Chapter 3

Global Markets:

- A global market means that people, businesses, and countries have the ability to buy and sell goods and services with other countries
- Free trade means there are no political or economic barriers to global trade
- Some countries have comparative advantages over other countries
- **THE DESIRE TO MAKE MORE MONEY**
- Why expand globally?
  1. Increase sales
  2. Reduce costs
     a) Labor
     b) Materials
     c) Shipping
  3. Go to labor or material source
  4. Go to expertise

Free Trade:

- Free trade is the selling of goods and services across countries without economic or political barriers by the Government
- Common barriers to free trade include tariffs, quotas, and preferred status
- Government imposes tariffs usually (A tax); free trade has no tariffs

Advantages of Free Trade:
1. The global market contains over 7.7 billion potential customers for goods and services.
2. Productivity grows when countries produce goods and services in which they have a comparative advantage.
3. Global competition and less-costly imports keep prices down, so inflation does not curtail economic growth.
4. Free trade inspires innovation for new products and keeps firms competitively challenged.
5. Uninterrupted flow of capital gives countries access to foreign investments, which help keep interest rates low.*

Disadvantages of Free Trade:
1. Domestic workers (particularly in manufacturing-based jobs) can lose their jobs due to increased imports or production shifts to low-wage global markets.
2. Workers may be forced to accept pay cuts from employers, who can threaten to move their jobs to lower-cost global markets.
3. Moving operations overseas because of intense competitive pressure often means the loss of service jobs and growing numbers of white-collar jobs.
4. Domestic companies can lose their comparative advantage when competitors build advanced production operations in low-wage countries.*

Importing and Exporting:

- **Importing:** Buying from another country
- **Exporting:** Selling to another country
- **Balance of Trade:** Difference between imports and exports
  - If exports greater than imports, known as **Trade Surplus**
  - If imports greater than exports, known as **Trade Deficit**

Reaching Global Markets:

- Exporting
- Licensing (Contract to use a certain thing ex. UB logo on clothes and merchandise not made by UB)
- Franchising (If you don't perform, you can lose the rights of a franchise or running the franchise)
- Contract Manufacturing (contract to someone else to get a lower cost on an item)
- Joint Ventures (two businesses that join together to make something or make it better) (you make it, we help sell it example) (Split profits/ownership)
- Foreign Direct Investment (owning foreign places or businesses from a foreign location) (hardest, riskiest and most expensive)

Factors Affecting Global Trade:

- Country's culture (different ways of doing things in the country for life or running a business) (Chinese drinking example)
- Economy and financial condition (changes in each country based on economy and politics)

- Political restrictions
- Social and health issues – Coronavirus
- Technology
- Trade protectionism
  - Tariffs (taxes)
  - Quotas (quote of what or the limit of products a country can import)
  - Embargo (can't do business with another country)
- Trade agreements
- Terrorism and war

Global Alliances:

- **Global alliance**
  - Occurs when countries agree to work together for a common goal
  - Usually results in increase free trade amount the countries in the alliance
  - Also known as a common market or trade bloc
- **European Union (EU)**
  - 27 countries in Europe
  - United Kingdom left the EU in 2020 (Brexit)
- **United States Mexico Canada Agreement (USMCA)**
  - 3 countries in North America – US, Mexico, and Canada
  - Replaced North America Free Trade Agreement (NAFTA) in 2020

Questions I can answer at the end of this Lecture:

1. Why expand globally?

   To make more money and expand a market, drop prices or go to the labor market.

2. How can companies expand globally?

   Franchising, exporting, joint ventures, or foreign direct investments are all methods of reaching a global market and expanding globally.

3. Should the US buy products from other countries?

   No from the business perspective. This adds competition and drops prices lower for consumers. This takes away business from them and jobs could be lost. This is what leads to tariffs on goods from other countries.

   Yes for consumers because this adds competition which can drop prices on goods and certain goods can be found cheaper and there is more variety of goods. Also, this allows us to receive certain goods or products that the US does not have. Also allows global market and expands all markets and allows more sales to be made.

   ONLY ONE COUNTRY GOOD IN THE LONG RUN IS NOT GOOD.

Yes we should buy other items

1. Why do governments restrict global trade?

   They do this to protect jobs and companies with competing companies from other places. This is where tariffs come into play.