

International Business and Finance Seminar 12

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International Competition

- ▶ Governments often intervene to regulate trade
 - ▶ Political motives
 - ▶ Economic motives
 - ▶ Cultural motives
- ▶ Promotion for trade
 - ▶ Subsidies
 - ▶ Export financing
 - ▶ Foreign Trade Zones
 - ▶ Special Government agencies
- ▶ Restrictions of trade
 - ▶ Tariffs: export tariff; transit tariff; import tariff
 - ▶ Quotas
 - ▶ Embargoes
- ▶ Currency

US-China Trade War

Chronology [\[edit \]](#)

2018 [\[edit \]](#)

- January 22: Trump announced tariffs on [solar panels](#) and [washing machines](#).^[79] About 8% of American solar panel imports in 2017 came from China.^[80] Imports of residential washing machines from China totaled about \$1.1 billion in 2015.^[81]
- March 1: Trump announced steel and aluminium tariffs on imports from all countries.^[82] The United States had imported about 3% of its steel from China.^[83] The announcement drew criticism from the editorial board of *The Wall Street Journal*, which called the executive order "the biggest policy blunder of his Presidency."^[84]
- March 22: Trump asked the [United States trade representative](#) (USTR) to investigate applying [tariffs](#) on US\$50–60 billion worth of Chinese goods.^{[85][86][87]} He relied on [Section 301 of the Trade Act of 1974](#) for doing so, stating that the proposed tariffs were "a response to the unfair trade practices of China over the years", including theft of U.S. [intellectual property](#).^{[88][85]} Over 1,300 categories of Chinese imports were listed for tariffs, including aircraft parts, batteries, flat-panel televisions, medical devices, satellites, and various weapons.^{[89][90]}
- April 2: [Ministry of Commerce of China](#) responded by imposing tariffs on 128 products it imports from America, including aluminium, airplanes, cars, pork, and soybeans (which have a 25% tariff), as well as fruit, nuts, and steel piping (15%).^{[91][92][93]} U.S. commerce secretary [Wilbur Ross](#) said that the planned Chinese tariffs only reflected 0.3% of U.S. [gross domestic product](#), and Press Secretary [Sarah Huckabee Sanders](#) stated that the moves would have "short-term pain" but bring "long-term success".^{[37][38][94][95]}



White House National Trade Council Director [Peter Navarro](#) speaks on trade with [Vice President Mike Pence](#) and [Commerce Secretary Wilbur Ross](#) before the President signs [Executive Orders](#) regarding trade.^{[77][78]}

World Trade Organization (WTO)

- **The World Trade Organisation (WTO):** the international organisation that regulates trade among nations. It came into existence on **1st January 1995** with the membership of **128** countries. Now, **164** members and **21** observers.
- Main goals of the WTO (www.wto.org)
 1. Help the free flow of trade
 2. Help negotiate the further opening of markets
 3. Settle trade disputes among its members
- The principle of nondiscrimination (called **normal trade relations**)

The **Argentina–United States lemon dispute** was a [World Trade Organization](#) dispute settlement case (DS448) challenging U.S. import laws.^[1] On September 3, 2012, [Argentina](#) requested the assistance of the World Trade Organization in hosting consultations to discuss the United States procedures.^[1] Argentina claimed that the prohibition of imports of this fruit for the previous 11 years, and other restrictive measures, lacked scientific justification.^[2] Argentina asserted that the United States was trying to cancel or impair the benefits that it should enjoy under the World Trade Agreements.^[2]

Lemon production in the United States primarily takes place in California and Arizona. In the 2013/14 season, lemon-bearing acres totaled 54,500, with California accounting for 46,000 acres and Arizona for 8,500 acres. The value of U.S. lemon production during that season reached \$647 million, with California's growers earning 92 percent of the total value and Arizona's growers earning 8 percent. Over the period from 2008/09 to 2012/13, the average annual fresh lemon production in the United States was approximately 497,350 metric tons (MT). Imports averaged about 45,751 MT per year, while exports averaged about 95,574 MT per year.

National Accounting

- ▶ Gross Domestic Product (GDP) is the value of the finished domestic goods and services produced within a nation's borders.
- ▶ Gross National Product (GNP), or Gross National Income (GNI), is the value of all finished goods and services produced by a country's citizens, both domestically and abroad.

$$\text{GNI} = \text{GNP} = \text{GDP} + \text{Factor Payments from Abroad} - \text{Factor Payments to Abroad}$$

- ▶ GDP measures both the economy's **total income** (earned by domestically- located **factors of production** such as labour, land and capital) and the economy's **total expenditure** (on domestically-produced **final goods and services**).

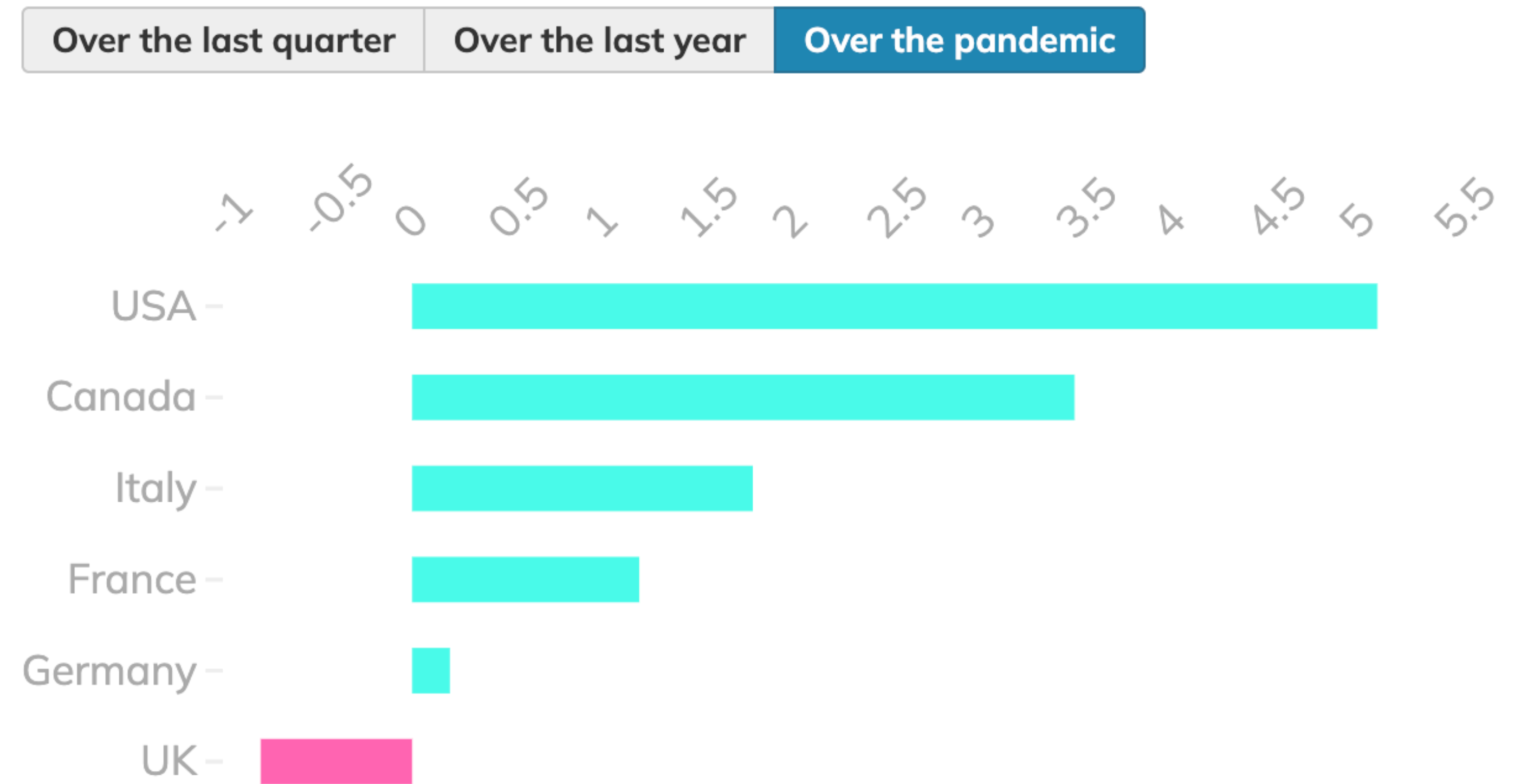
Components of GDP by expenditure [\[edit \]](#)

GDP (Y) is the sum of **consumption (C)**, **investment (I)**, **government Expenditures (G)** and **net exports (X – M)**.

$$Y = C + I + G + (X - M)$$

What GDP Can't Measure

- ▶ Not-for-sale production
- ▶ Wellbeing of people
- ▶ Environmental impact
- ▶ Purchasing power
- ▶ ...
- ▶ Still, GDP plays an important part in measuring the general economic performance for a country



Purchasing Power Parity

- ▶ One of the limitations of GDP or GNP is that the measure does not show the purchasing power of each unit of the currency in a country
 - ▶ Purchasing Power: Value of goods and services that can be purchased with one unit of a country's currency.
 - ▶ Purchasing Power Parity: Relative ability of two countries' currencies to buy the same "basket" of goods in those two countries.
- ▶ By the idea of purchasing power, we can also define nominal exchange rate and real exchange rate

Nominal exchange rate (e):

International flows of capital, goods and services are all types of transactions between different countries, but these transactions occur at a price. In this part, we focus on the price of such transactions.

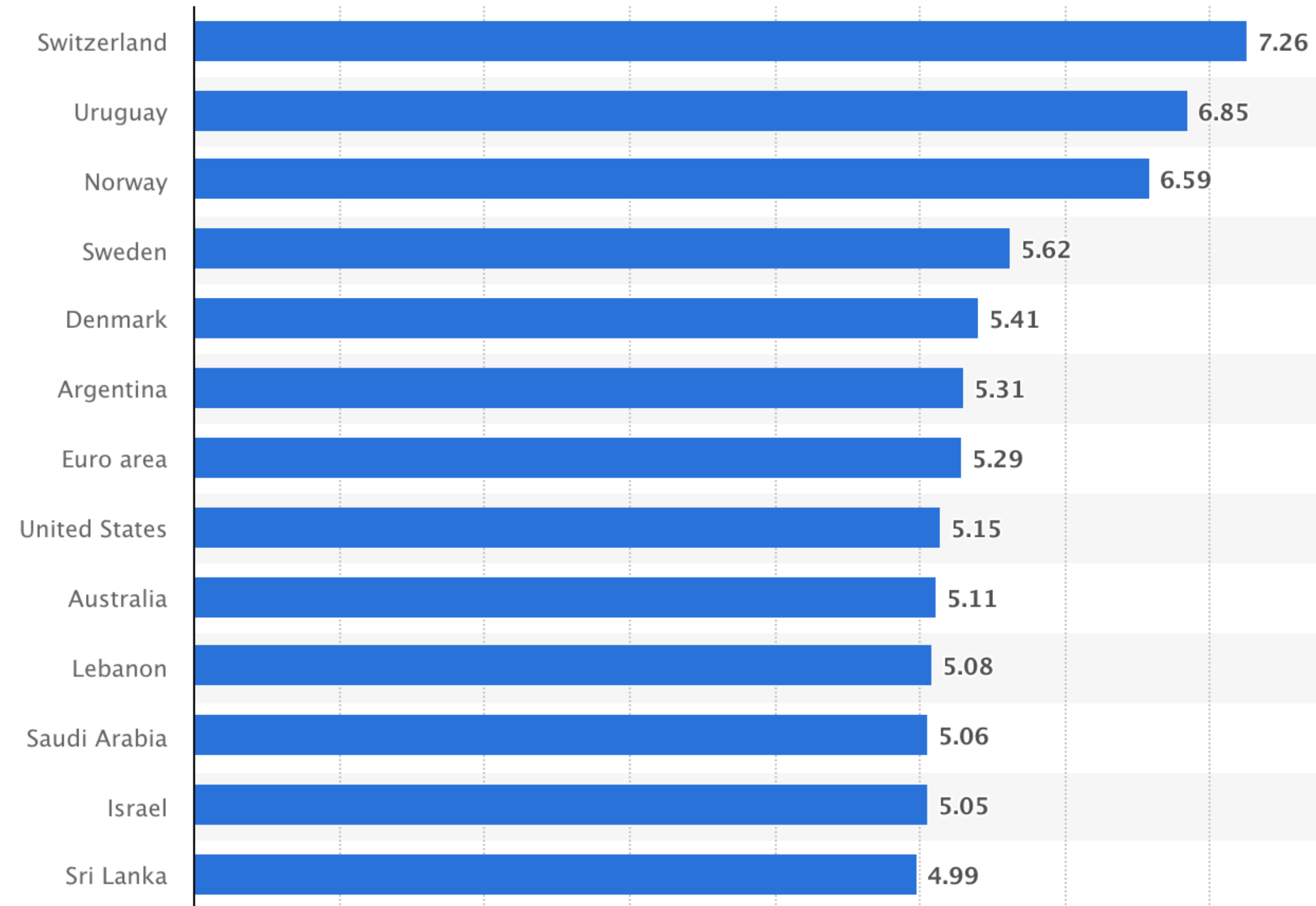
e = nominal exchange rate, the **relative price of domestic currency in terms of foreign currency** (e.g., Yen per Euro or Pound)

Real exchange rate (ε): This is the rate that shows the relative price of goods in two countries.

ε = real exchange rate, the **relative price of domestic goods in terms of foreign goods** (e.g., price of a Mars bar in Tokyo per price of a Mars bar in Frankfurt)

Purchasing Power Parity

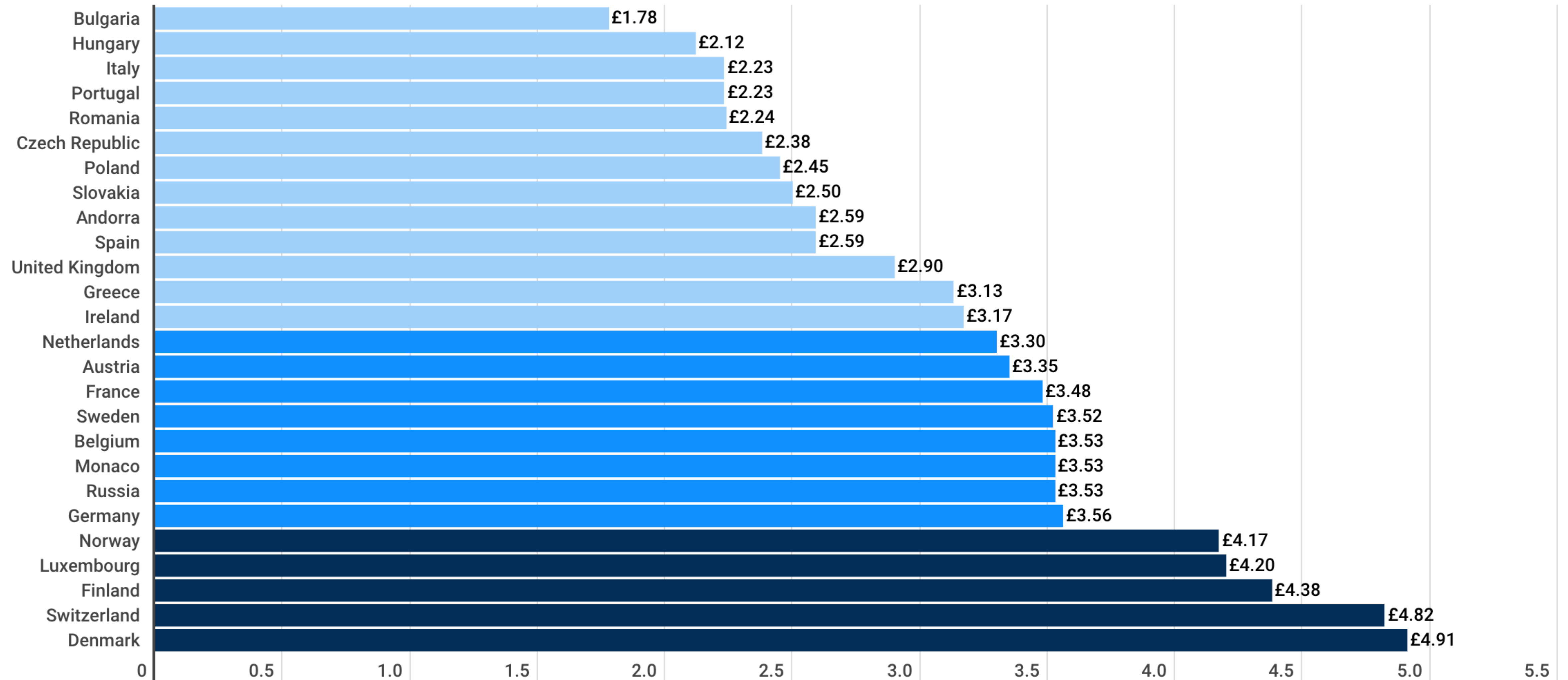
Global price of a Big Mac as of January 2023, by country
(in U.S. dollars)



The Big Mac index is a way of measuring Purchasing Power Parity (PPP) between different countries. By diverting the average national Big Mac prices to U.S. dollars, the same goods can be informally compared. The Big Mac can also be a good indicator for the individual purchasing power of an economy since it exists worldwide in a standard size, composition and quality.

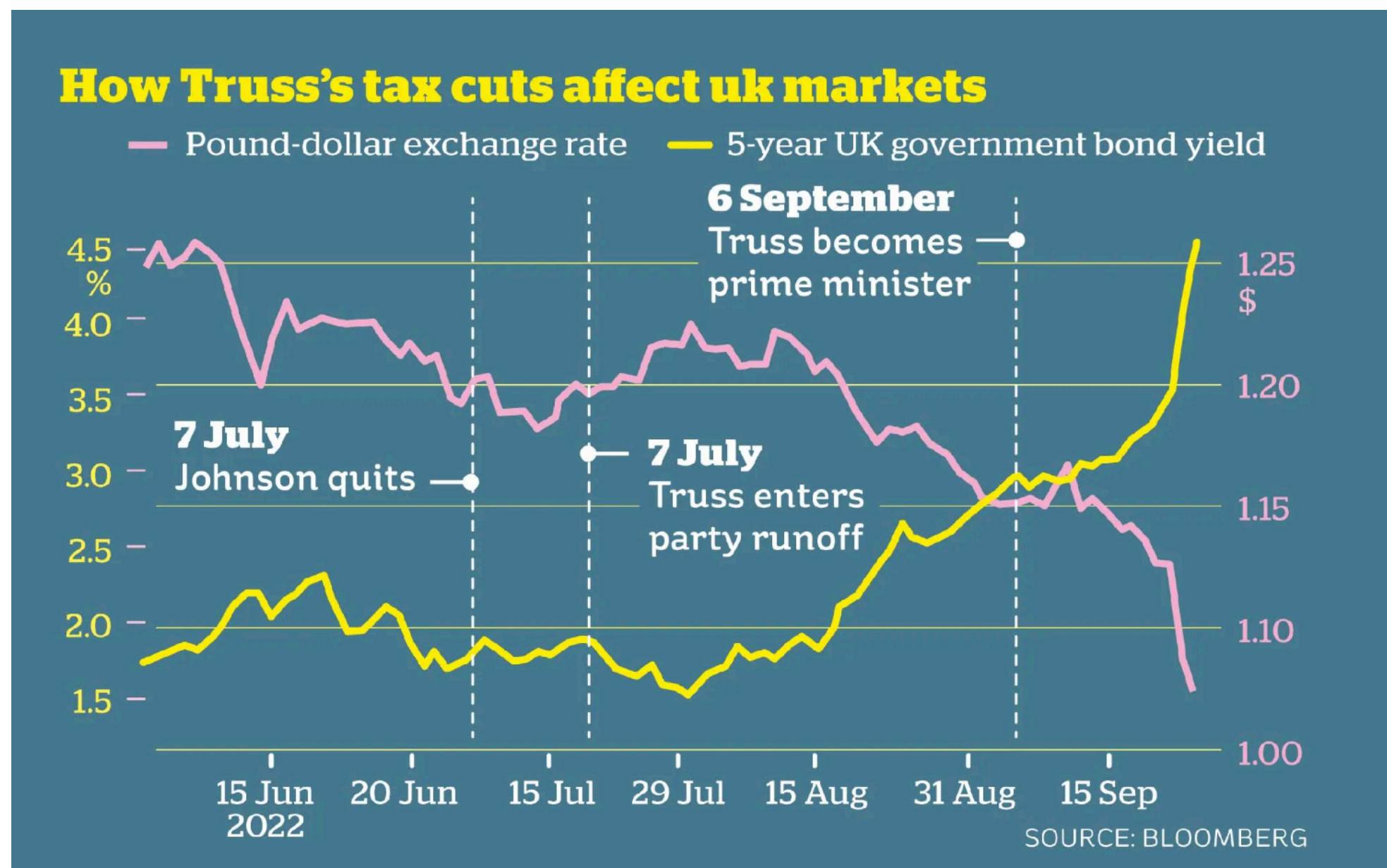
Purchasing Power Parity

Cost of a coffee in 26 European countries



Managing Political Risks

- ▶ Adoption
 - ▶ Partnerships
 - ▶ Localization
 - ▶ Development assistance
 - ▶ Insurance
- ▶ Information gathering
- ▶ Lobbying



Facebook's owner spent more money than ever on lobbying in 2021, amid a growing pile of political and legal problems, according to its [latest disclosure filing](#).

The record lobbying surge — more than \$20 million for the year — came as the company faced the most [serious political crisis in its history](#), sparked by revelations from whistleblower Frances Haugen, and sought to quash bipartisan legislation aimed at paring back the power of the big tech companies.

Facebook's 'monopoly' must be split up, US and states say in major lawsuits

Prosecutor says company has used power 'to crush rivals', with allegations centered on acquisition of Instagram and WhatsApp



Quiz Questions

1) Which of the following terms refers to the broadest measure of economic development of a country?

- A) gross domestic product (GDP)
- B) purchasing power parity (PPP)
- C) gross national product (GNP)
- D) human development index (HDI)

Answer: C

2) The measure of the value of production that occurs within a country's borders without regard to whether the production is done by domestic or foreign factors of production is its _____.

- A) net national product (NNP)
- B) gross national product (GNP)
- C) gross domestic product (GDP)
- D) gross national income (GNI)

Answer: C

3) The _____ of a country is its gross national product divided by its population.

- A) GNP per capita
- B) GDP per capita
- C) purchasing power parity
- D) purchasing power

Answer: A

Quiz Questions

4) The relative ability of two countries' currencies to buy the same basket of goods in those two countries is called _____.

- A) gross national product
- B) gross domestic product
- C) purchasing power
- D) purchasing power parity

Answer: D

5) _____ is the value of goods and services that can be purchased with one unit of a country's currency.

- A) Potential output
- B) Gross national product
- C) Purchasing power
- D) Gross domestic product

Answer: C

6) Gross national income (GNI), the broadest measure of economic activity for a country, is defined as the _____.

- A) total of all consumption and investment that takes place in a national economy
- B) income generated in one country, regardless of who owns the productive assets
- C) total of all economic activity in one country less services, such as government administration, health services, and education
- D) income generated by both total domestic production and the international production activities of national companies

Answer: D

Quiz Questions

7) Which of the following terms is used to refer to the exchange of goods and services for other goods and services instead of money?

- A) fiat money
- B) letter of credit
- C) barter
- D) guanxi

Answer:

8) The GDP per capita of a country is lower than that of France. If the GDP per capita of the country is adjusted for PPP, the country's revised GDP is higher than that of France. Which of the following is most likely true about the country?

- A) The cost of living in the country is higher than that of France.
- B) The cost of living in the country is lower than that of France.
- C) The cost of living in the country is approximately equal to that of France.
- D) The cost of living in the country has increased over the past decade.

Answer: B

9) The GDP per capita of a country is higher than that of Thailand. If the GDP per capita of the country is adjusted for PPP, the country's revised GDP is lower than that of Thailand. Which of the following is most likely true about the country?

- A) There are fewer goods available for purchase in the country than in Thailand.
- B) The cost to buy everyday goods in the country is approximately the same as in Thailand.
- C) It costs less to buy everyday goods in the country than in Thailand.
- D) It costs more to buy everyday goods in the country than in Thailand.

Answer: D

Quiz Questions

10) Which of the following measures the extent to which a government equitably provides its people with a long and healthy life, an education, and a decent standard of living?

- A) category development index
- B) gross national product index
- C) human development index
- D) purchasing power index

Answer: C

11) A company is conducting research on new markets by comparing countries in terms of their human development index (HDI) scores. The company wishes to expand into a market where individuals experience a very high level of total well-being. Which of the following countries would the company most likely choose?

- A) Russia
- B) Mexico
- C) China
- D) Japan

Answer: D

12) Which of the following is true about the economic development of a nation?

- A) The purchasing power parity is a poor indicator of a people's total well-being.
- B) GDP is a larger figure and includes a nation's income generated from exports, imports, and international operations.
- C) Illegal activities such as gambling and black market transactions are considered in GDP and GNP.
- D) Using gross product figures to compare production across countries accounts for different cost of living in each country.

Answer: A

Quiz Questions

13) Which of the following statements is true of national production?

- A) Marketers use GDP or GNP figures to determine whether a country's population is wealthy enough to purchase its products.
- B) Per capita numbers provide a detailed picture of the development of the entire country.
- C) Gross product figures accurately indicate whether a nation's economy is growing or shrinking.
- D) Volunteer work and unpaid household work are considered in GDP and GNP.

Answer: A

14) Nations having the poorest infrastructures and lowest personal incomes are called _____.

- A) developed countries
- B) newly industrialized countries
- C) emerging markets
- D) developing countries

Answer: D

15) A country that has recently increased the portion of its national production and exports derived from industrial operations is called a(n) _____.

- A) newly industrialized country (NIC)
- B) developing country
- C) emerging market
- D) developed country

Answer: A

Quiz Questions

16) Both GDP and GNP measure a nation's income per person.

Answer: FALSE

17) Volunteer work and unpaid household work are not included in GNP.

Answer: TRUE

18) Barter is an alternative for buyers who lack the money needed to pay for exports.

Answer: FALSE

19) The concept of purchasing power parity (PPP) must be applied to understand the true value of a currency in its home country.

Answer: FALSE

20) The human development index (HDI) demonstrates that high national income alone guarantees human progress.

Answer: FALSE

21) Nations with the poorest infrastructures and lowest personal incomes are called developing countries.

Answer: TRUE

22) One of the key obstacles faced by countries in economic transition is the lack of managerial expertise.

Answer: TRUE

Quiz Questions

23) How does economic development in countries affect international business?

Answer: Economic development is an increasingly important topic for international business people as companies pursue business opportunities in emerging markets. Productivity is a key factor that drives economic growth and rising living standards. For a company to boost its productivity, it must increase the value of its outputs using the same amount of inputs, create the same value of outputs with fewer inputs, or do both at the same time.

Raising living standards in an economy depends in large part on unlocking the gains that productivity offers. Mixed economies in Western Europe continue to privatize state-owned companies to boost productivity and competitiveness. Former centrally planned economies in Eastern Europe implemented free-market reforms to raise living standards. Even North Korea (with one of the lowest standards of living outside Africa) is being compelled to consider economic reform.

As the poorest nations invest in the fundamental drivers of productivity growth (such as basic infrastructure), the richest nations exploit the latest technological advancements.

Information technology is driving productivity gains in online customer service, online purchasing of materials and parts, outsourcing operations, and other areas of business.

24) Differentiate between GDP and GNP. Briefly discuss the drawbacks of using GDP and GNP as indicators of economic development.

Answer: Gross national product (GNP) is the value of all goods and services produced by a country's domestic and international activities over a one-year period. Gross domestic product (GDP) is the value of all goods and services produced by a domestic economy over a one-year period. GDP is a narrower figure that excludes a nation's income generated from exports, imports, and the international operations of its companies.

Although GDP and GNP are the most popular indicators of economic development, they have several important drawbacks. First, for a variety of reasons, many of a nation's transactions do not get counted in either GDP or GNP. Second, gross product figures do not indicate whether a nation's economy is growing or shrinking—they are simply a snapshot of one year's economic output. Third, per capita numbers provide an average figure for an entire country, which does not give us a very detailed picture of development. Finally, country comparisons using gross product figures can be misleading.

Quiz Questions

25) How are countries classified? Explain with examples.

Answer: Nations are commonly classified as being developed, newly industrialized, or developing.

Countries that are highly industrialized and highly efficient, and whose people enjoy a high quality of life are developed countries. People in developed countries usually receive the finest health care and benefit from the best educational systems in the world. Countries in this category include Australia, Canada, Japan, New Zealand, and the United States.

Countries that recently increased the portion of their national production and exports derived from industrial operations are newly industrialized countries (NICs). The NICs are located primarily in Asia and Latin America. Most listings of NICs include Asia's "four tigers" (Hong Kong, South Korea, Singapore, and Taiwan), Brazil, China, India, Malaysia, Mexico, South Africa, and Thailand.

Nations with the poorest infrastructures and lowest personal incomes are called developing countries (also called less-developed countries). These countries often rely heavily on one or a few sectors of production, such as agriculture, mineral mining, or oil drilling. They might show potential for becoming newly industrialized countries, but typically lack the necessary resources and skills to do so. Most lists of developing countries include many nations in Africa, the Middle East, and the poorest formerly communist nations in Eastern Europe and Asia.

26) Does greater economic freedom guarantee a higher standard of living? Provide examples of two specific countries to support your answer.

Answer: Factors making up each country's economic freedom rating include trade policy, government intervention in the economy, property rights, black markets, and wage and price controls. Most developed economies are rated completely "free" or "mostly free."

It can only be said that countries with the greatest economic freedom tend to have the highest standards of living, whereas those with the lowest freedom tend to have the lowest standards of living. The United States and Zimbabwe are two examples: the U.S. has high economic freedom and a high GNI, while Zimbabwe has low economic freedom and a low GNI.

Greater economic freedom does not guarantee a high per capita income, however. A country can rank very low on economic freedom yet have a higher per capita income than a country with far greater freedom. Saudi Arabia, for instance, has relatively low economic freedom with a relatively high GNI.

Quiz Questions

27) _____ is the process by which a nation changes its fundamental economic organization and creates new free-market institutions.

- A) Central planning
- B) Economic transition
- C) Industrialization
- D) Economic liberalism

Answer: B

28) Which of the following is a major obstacle to economic transition?

- A) lack of government support
- B) environmental degradation
- C) privatization
- D) black markets

Answer: B

29) Economic transition is the process of moving from _____.

- A) developed to developing economies
- B) centrally planned to free-market economies
- C) developed to emerging economies
- D) free-market to centrally planned economies

Answer: B