-style-type: none"> <li><span style="color: blue;">●</span> EPA Economic Partnership Agreement</li> <li><span style="color: green;">●</span> Negotiating Economic Partnership Agreement</li> </ul> | <p><b>GSP</b></p> <ul style="list-style-type: none"> <li><span style="color: yellow;">●</span> GSP General System of Preferences</li> </ul> | <p><b>Association Agreement</b></p> <ul style="list-style-type: none"> <li><span style="color: red;">●</span> SAA Stabilisation &amp; Association Agreement</li> <li><span style="color: lightgreen;">●</span> AA Association Agreement</li> <li><span style="color: tan;">●</span> Negotiating Association Agreement</li> <li><span style="color: lightblue;">●</span> EU-Mediterranean Association Agreement</li> </ul> | <p><b>Customs Union</b></p> <ul style="list-style-type: none"> <li><span style="color: black;">●</span> Custom Union with the EU</li> <li><span style="color: blue;">●</span> Brexit Negotiations</li> <li><span style="color: grey;">●</span> No Agreement</li> </ul> |
|--|---|---|---|--|

[Jump to long description.](#)

# FLOURISHING BORDER TRADE

Total border trade: 564.29 billion baht, up 6.40% year-on-year in 5 months



## MALAYSIA

Total **233.45** bn baht  
▲ **0.50%**

**Export:** 121.07 bn  
baht ▼ **8.98%**

► Rubber/rubber  
products

**Import:** 112.37 bn  
baht ▲ **13.21%**

► Computers,  
magnetic tape



## MYANMAR

Total **81.03** bn baht  
▲ **9.47%**

**Export:** 47.35 bn  
baht ▼ **2.96%**

► Diesel, alcoholic  
drink

**Import:** 33.67 bn  
baht ▲ **33.35%**

► Gas, aquatic  
animals, cow, buffalo



## LAOS

Total **90.68** bn baht  
▲ **7.52%**

**Export:** 55.93 bn  
baht ▲ **1.03%**

► Diesel,  
automobiles/ parts

**Import:** 34.74 bn  
baht ▲ **19.92%**

► Power, copper



## CAMBODIA

Total **58.69** bn baht  
▲ **7.51%**

**Export:** 47.21 bn  
baht ▲ **13.21%**

► Non-alcoholic  
drink, motorcycles

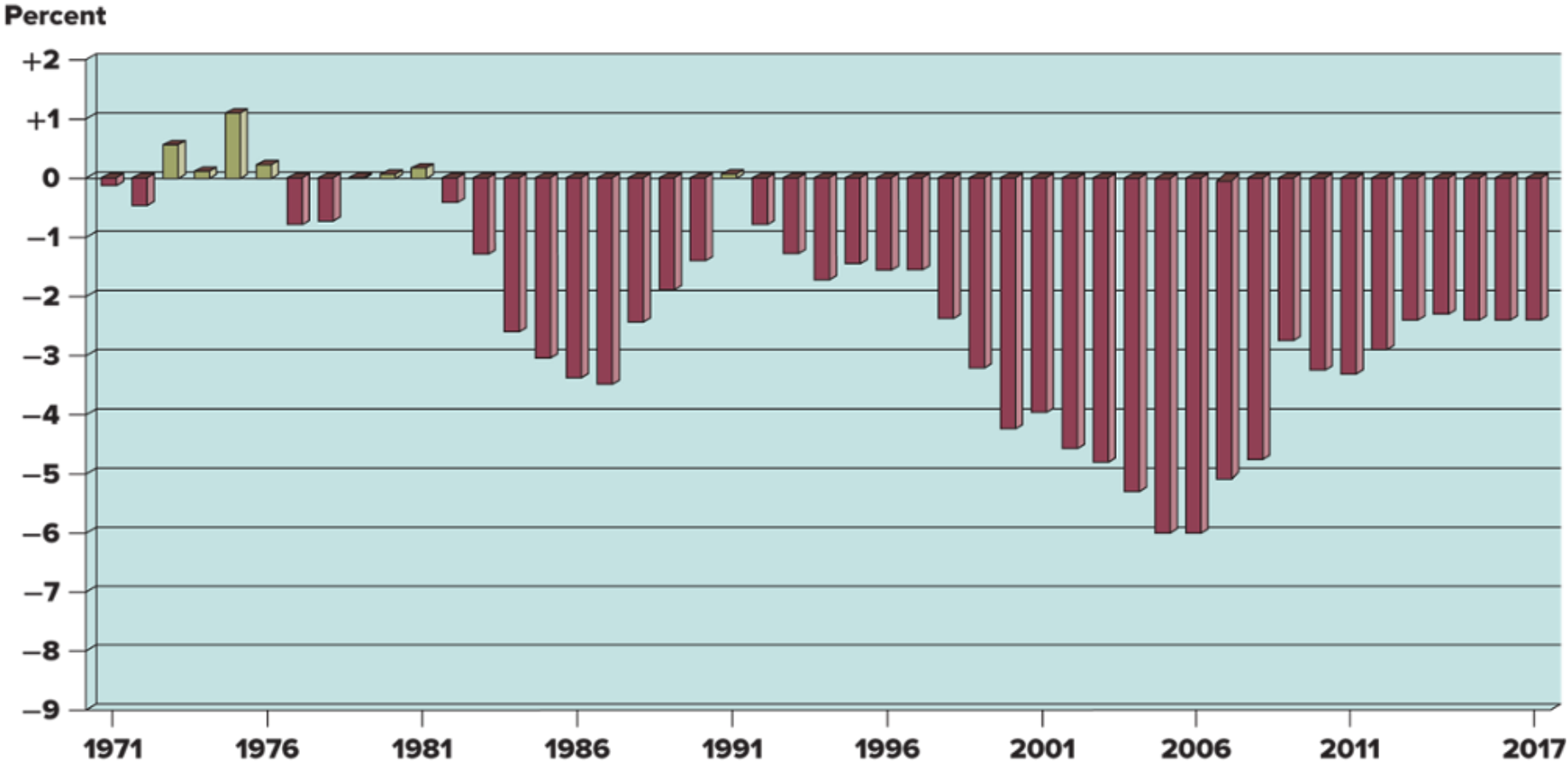
**Import:** 11.47 bn  
baht ▼ **10.96%**

► Tapioca, wire,  
cable

Source: Foreign Trade Department

BANGKOK POST GRAPHICS

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



Source: World Bank, 2018

[Jump to long description.](#)

# Rising Global Protectionism

## In the physical world:

Since the recession, the world's top 60 economies have adopted more than 7,000 protectionist trade measures.

Source: Reuters 2017



## In the digital world:

Data localization measures increasingly restrict data that can be sent across borders.

[Jump to long description.](#)

# Protectionism 1 of 5

## 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 2 of 5

## 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



# Trade Protectionism and Its Methods



1

## Smoot-Hawley Tariff of 1930

It was designed to protect farmers from agricultural imports from Europe.



3

## Impose quotas on imported goods

No matter how low a foreign country sets the price through subsidies, it can't ship more goods.



2

## When the government subsidizes local industries

That allows producers to lower the price of local goods and services.



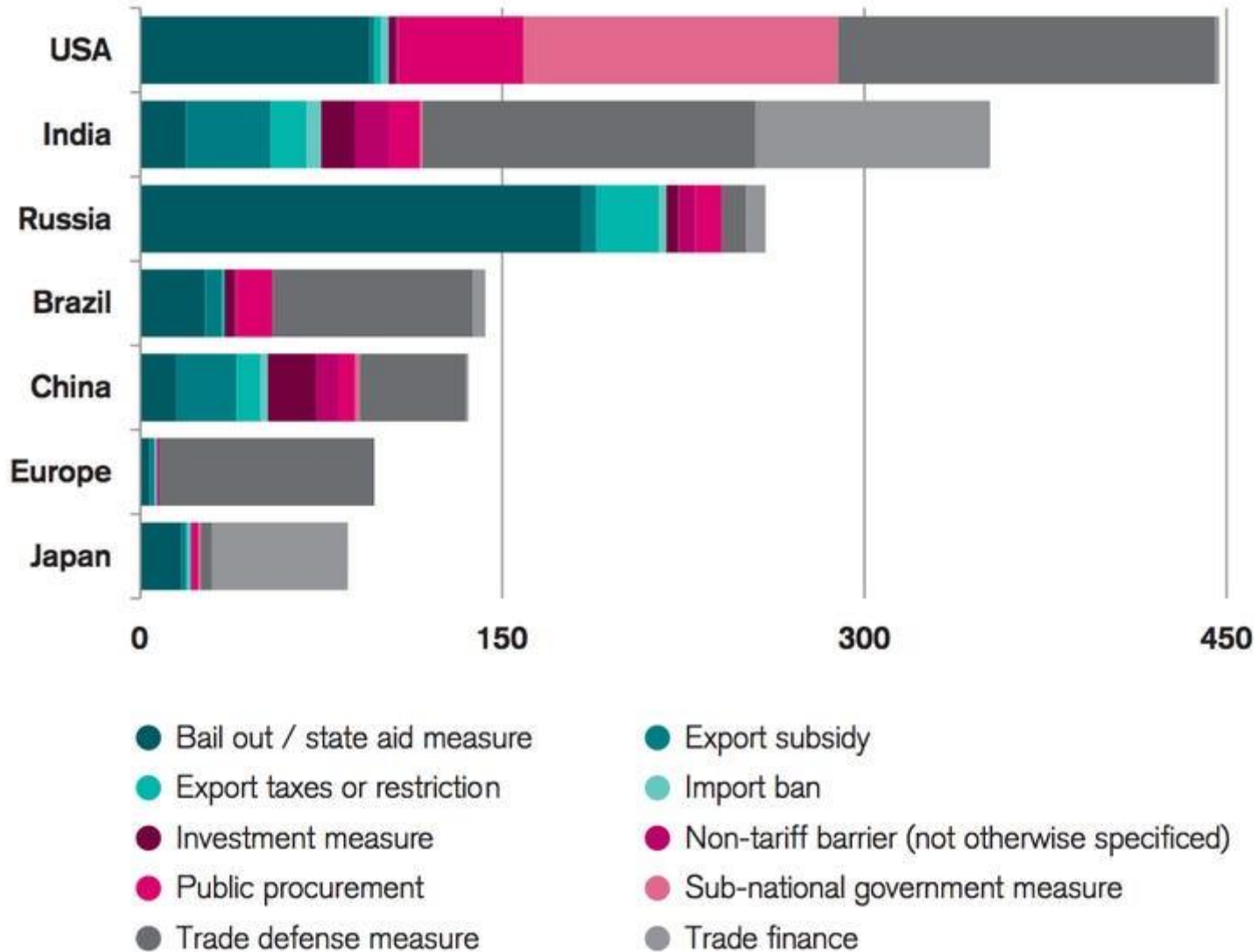
4

## Deliberate attempt by a country to lower its currency value

This would make its exports cheaper and more competitive.

[Jump to long description.](#)

## The USA imposes the highest number of protectionist measures



Source: Global Trade Alert, Credit Suisse

[Jump to long description.](#)

# Protectionism 3 of 5

## 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 4 of 5

## 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 5 of 5

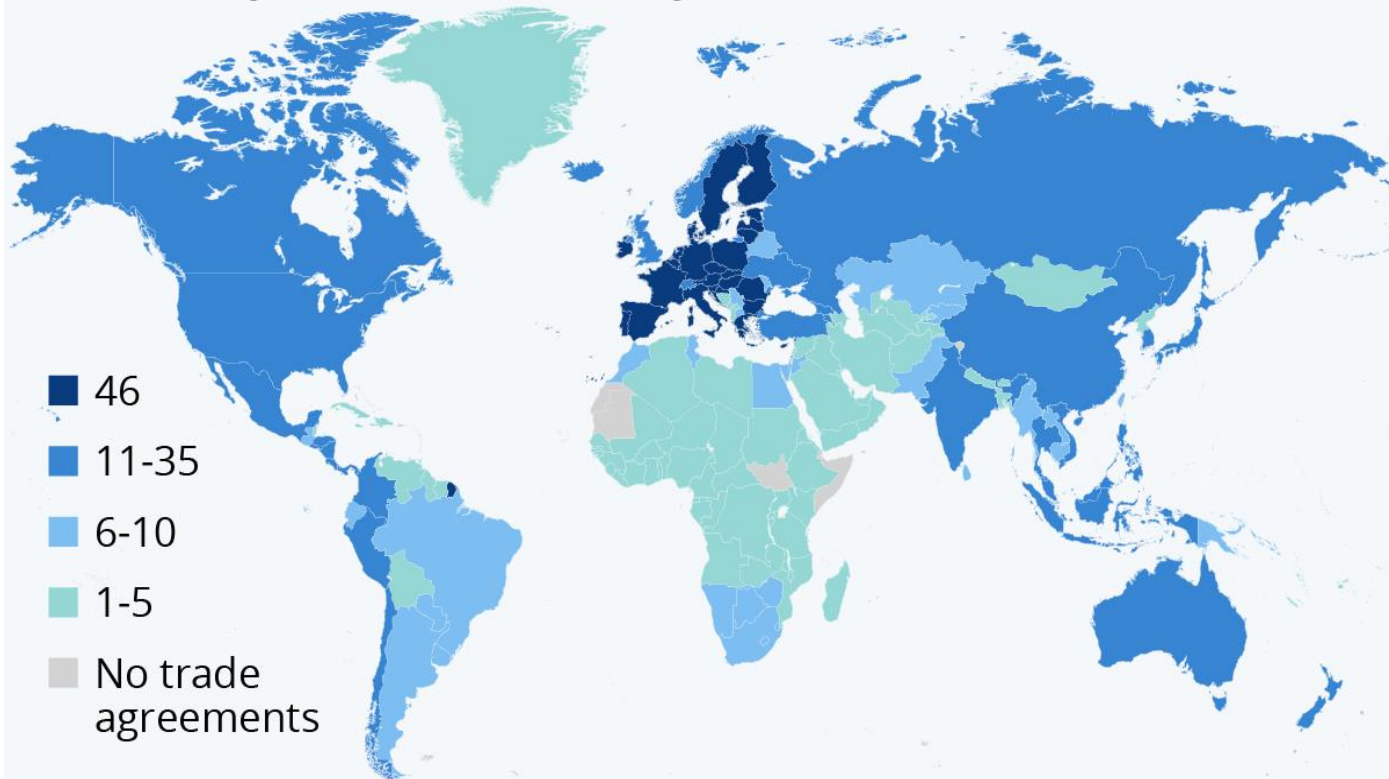
## Free trade is typically beneficial

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



# Which Countries Have the Most Trade Agreements?

Active regional trade agreements as listed by the WTO (as of May 12, 2021)



Agreements made as a pre-existing group counted individually for each country

Source: WTO



# 15 Countries Sign World's Biggest Free Trade Deal

Key facts about the Regional Comprehensive Economic Partnership free trade deal



Countries  
**15**

Population  
**2.2 billion**

Combined GDP  
**\$26.2 trillion**

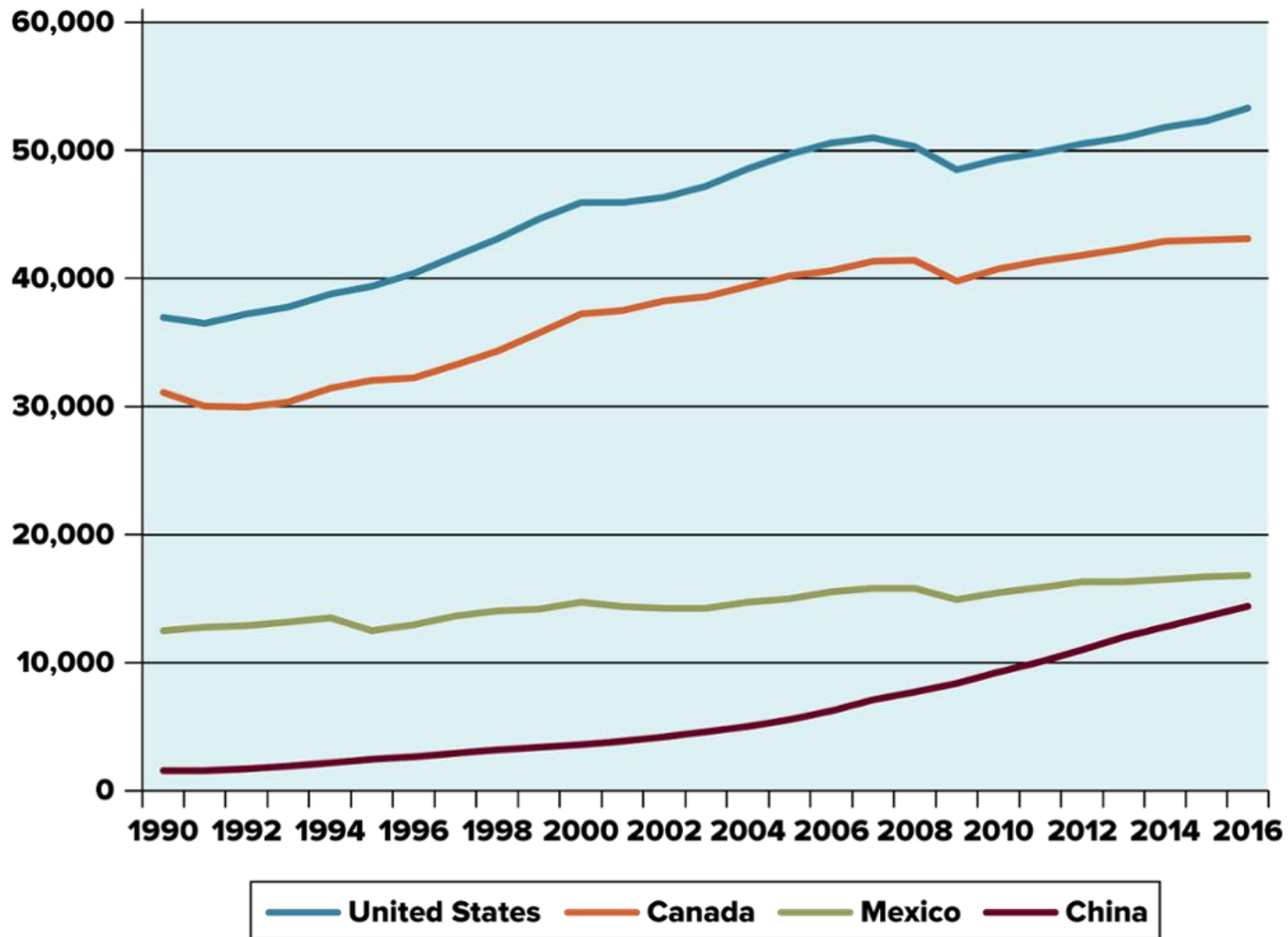
Share of global trade  
**28%**

Share of global economic output  
**30%**

Sources: Bloomberg, The Guardian



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



[Jump to long description.](#)

Source: World Bank, World Development Indicators, 2018.



# Easing Trade Restrictions 1 of 3

## 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



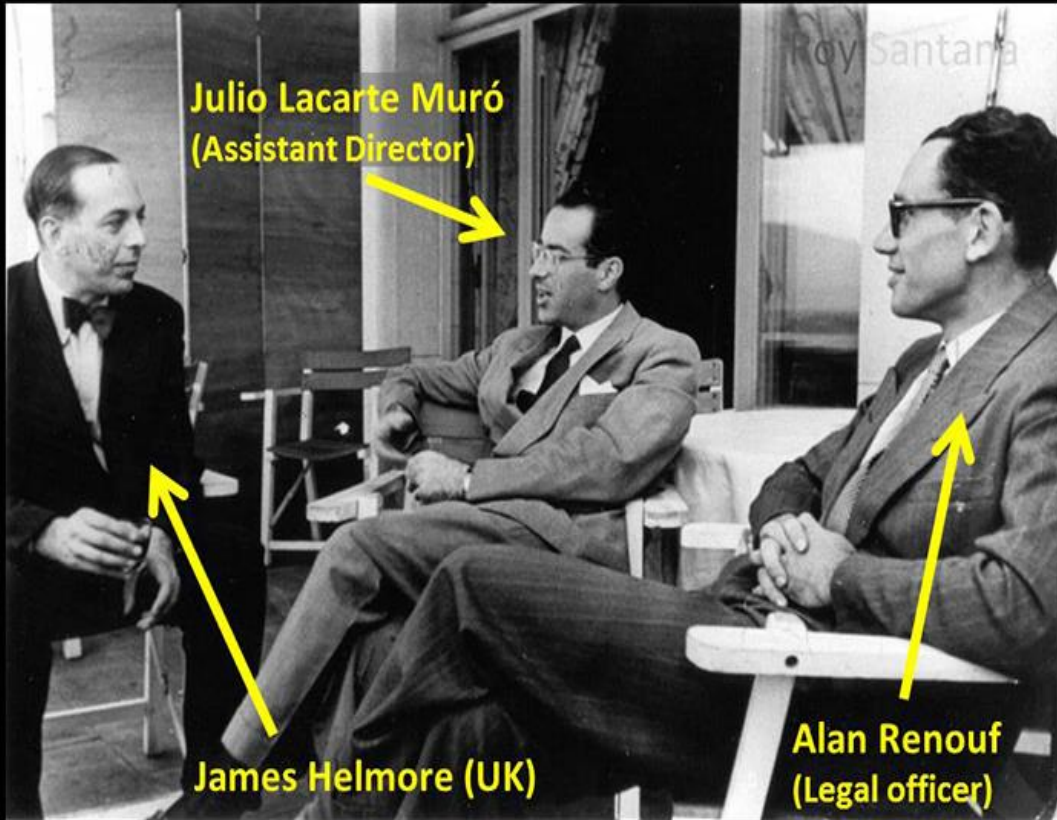
# Easing Trade Restrictions 2 of 3

## 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

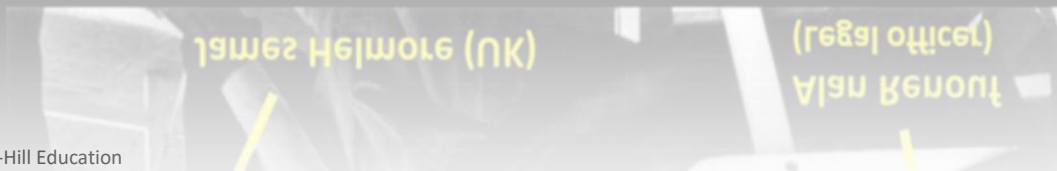


# GATT 1947: The grueling task of signing [something...]



Source: WTO Photo collection. Original photo on the right: © Gaston G. Vuarchex / Modifications: © Roy Santana

Source: WTO Photo collection. Original photo on the right: © Gaston G. Vuarchex / Modifications: © Roy Santana



# WTO



# Easing Trade Restrictions 3 of 3

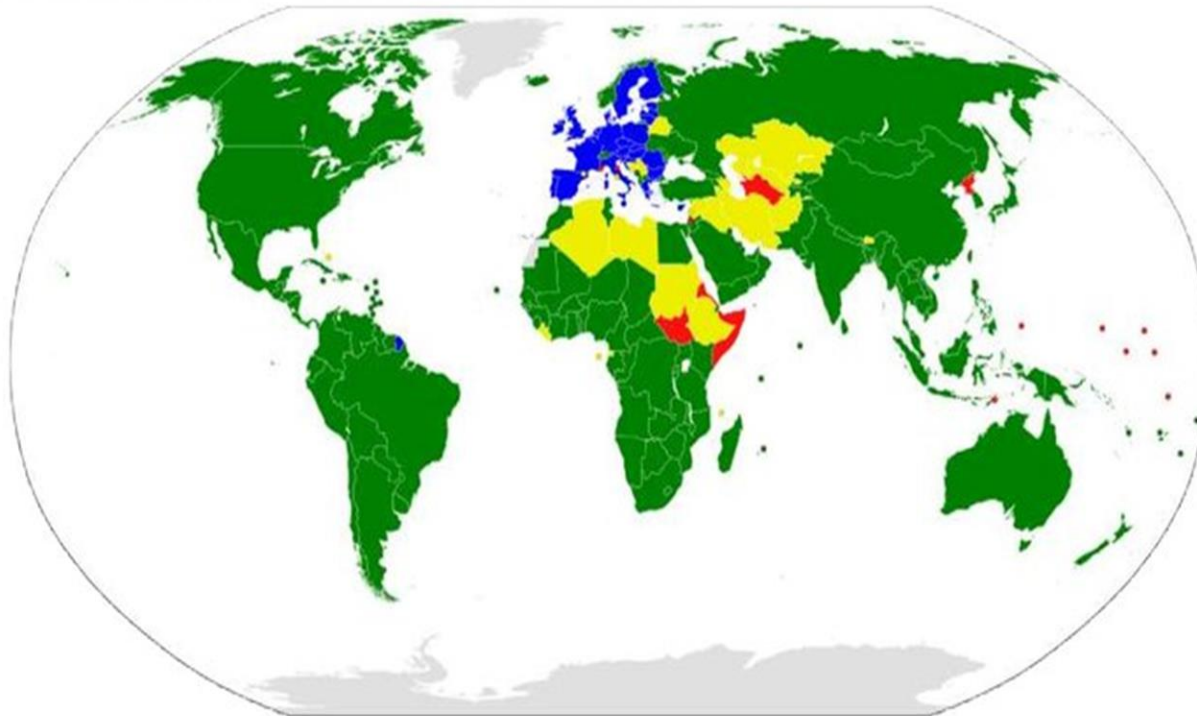
## World Trade Organization (WTO)

- 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

## 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



**12<sup>th</sup> WTO MINISTERIAL  
CONFERENCE  
GENEVA 2021**

CO-HOSTED BY KAZAKHSTAN



**MC12  
GENEVA  
2021**



# 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)**

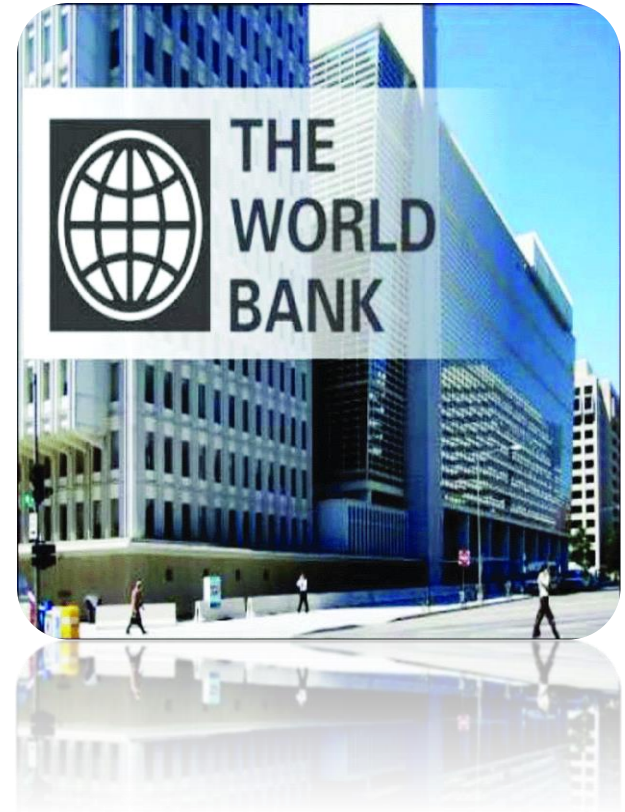


# The International Monetary Fund and World Bank

## 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



# IMF meetings



# 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.



©arindambanerjee/Shutterstock

# MK 326 Group Assignment 4:

## Chapter 2

### Topic: The Dynamic Environment of International Trade

Each group is to prepare a maximum 5 page powerpoint slide presentation by finding information on the below for your project country and Thailand. Please discuss what impact it has and its current status. If you can find the latest news, will be great ka. Due next class, February 10th

1. Trade Barriers -TARIFF
2. Multinational Corporations
3. GATT
4. WTO
5. IMF



# 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.

## 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 lowest 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.

The words "The End" are written in a large, white, sans-serif font. The text is centered and surrounded by a vibrant, multi-colored paint splatter effect. The splashes are in shades of red, yellow, blue, and green, creating a dynamic and energetic background for the text.

**The End**