

**INTRODUCTION TO  
INTERNATIONAL BUSINESS**

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**Markets have become increasingly  
global. There are many causes:**

- Political developments
- Multinational cooperation
- Technology and infrastructure
- Greater managerial awareness

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**Political Developments**

- Political changes
  - Fall of communism
  - Decline of military governments

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### **Changes in governmental attitudes**

- *Open markets and the triumph of the free-enterprise system*
  - *Privatization*
- *De-regulation of financial and other markets*
- *Increase of governmental support for the international efforts of their companies*

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### **Multinational Cooperation**

- **Reduction of governmental barriers**
  - *General Agreement on Tariffs & Trade (GATT)*
  - *World Trade Organization (WTO)*

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### **Regional Economic Integration**

- *Free-trade area*
- *Common market*
  - *Common currency*

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**Technology & Infrastructure**

- Communications
- Transportation

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**Greater Managerial Awareness**

- News
- Education
- Travel
- Competition

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**Managers, & their companies,  
must adapt to the  
international realities.**

- Suppliers
- Customers
- Competitors

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**Students, whatever their major, need to be familiar with the international dimensions of their field.**

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**What Is *International Business* (IB)?**

**Any economic transaction crossing a national border**

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**Regardless of:**

- **The type of activity**
- **The nature of the enterprise**
- **Relationship between the parties**
- **The currency**
- **The means of compensation**

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**Even regardless of the *legality*  
Of the transaction!!!**

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**Types of International Business**

- **International trade**
  - Goods
  - Services
    - Personal services
    - Impersonal

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- **International flows of money and capital**
  - [What is the difference between money & capital?]*
  - **Foreign portfolio investment (FPI)**
  - **Foreign direct investment (FDI)**
    - [How do FPI & FDI differ?]*

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**IB is much broader than domestic business.**

- Historical environment
- Socio-cultural environment
- Political-legal environment
- Economic environment
- Physical environment

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**Important Socio-Cultural Issues**

**Important Political Issues**

**Important Legal Issues**

**Important Economic Issues**

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**Compared to domestic business, international business is generally:**

- More complex
- Riskier
- More expensive

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**However:**

- International business often offers the promise of good profits.
- And there are many tools and institutions that can assist, reduce the risk & reduce the cost.

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***Degrees of Internationalization***

The extent to which companies are involved in international business

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**1<sup>st</sup> Degree Internationalization**

- The company does nothing that is directly international.
- Any international business is done through agents or other middlemen.

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### 2d Degree Internationalization

- The company is directly involved in international business.
- However, all international activities are done from domestic facilities.
  - It has no foreign operations.

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### 3d Degree Internationalization

- The company has foreign facilities.
- However, its orientation remains domestic.
- Its international activities remain secondary to the domestic.

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### 4<sup>th</sup> Degree Internationalization

- The company's domestic activities are no more important than its international.
- This is the *multinational firm*.
  - = *multinational corporation*
  - = *transnational corporation*

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### 5<sup>th</sup> Degree Internationalization

- The company's domestic activities are *less* important than are its international.
- This is the *global company*.

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