4.1 INTERNATIONAL BUSINESS

GOALS

Explain the difference between imports and exports

Describe three barriers to international trade

KEY TERMS

international business, p. 92
imports, p. 93
exports, p. 93
balance of trade, p. 93
quota, p. 95
tariff, p. 95
embargo, p. 96

JUMP START

Brianna, Brittney, and Emilio are again looking for ways to expand the Triad Bakery. They now have 12 locations in 5 U.S. cities. They are considering expanding into Canada because they already have one location 20 miles from the Canadian border that is very successful. They are also considering exporting their products into the European market. What issues will the partners need to consider so that they can properly conduct business in Canada and in Europe?

Trade with Other Nations

Doing business in a global marketplace presents challenges for all countries. A business must factor in how currency exchanges, trade barriers, and the different laws and business practices of other countries will affect them. Although most of a country's economic activities take place within its borders, trade with other countries can be an essential component for success.

The United States is one of the leaders in international business. International business refers to business activities necessary for creating, shipping, and selling goods and services across national borders. International business is frequently referred to as *foreign* or *world trade*.

Our nation has many natural resources, a skilled work force, and modern technologies. However, we cannot provide all the goods consumers want so it is necessary to do business with companies throughout the world. We have many imports and exports. For example, coffee comes to us from Brazil, crude oil from Saudi Arabia, and wool from Australia. Farm machinery, medicines, and office equipment that we produce are in demand throughout the world.

Imports

Goods and services that U.S. companies buy from other countries are called **imports**. Imports to the United States account for the total supply of our bananas, coffee, cocoa, spices, tea, silk, and crude rubber. About half of all crude oil and fish comes from imports. Imports account for a large amount of the supply of carpets, sugar, and leather gloves. The United States also imports mica, tin, zinc, industrial diamonds, and several other metals.

Without international trade, many of the products that consumers buy would not be available or might cost more. Some countries can sell goods at lower prices because their labor costs are much lower. In some cases, consumers perceive imports to be of higher quality than the same item made in the United States. Or consumers may just prefer products from other countries, such as Norwegian sweaters, French perfumes, and Swiss watches.

Exports

The goods and services that U.S. companies sell to other countries are called **exports**. U.S. exports benefit consumers in other economies just as imports to the United States benefit you as a consumer. U.S. exports that are popular in other countries include farm machinery, medicines, food, books, movies, TV programs, and plastics.

Producing goods and services for export is good for the U.S. workforce too. About one out of every six jobs in the United States depends on international business for its existence. Jobs that are supported by international trade also tend to pay high wages. The U.S. Exports and Imports table shows the value of exported and imported goods between the United States and seven countries in a recent year.

U.S. EXPORTS AND IMPORTS (in billions of dollars)

Country	Exports	Imports
Canada	$261	$339
Japan	65	139
Mexico	151	216
European Union	272	368
Netherlands	40	21
Taiwan	25	36
China	70	338

A country's **balance of trade** is the difference between its exports and its imports. When exports are greater than imports, a *positive* balance of trade occurs. When imports are greater than exports, a *negative* balance of trade occurs.

International Currency

One of the challenges faced by businesses that export and import is the variety of currencies in the world. Each nation has its own banking system and its own kind of money. For instance, Russia uses the ruble, Venezuela the bolivar, the European Union the euro, and the Netherlands the guilder.

When U.S. companies trade with companies in other countries, currency must be exchanged. Most large banks provide currency exchange services for businesses. The *exchange rate* is the value of a currency of one country compared with the currency of another country. When our U.S. currency is

Business Math Connection

Calculate the balance of trade for two countries. Country A has exports of \$825 billion and imports of \$610 billion. Country B has exports of \$500 billion and imports of \$895 billion. Determine whether the balance of trade in each country is positive or negative.

SOLUTION

The formula for calculating balance of trade is

$$\text{Balance of trade} = \text{Exports} - \text{Imports}$$

$$\begin{aligned}\text{Country A: Balance of trade} &= \$825 \text{ billion} - \$610 \text{ billion} \\ &= \$215 \text{ billion} \\ \text{Country B: Balance of trade} &= \$500 \text{ billion} - \$895 \text{ billion} \\ &= -\$395 \text{ billion}\end{aligned}$$

Country A has a positive balance of trade, and Country B has a negative balance of trade.

valued lower than the currency of the country we are trading with, prices for our goods in the other country will be lower. When the value of currency in the other country is lower, our goods will sell for a higher price in that country. Exchange rates fluctuate constantly. Recent examples are shown in the exchange rate table.

EXAMPLES OF EXCHANGE RATES

Country	Currency	Units per USD*	Value in USD
Australia	dollar	1.1606	0.8615
Canada	dollar	1.0792	0.9265
China	renminbi	6.8382	0.1462
Egypt	pound	5.5628	0.1797
European Union	euro	0.6887	1.4519
Japan	yen	92.2618	0.0108
Mexico	new peso	13.4756	0.0742
New Zealand	dollar	1.4360	0.6963
Russia	ruble	31.1174	0.0321
South Africa	rand	7.5429	0.1325
South Korea	won	1,225.7900	0.0008
Taiwan	dollar	32.7430	0.0305
United Kingdom	pound	0.6043	1.6547
Venezuela	bolivar	2.1500	0.4651

**USD = United States Dollar*

DID YOU KNOW ?

The United States conducts trade with more than 240 countries.

CheckPOINT

What is the difference between an import and an export?

Barriers to International Trade

Governments can establish laws and policies that affect international business. These laws and policies are barriers to international trade designed to control imports, exports, and sales of goods and services for the benefit of their economies. Three common barriers are quotas, tariffs, and embargoes. The culture, traditions, and religion of a country can also create informal trade barriers.

Quotas

One device governments use to regulate international trade sets a limit on the quantity of a product that can be imported or exported. This quantity limit is referred to as a **quota**.

Countries that export oil, for example, might put quotas on crude oil that will be sent to other countries. This ensures that the supply will remain low and prices will stay at a certain level or increase. Sometimes quotas are placed on a country's imports to express disapproval of a specific policy or social behavior. Another common use of quotas is to shield a country's "infant industries," which need protection from competition to give them a chance to develop into successful, competitive businesses. Our government has imposed quotas in the past on sugar, cattle, dairy products, and textiles.

Why would the U.S. government place a quota on certain imports, such as sugar?

(2) Tariffs

Another device governments use to regulate international trade is the tariff. A **tariff** is a tax a government places on certain imported products to cause the price of those products to increase in the country's markets. For instance, an imported bicycle might normally sell for \$240. If there is a tariff of 20 percent on that import, it would have to sell for 20 percent more, or \$288.

$240 × 0.20 = $48 tariff
$240 + $48 = $288 selling price

Tech Literacy

LANGUAGE TRANSLATORS

There are times when you might receive a phone call from a business colleague who speaks a language different from yours. Today's technology solves the problem of translation with computerized translators that recognize speech in one language and convert the spoken words into another language. Three components work together, resulting in a voice synthesizer that speaks the translated version. Some translators can handle as many as 34 languages. Handheld translators are also available for business travelers.

THINK CRITICALLY

What do you see as advantages and disadvantages of using computerized language translators as a part of international business?

The higher price on an imported bicycle might cause buyers to select a bicycle made in their own country.

Some tariffs are a set amount per pound, gallon, or other unit. Others are computed on the value of the good, as in the example of the bicycle. Higher tariffs lead to decreased demand for the imported product and, therefore, fewer imports and competition for a country's own products. Some individuals in the United States believe that the government should use tariffs more often to protect jobs from foreign competition.

3 Embargoes

If governments wish to do so, they can stop the import or export of goods and services completely. This action against another country is called an **embargo**. There are many reasons for imposing an embargo. Governments may wish to protect their own businesses from international competition more than either the quota or the tariff will achieve. A government sometimes imposes embargoes to express disapproval of the actions or policies of another country.

Embargoes are used sparingly. They can create a backlash from the countries involved and often do not correct the problem at hand.

TEAMWORK

Break into two groups to debate the pros and cons of using trade barriers, such as quotas, tariffs, and embargoes. Discuss the negative and positive impacts of these barriers on the U.S. economy and the U.S. consumers in the marketplace.

CheckPOINT

State the difference between a tariff, a quota, and an embargo.

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