Chapter 6

IMPORTING, EXPORTING, AND TRADE RELATIONS

6-1 Importing Procedures
6-2 Exporting Procedures
6-3 Importance of Trade Relations
6-4 The Nature of Competition
The Scoop on Ice Cream Exports

As U.S. producers of ice cream look for new international markets, they face a continuing problem. Refrigeration, or rather the lack of it, can greatly influence market potential. In the urban areas of China, for example, very few homeowners own freezers. As a result, most Chinese prefer their ice cream in the form of small snacks and consume them on the street.

During the late 1980s, annual exports of U.S. ice cream to Japan were only $200,000. This was due to a Japanese import quota for ice cream and frozen yogurt. With the elimination of that trade barrier, Japanese customers bought more ice cream from U.S. companies. After ice cream sales in Asia dropped in the late 1990s (due to poor economic conditions), demand then started to increase.

In Costa Rica and other Central American countries, there was little or no market for ice cream in the mid 1990s. Then Costa Rica honored its commitment to the World Trade Organization by reducing the 44 percent tariff and increasing the 500-ton import quota.

Another strong growth area for expanding ice cream exports is the Caribbean market. The hot climate and many tourists in that region create a strong demand for various frozen snacks and desserts.

Think Critically

1. What factors have increased the demand for ice cream from overseas customers?
2. What obstacles might an ice cream exporter encounter when doing business in other countries?
Imagine how life in the United States would be without international business. Most television sets, calculators, athletic shoes, and video recorders bought in the United States come from other countries. And these products are only a few of the imported products in use each day. Importing provides a wide variety of products and services for U.S. consumers. Exporting creates jobs and expands business opportunities. Importing and exporting are primary international business activities.

Imports are services or products bought by a company or government from businesses in other countries. Businesses can get involved in international trade by importing goods and services and selling them in their own country. The importing business can create new sales or expand sales with existing customers. A company usually gets involved in importing for one of three reasons. These reasons are consumer demand for products unique to foreign countries, lower costs of foreign-made products, or foreign-made parts used in domestic manufacturing.

Product Demand Customers who want a unique item or a certain quality may purchase a foreign-made product. Some goods and services may be available only from other countries. Almost all bananas, cocoa, and coffee consumed in the United States are imported.

Lower Costs The prices of goods and services are constantly changing. An item from one country may be less expensive than the same item from another country. Electronic products manufactured in Taiwan are frequently less expensive than similar items produced elsewhere.
Production Inputs  Companies regularly purchase raw materials and component parts for processing or assembly from other countries. For example, the radios, engines, transmissions, and windshield washer systems for many cars assembled in the United States come from companies in Canada, Mexico, Brazil, Japan, Korea, and other countries.

Checkpoint  What are the three main reasons companies import?

Importing Activities  What does a company have to do to become an importer? Importing usually involves four main activities or steps, as shown in Figure 6-1 on the next page.

I STEP 1 DETERMINE DEMAND
The first activity is to determine whether consumers in this country will purchase imported products. As with any business venture, there are risks. Many companies import goods, only to have these items remain in a warehouse because no one wants them due to differences in buying habits.

I STEP 2 CONTACT SUPPLIERS
The second importing activity is to contact foreign suppliers. Finding foreign companies that provide what you want when you want it may be difficult. By using the appropriate information sources, importers can identify the companies that will best serve their needs.
STEP 3 FINALIZE PURCHASE
The third importing activity is to finalize the purchase agreement. The importing company must come to an agreement with the supplier on specific terms for the purchase. Who will pay for shipping? When will items be delivered? How will payment be made? Will payment be made in advance, during shipping, or after the receipt of the goods? These are just some of the details that need to be described in the purchase agreement.

STEP 4 RECEIVE GOODS
The fourth activity is to receive the goods and make payment. This includes checking the order for accuracy and damage, paying for the order, and paying any import duties. This tax can be based on either the value of goods or other factors, such as quantity or weight.

These duties are paid to customs officials. A customs official is a government employee authorized to collect the duties levied on imports. The term customs also refers to the procedures involved in the collection of duties. You may have heard a person traveling to another country say “I have to go through customs.” This means travelers must report to customs officials the value of anything bought in the country they are leaving or anything they plan to sell in the country they are entering.

GLOBAL BUSINESS EXAMPLE
AN IMPORTING ERROR
Clear and complete communication for foreign suppliers is vital. A U.S. retail company contracted with a foreign shirftmaker to manufacturer men’s shirts. The contract stated that the shirts must be made of 60 percent cotton and 40 percent polyester. The manufacturer provided shirt labels to that effect. The shirftmaker manufactured shirts that were 35 percent cotton and 65 percent polyester. Without verifying the material content, the U.S. company accepted the shirts and sold them with the incorrect information on the label. The Federal Trade Commission fined the company for deceptive labeling.

Think Critically
How might this situation have been avoided?
IMPORT ASSISTANCE
Several U.S. government agencies are available to assist companies and individuals interested in importing. The Customs Department of the U.S. Treasury (www.customs.gov) provides current information on import regulations.

HISTORY: THE GREAT WALL OF CHINA
While nations frequently take actions to communicate with others, sometimes a country wants to seclude itself. Imagine a structure about 2,400 kilometers (1,500 miles) long that varies in height between 5.5 and 9.1 meters (18 and 30 feet). Then imagine that it is 4.6 to 9.1 meters (15 to 30 feet) wide at the base and tapers to about 3.7 meters (12 feet) wide at the top. The wall includes watchtowers about 12 meters (40 feet) high that are placed about every 180 meters (about 200 yards). Those are the dimensions of the Great Wall of China.

The Great Wall of China was built of earth and stone. The largest portion was constructed during the rule of Emperor Ch'in Shih Huang Ti, which ended about 204 BC. The Great Wall was designed to protect the Chinese people from nomadic invaders. It runs along the northern and northwestern frontiers of the country.

During the Ming dynasty (1368–1644), the wall was expanded to its current length and received extensive repairs. The Great Wall continues to be one of the most popular tourist attractions in China.

Think Critically
1. What historic factors may have influenced the building of the Great Wall?
2. What effects might the Great Wall have had on economic development?

CheckPoint
What are the four steps involved in importing?
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REVIEW GLOBAL BUSINESS TERMS
Define the following term.

1. customs official

REVIEW GLOBAL BUSINESS CONCEPTS

2. What are the main reasons companies import goods?
3. What is the purpose of the customs department of a country's government?

SOLVE GLOBAL BUSINESS PROBLEMS
For each of the following situations, predict whether the imports will be successful in your country. Explain your reasons.

4. Imported in-line skates that are more expensive than those already on the market but that have the reputation of being the best in the world.
5. Ten thousand cases of shampoo in bottles with foreign-language labels that can be sold for a price matching the lowest-price shampoo on the market.
6. An imported soy-flavored dessert called Zenzip.
7. Imported automobiles that are small and can be sold for less than any domestic car but that are difficult to repair.
8. An imported packaged dinner entrée that is based on blue pasta.

THINK CRITICALLY

9. What types of imports should not be allowed to enter the United States?
10. Do imports threaten the jobs of people in the importing country?

MAKE CONNECTIONS

11. STATISTICS In the Asia-Pacific Rim Country Profile table on page 117, what is the average value of exports for South Korea, Singapore, and Taiwan?
12. TECHNOLOGY Find a web site for one of the larger countries in the Asia-Pacific Rim Country Regional Profile. List the country and its five largest imports.
13. VISUAL ARTS Prepare a flow chart or other visual representation of the importing process.
14. CULTURAL STUDIES Collect examples of unusual food products imported from other countries.
Companies commonly export goods or services to companies in other countries. Indirect exporting occurs when a company sells its products in a foreign market without actively seeking out those opportunities. More often, however, a business will conduct direct exporting by actively seeking export opportunities.

Exporting activities are the other side of the importing transaction. As exporters, however, businesses face different decisions. The process of exporting involves five steps, as shown in Figure 6-2.

**THE EXPORTING PROCESS**

Successful exporting can help a nation expand its economic activities and create additional jobs.
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E-COMMERCE IN ACTION

E-Tailing and Lower Barriers to Entry

Buying books, music CDs, videos, computer software, clothing, and even groceries without leaving home is nothing new. People have been able to do this for years with mail-order buying and television shopping channels. Today this buying process is even easier.

The Internet has reduced some barriers to entry for new companies. In the past, an entrepreneur had to rent a store, hire employees, obtain inventory, and advertise when starting a business. Now a person can begin operations with a computer. Contacting suppliers, promoting the company, and filling orders are all done online.

This ease of start-up has resulted in lower barriers to entry and increased competition. No longer must a company have a store, an office, or a factory. Instead, a book or clothing seller can serve customers with an online transaction, with the shipping company representative being the only one who has to leave home.

Think Critically
1. What types of enterprises are best suited for doing business online?
2. How will expanded online buying affect job opportunities and economic development in local communities?
3. Locate a web site that offers customers a variety of products online. How does the company attempt to attract customers?

STEP 1 FIND POTENTIAL CUSTOMERS

Before you sell anything, you have to find buyers. Who are the people who want to buy your goods and services? Where are these people located? Are the potential customers willing and able to purchase your products?

Answers to these questions may be found through an Internet search and library research. Businesses use many sources to find out about the buying habits of people in different countries. Also, businesspeople familiar with foreign markets have experience helping companies that want to sell in other countries.

The U.S. Department of Commerce and other agencies and organizations provide trade leads—lists for companies planning to do business overseas. You also can find information on potential customers in other countries at web sites such as www.buyUSA.gov, www.fas.usda.gov, and www.fita.org.

STEP 2 MEET THE NEEDS OF CUSTOMERS

Next, determine if people in other countries can use your product or service. Sending company representatives to possible markets around the world is one way to make sure your product can be sold there. If visits are not possible, companies can obtain reliable information from others as well.

Will your product be accepted by foreign customers exactly as it is, or will it be necessary to adapt it? Product adaptation may need to be in the form of smaller packages, different ingredients, or revised label information to meet geographic, social, cultural, and legal requirements.

Some products are standardized or sold the same around the world. Popular soft drinks, some clothing, and many technical products (such as cameras, computers, and stereo equipment) are frequently sold in various
geographic areas with only minor changes. However, food products, personal care items, and laundry detergent usually need to be adapted to the tastes, customs, and culture of a society.

**STEP 3 AGREE ON SALES TERMS**

Every business transaction involves shipping and payment terms. These terms require businesses to answer a number of important questions. How will the product be shipped? Who will pay for shipping costs, the buyer or the seller? In what currency will the payment be made? What foreign exchange rate will be used? When is the payment due?

Shipping costs vary for different types of transportation. Airfreight is more costly than water transportation. However, it is also much quicker. Items in high demand or that are perishable products might require the quickest available method of delivery.

Transportation costs can be a major portion of the cost of exporting. It is important to consider which party will pay transportation costs. Sometimes the seller pays for shipping. In other situations, the buyer pays. Certain terms are used to describe the shipping and payment methods. **Free on board (FOB)** means the selling price of the product includes the cost of loading the exported goods onto transport vessels at the specified place.

FOB is just one way that buyers and sellers may agree to pay shipping costs. **Cost, insurance, and freight (CIF)** means that the cost of the goods, insurance, and freight are included in the price quoted. **Cost and freight (C&F)** indicates that the price includes the cost of the goods and freight, but the buyer must pay for insurance separately.
Banks and other financial institutions are commonly involved in export transactions. A company may have to borrow funds to finance the cost of manufacturing and shipping a product for which payment will not be received until a later date. Besides loans, international financial institutions may also offer other exporting services.

**STEP 4 PROVIDE PRODUCTS OR SERVICES**

After agreement is reached on selling terms, the finished goods are shipped. If the exchange involves a service, the company must now perform the required tasks for its foreign customers.

Companies are available to help exporters with shipping. A freight forwarder is a company that arranges to ship goods to customers in other countries. Like a travel agent for cargo, these companies take care of the reservations needed to get an exporter’s merchandise to the required destination.

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**GLOBAL BUSINESS EXAMPLE**

**EXPORTING CULTURE**

The demand for U.S. clothing, soft drinks, fast food, candy, movies, music, television programs, and other entertainment is very strong in many parts of the world. Jeans, T-shirts, sports team hats, and athletic shoes are top sellers in many countries. People in some nations will wait in line for hours to pay for Coca-Cola or for a McDonald’s hamburger.

Programs such as *The Simpsons*, *Wheel of Fortune*, and *Friends* are seen by hundreds of millions of television viewers each day. Movies such as *Titanic*, *Star Wars*, and *Lord of the Rings* earn movie studios millions of dollars in profits outside the United States. The songs of pop stars such as Britney Spears, *NSYNC, and the Backstreet Boys are played on radio stations, in stores, and in homes in over 150 countries.

Other countries are also known for their cultural exports. For example, Sweden, a country of about 9 million people is one of the world’s largest exporters of music. Many Swedish musicians are popular through all of Europe, and some have become world famous. In the late 1970s and early 1980s, exports of music were Sweden’s single largest export, beating out large Swedish industrial companies like carmakers Volvo and Saab and appliance maker Electrolux.

**Think Critically**

1. What effect could exporting of U.S. culture have on the cultural environment of other countries?
2. What are the benefits associated with exporting culture?
3. Locate a web site with information about a country’s cultural exports. What are the country’s largest cultural exports? How does the volume of cultural exports compare with other exported goods and services?
Often a freight forwarder will accumulate several small export shipments and combine them into one large shipment to get lower freight rates. Since these companies are actively involved in international trade, freight forwarders are excellent sources of information about export regulations, shipping costs, and foreign import regulations.

Companies must prepare many export documents for shipping merchandise to other countries. A **bill of lading** is a document stating the agreement between the exporter and the transportation company. This document serves as a receipt for the exported items. A **certificate of origin** is a document that states the name of the country in which the shipped goods were produced. This document may be used to determine the amount of any import tax.

### STEP 5 COMPLETE THE TRANSACTION

If payment has not been received, it would be due at this time. Many times, payment involves exchanging one country’s currency for another’s. Financial institutions convert currency and are usually involved in the payment step.

### OTHER EXPORTING ISSUES

In addition to the five steps of exporting, other issues must be considered when exporting. There are a number of hurdles that must be avoided when exporting. Also, there are special considerations when exporting services instead of goods.

#### AVOIDING EXPORTING HURDLES

The United States Department of Commerce estimates that thousands of small and medium-sized businesses could easily get involved in international business. However, there are several reasons companies may not export:

- No company representatives in foreign countries
- Products not appropriate for foreign consumers
- Insufficient production facilities to manufacture enough goods for exporting
- High costs of doing business in other countries
- Difficulty understanding foreign business procedures
Difficulty obtaining payment from foreign customers

Many of these barriers could be overcome if companies obtained assistance from agencies such as the U.S. Department of Commerce (www.export.gov), the U.S. Small Business Administration (www.sba.gov/oit), and the U.S. Trade Center (usatc.doc.gov).

EXPORTING SERVICES

Most people can relate to selling, packing, and shipping a tangible item. However, a major portion of U.S. exports involves the sale of intangible items—services. Service industries account for about 70 percent of GDP in the United States. International trade by service industries is significant. Services provided by U.S. companies are more than 20 percent of the world’s total cross-border sales of services.

Companies export services with some of the same techniques they use to export products. These techniques include international consulting, direct exporting, licensing, franchising, and joint venture.

The most commonly exported services include hospitality (hotels and food service), entertainment (movies, television production, and amusement parks), and financial services (insurance and real estate). Other areas of expanding service exports involve health care, information processing, distribution services, and education and training services.

Checkpoint

What services are most commonly exported by U.S. companies?
REVIEW GLOBAL BUSINESS TERMS

Define each of the following terms.

1. free on board (FOB)
2. cost, insurance, and freight (CIF)
3. cost and freight (C&F)
4. freight forwarder
5. bill of lading
6. certificate of origin

REVIEW GLOBAL BUSINESS CONCEPTS

7. How can exporting companies determine if their products can be sold in other countries?
8. Why are banks often involved in export transactions?
9. What determines whether an exporter ships by air or water?

SOLVE GLOBAL BUSINESS PROBLEMS

For each of the following exporting situations, decide whether the company should sell the same product (standardize) as in other countries or adapt the product (customize) to local tastes, customs, and culture. Explain your reasons.

10. Exporting World Cup championship shirts and hats.
11. Exporting digital cameras for sale in major cities of Europe and North America.
12. Exporting electrical appliances to a country with a different voltage system.
13. Exporting plain, unflavored yogurt to a country in which the people do not usually eat yogurt.

THINK CRITICALLY

15. How does the exporting of services differ from exporting goods?
16. Why are governments frequently interested in encouraging exports?

MAKE CONNECTIONS

17. TECHNOLOGY Visit the web site of The Bureau of Industry and Security (www.bxa.doc.gov) to obtain current information about the exporting regulations faced by U.S. companies.
18. SCIENCE Describe recent scientific developments that have improved the speed and efficiency of exporting.
19. HISTORY Research the effect of various inventions on the major exports of a country.
20. TECHNOLOGY Use the Internet to research local rules and regulations for exporting from various countries around the world.
Identify the economic effects of foreign trade.

Describe the types of trade agreements between countries.

Every importing and exporting transaction has economic effects. The difference between a country's exports and imports is called its balance of trade. However, balance of trade does not include all international business transactions, just imports and exports. Another economic measure is needed to summarize the total economic effect of foreign trade.

Balance of payments, illustrated in Figure 6-3, measures the total flow of money coming into a country minus the total flow going out. Included in this economic measurement are exports, imports, investments, tourist spending, and financial assistance. For example, in recent years, tourism has helped the U.S. balance of payments because it has increased the flow of money entering the United States.

A country's balance of payments can either be positive or negative. A positive, or favorable, balance of payments occurs when a nation receives more money in a year than it pays out. A negative balance of payments is unfavorable. It is the result when a country sends more money out than it brings in.

Some countries continually buy more foreign goods than they sell. The result is a trade deficit, which is the total amount a country owes to other countries as a result of importing more goods and services than the country...
is exporting. The United States, despite being the largest exporter in the world, has had a trade deficit for many years. This situation can result in a country borrowing from other countries. Borrowing means the country must pay back money in the future, reducing the amount available for spending.

Figure 6-3 Balance of payments is the total flow of money coming into a country minus the total flow of money going out of a country.

is exporting. The United States, despite being the largest exporter in the world, has had a trade deficit for many years. This situation can result in a country borrowing from other countries. Borrowing means the country must pay back money in the future, reducing the amount available for spending.

How does a country create a trade deficit?
How can a country improve its international trade situation? One answer is by negotiating trade agreements. Trade agreements can occur between countries to promote economic development on a worldwide basis or in a geographic region. Or individual nations and companies may reach agreements that encourage international business activities.

**THE WORLD TRADE ORGANIZATION**

After World War II, world leaders who wanted to promote peaceful international trade developed a set of ground rules to guide the conduct of international trade. The General Agreement on Tariffs and Trade (GATT) was negotiated in 1947 and began operating in January 1948 when 23 countries signed the treaty agreement.

This multicountry agreement intended to reduce trade barriers and to promote trade. The goals of GATT were to promote world trade through negotiation and to make world trade secure. Working toward these goals helped increase global economic growth and development.

In 1995, GATT was replaced by a new organization—the World Trade Organization (WTO). With over 140 member countries, WTO has many of the same goals as GATT. But in addition, WTO has the power to settle trade disputes and enforce the free-trade agreements between its members.

Based in Geneva, Switzerland, the WTO has several main goals.

- Lowering tariffs that discourage free trade
- Eliminating import quotas, subsidies, and unfair technical standards that reduce competition in the world market
- Recognizing protection for patents, copyrights, trademarks, and other intellectual properties, such as software
- Reducing barriers for banks, insurance companies, and other financial services
- Assisting poor countries with trade policies and economic growth

**ECONOMIC COMMUNITIES**

An economic community is an organization of countries that bond together to allow a free flow of products. The group acts as a single country for business activities with other regions of the world. An economic community is also called a common market. An economic community has several main benefits.

- Expanded trade with other regions of the world
- Reduced tariffs for the member countries
- Lower prices for consumers within the group
- Expanded employment and investment opportunities
Examples of this type of regional economic cooperation between countries include the European Union (EU), Latin American Free Trade Association (LAFTA), the Association of Southeast Asian Nations (ASEAN), the Economic Community of West African States (ECOWAS), and the North American Free Trade Agreement (NAFTA).

**Barter Agreements**

Most people have traded one item for another at some time. The exchange of goods and services between two parties with no money involved is direct barter. A company may use this method for international business transactions.

Since trading items of equal value is difficult, a different barter method is used. Countertrade is the exchange of products or services between companies in different countries with the possibility of some currency exchange. For example, when PepsiCo owned Pizza Hut, it sold soft drinks in China in exchange for mushrooms used on pizzas. Countertrade can involve companies in several countries, as shown in Figure 6-4 on the next page.

Since countertrades are quite complex, they usually involve large companies. Smaller companies, however, can get involved in countertrade by working with large trading agents who bring together many buyers and sellers.

Companies use countertrade to avoid the risk of receiving payment in a monetary unit with limited value. Currencies from some nations are not in demand due to the weakness of those countries’ economies. Countertrade

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**Think Critically**

1. What are some concerns with a highly integrated economic community such as the European Union?

2. Go to the web site of the European Union to obtain current information about the activities of this economic community. Which countries are currently members of the EU? Which countries are seeking to gain membership to the EU?
also occurs when the government of an importing country requires the selling company to purchase products in return. This helps the importing country to avoid a trade deficit while stimulating economic growth.

**FREE-TRADE ZONES**

A free-trade zone is an area designated by a government for duty-free entry of nonprohibited goods. Free-trade zones are commonly located at a point of entry into a nation, such as a harbor or an airport. Merchandise may be stored, displayed, or used without duties being paid. Duties (import taxes) are imposed on the goods only when the items pass from the free-trade zone into an area of the country subject to customs.

**CheckPoint**

What are examples of trade agreements among countries?
6-3  IMPORTANCE OF TRADE RELATIONS

REVIEW GLOBAL BUSINESS TERMS

Define each of the following terms.

1. balance of payments  
4. direct barter  
2. trade deficit  
5. countertrade  
3. economic community

REVIEW GLOBAL BUSINESS CONCEPTS

6. How can a trade deficit affect a country's economy?  
7. Why is countertrade used in international business?

SOLVE GLOBAL BUSINESS PROBLEMS

For the company or country mentioned in each of the following situations, decide whether the balance of payments or the trade balance is affected and whether the effect would be favorable or unfavorable.

8. A country in Europe receives foreign aid from the government of another country.  
9. A six-month long World's Fair is held in the United States and attracts over a million tourists from other countries.  
10. An Asian country imports oil that it will pay for later.  
11. A multinational company in England pays cash for a factory in India.  
12. A new advance in genetic testing is made in Argentina, and the technology is exported all over the world.

THINK CRITICALLY

13. What can a government do to improve a trade deficit?  
14. What are possible concerns of labor unions, environmental groups, and public interest organizations regarding actions of the World Trade Organization?

MAKE CONNECTIONS

15. MATH  Using the data in the Asia-Pacific Rim Country Profile, calculate the difference between the exports and imports for three countries. Which countries, if any, have a trade deficit?  
16. HISTORY  Research the start of the European Economic Community in the 1950s. What factors influenced the start of this common market?  
17. COMMUNICATIONS  Without using words, demonstrate a barter transaction between people from different cultures.
It is likely that you have participated in a sport or an activity in which you attempted to do better than others or better than you had done previously. While winning may not always be the main goal, competition is an on-going activity for people, companies, and nations. In an effort to improve a country’s economic situation, a strong competitive effort may be beneficial.

Companies compete in both domestic and international markets. The domestic market is made up of all the companies that sell similar products within the same country. In contrast, the international market is made up of companies that compete against companies in several countries. For example, major soft drink companies have competition in other countries with Crazy Cola in Russia and Thums Up Cola in India.

For companies or countries to gain a competitive advantage they need to do something better, faster, or cheaper than others do. While many people believe the best product is always successful, sometimes a company can also succeed through an effective delivery system. For example, Kodak film is available in almost every tourist location in the world. This distribution program creates a competitive advantage and makes it difficult for other film manufacturers to gain sales.

Companies can also compete by successfully doing one thing and doing it well. For example, Japanese airplane companies have not been able to make aircraft that are in demand as much as planes made in the United States. Japanese companies, however, have specialized in producing components...
used by U.S. aircraft manufacturers, such as fuselage parts, landing-gear doors, and on-board computers. Besides using successful planning and engineering methods, the airline parts companies are involved in hundreds of joint ventures and licensing agreements. These efforts increased Japanese aerospace exports by over 100 percent during the 1990s.

FACTORS AFFECTING COMPETITION

Three major factors affect the degree of competition among businesses. These factors are the number of companies, business costs, and product differences.

Number of Companies When many companies are selling the same product, there may appear to be a high degree of competition. However, if just a few large firms control the major portion of sales, then competition is limited.

Business Costs The cost of doing business often affects competition. Expensive equipment or having to compete against well-known brands prevent new companies from starting. These are commonly called barriers to entry. If a business needs large amounts of capital and equipment to start operations, only a few companies are likely to enter the market. Or if an existing company has an established brand name, it will be very costly for new companies to make their name known.

Product Differences The third factor that creates competition is product differences. Companies use advertising, brand names, packages, and ingredients to convince consumers that their products are different and better. The addition of flavoring to toothpaste and a pump on an athletic shoe are examples of attempts by companies to gain a competitive advantage. Companies use advertising messages to inform consumers about the benefits of their products and to persuade them to buy.

BENEFITS AND CONCERNS OF COMPETITION

Competition can improve the economic situation and living conditions of a nation. Individual and company efforts to create better goods and services in

UNDERSTANDING ASIAN NAMES

When communicating with Asians about trading opportunities, it is important to realize that their naming practices may be different from yours. Consider last names, for example. In the People’s Republic of China, more than 100 million people, about 10 percent of the population, have the last name of Zhang. Fewer than 20 last names account for more than 60 percent of the population.

In Korea, four last names account for more than 50 percent of the population. Thus, the last names in some Asian countries aren’t as distinctive an identifier as they are in the United States. Therefore, it is necessary to learn full names, titles, and divisions within the business in order to be able to communicate with the desired Asian business associates.

In many Asian countries the family name comes first, followed by the given names. Thus, in Korea Kim Yun is Mr. Kim, not Mr. Yun. The same name order is also followed in the Chinese and Japanese cultures.

Think Critically

1. What kind of an impression will you create if you reverse the order of the names of a potential Asian business partner?
2. What question should you ask to find out about the naming customs in another country?
less time have been a benefit for many nations. Some business competition, however, can result in major concerns. If a company becomes so large that it controls a geographic area or a portion of an economy, many people may suffer. Consumers will have to pay whatever the business charges. Workers will have to work for the amount the company wants to pay since other jobs may not be available. For these reasons, most countries have laws that limit the power of companies.

**CheckPoint**

What are common barriers to entry for new competitors in an industry?

**TYPES OF COMPETITIVE SITUATIONS**

Have you ever wondered why there are so many breakfast cereals or why only a few stores sell a certain brand of shoes? These questions can be answered with an understanding of the competitive situations in an industry. An industry refers to companies in the same type of business. For example, Kellogg, General Mills, Kraft General Foods, and Quaker are the major companies in the breakfast cereal industry. Nike, Reebok, and Adidas are in the athletic shoe industry. The competitive situation among companies is also called the market structure of an industry. Four main competitive situations may be present in a country’s economy, as shown in Figure 6-5.

**PURE COMPETITION**

Pure competition is a market situation with many sellers, each offering the same product. For example, when farmers sell their wheat or corn, there is little difference from one bushel to another. Supply and demand determines the price. Rivalry among businesses is most free when many companies offer identical or very similar products to buyers. Various factors in our economy and society, however, limit pure competition.
MONOPOLISTIC COMPETITION
In order for companies to attract customers, they make their products slightly different. One hamburger company offers a special sauce, another adds bacon and cheese, while another gives away a game or toy with the sandwich. Monopolistic competition refers to a market situation with many sellers, each with a slightly different product. The difference in products can be actual (such as ingredients) or implied (such as different advertisements, a brand name, or a package design).

OLIGOPOLY
When a few large companies control an industry, an oligopoly exists. In this market situation, the few sellers usually offer products that are slightly different. However, competition is mainly the result of large companies being able to advertise and sell their goods in many geographic areas. For example, only
a few large companies make automobile tires. Therefore, these large manufacturers are able to control the market. Another example is that with only a few countries having oil as a natural resource, companies in these nations can influence the availability and price of oil.

**MONOPOLY**

When one company controls the total supply of a product or service, there is no competition. A monopoly is a situation in which one seller controls the entire market for a product or service. It is very unusual for this to happen without actions by government or other businesses. Like pure competition, few examples of true monopolies exist. Situations that are near monopolies include South Africa's diamond mines and a small village or town served by only one store. Monopolies that exist in the United States, such as cable television, local water service, and first-class mail delivery service, are government regulated.

![CheckPoint](image)  
What are the four types of competitive situations?
REVIEW GLOBAL BUSINESS TERMS

Define each of the following terms.

1. industry
2. pure competition
3. monopolistic competition
4. oligopoly
5. monopoly

REVIEW GLOBAL BUSINESS CONCEPTS

6. What are the main factors that affect the amount of business competition?
7. What are the advantages of competition?
8. What is the difference between actual and implied differences in monopolistic competition?

SOLVE GLOBAL BUSINESS PROBLEMS

For each of the following situations, decide which competitive situation is present: pure competition, monopolistic competition, oligopoly, or monopoly.

9. A country in Asia allows only one company to manufacture a product.
10. In a European country, four companies control over 85 percent of sales in the supermarket industry.
11. In a region of western Africa, minerals are mined and sold by many extracting companies.
12. In an area of the Middle East, many small shops offer a variety of clothing styles.

THINK CRITICALLY

13. What actions could consumers and government take to promote competition?
14. What kind of competition exists in the microcomputer operating systems market today?

MAKE CONNECTIONS

15. CULTURAL STUDIES Select a product that you use frequently. Determine what appeals to you about the product, including how it is advertised. Consider whether the elements you have determined would appeal to people in most other countries. Write a summary of your findings.

16. LAW Research the start of antitrust legislation in the United States. What applications of those laws are in the news today?
Chapter 6

ASSESSMENT

CHAPTER SUMMARY

6-1 IMPORTING PROCEDURES

A Importing is important to business for meeting consumer demand, lowering operating costs, and obtaining production inputs.

B The four steps of importing are (1) determine demand, (2) contact suppliers, (3) finalize purchases, and (4) receive goods.

6-2 EXPORTING PROCEDURES

A The five steps of the exporting process are (1) find potential customers, (2) meet the needs of customers, (3) agree on sales terms, (4) provide products or services, and (5) complete the transaction.

B The exporting of services can be a significant percentage of a country's export activities.

6-3 IMPORTANCE OF TRADE RELATIONS

A A country's balance of payments measures the total flow of money coming into a country minus the total flow going out and may be positive or negative. A trade deficit is the total amount a country owes to other countries as a result of importing more goods and services than are exported.

B The main types of trade agreements are the World Trade Organization, economic communities, barter agreements, and free-trade zones.

6-4 THE NATURE OF COMPETITION

A The competitive situation in a country is affected by (1) the number of companies, (2) business costs, and (3) product differences.

B The four main types of competitive markets are pure competition, monopolistic competition, oligopoly, and monopoly.

GLOBAL REFOCUS

Read the Global Focus at the beginning of this chapter, and answer the following questions.

1. What actions might an ice cream company take to expand export activities?

2. How could foreign companies become more competitive in the global ice cream industry?
REVIEW GLOBAL BUSINESS TERMS

Match the terms listed with the definitions. Some terms may not be used.

1. Government employee who is authorized to collect the duties levied on imports.
2. A company that arranges to ship goods to customers in other countries.
3. The exchange of products or services between companies in different countries with the possibility of some currency exchange.
4. Control of an industry by a few large companies.
5. A document that states the agreement between the exporter and the transportation company.
6. The total flow of money coming into a country minus the total flow going out.
7. A market situation with many sellers, each with a slightly different product.
8. An organization of countries that bond together to allow a free flow of products.
9. Terms of sale that mean the selling price of the product includes the cost of loading the exported goods onto transport vessels at the specified place.
10. A situation in which one seller controls the entire market for a product or service.
11. The exchange of goods and services between two parties with no money involved.
12. A group of companies in the same type of business.
13. A document that states the name of the country in which the shipped goods were produced.
14. A market situation with many sellers, each offering the same product.
15. The total amount a country owes to other countries as a result of importing more goods and services than the country is exporting.

MAKE GLOBAL BUSINESS DECISIONS

16. Name some examples of imported products that the people in the United States need and want.
17. Why are taxes imposed on products imported into various countries?
18. List some resources you could use to determine the buying habits in different countries.
19. What factors would affect whether the buyer or the seller pays for the shipping costs in an international business transaction?

20. Why might a country’s balance of payments be a better measurement of its international business activities than its balance of trade?

21. What problems might arise when nations create an economic community for international trade?

22. Describe some examples of countertrade involving products from different countries with which you are familiar.

GLOBAL CONNECTIONS

23. TECHNOLOGY Go to the web site of the World Trade Organization (www.wto.org) to obtain additional information about the current activities of this global trade association.

24. LAW Investigate the duties and customs procedures of one of the following countries: Malaysia, Australia, Taiwan, China, India, South Korea, Singapore, or New Zealand.

25. GEOGRAPHY Find the location of the free-trade zone closest to your city. Draw a map that includes your state, the location of the free-trade zone, and all states in between. Then draw a line between your city and the free-trade zone. Mark the distance above the line. If the free-trade zone is in your city, draw a map of your city, and identify the location of the free-trade zone.

26. COMMUNICATIONS Talk to someone who has shipped goods to another country. Prepare a short oral report about the procedures for transporting merchandise to a foreign country.

27. CULTURAL STUDIES Collect advertisements, packages, and other information about products made in another country and sold in the United States. Ask five friends or relatives to identify the country of origin for the product.

28. SCIENCE Many products in our society compete on the basis of very minor differences. Collect information on five different brands of soap, toothpaste, breakfast cereal, or shampoo from advertisements, packages, and periodicals. Based on your analysis and comments from others, list the similarities and differences of the brands selected. Consumer Reports is a good source of information for this activity.

29. CAREER PLANNING Obtain information about the imports and exports of a country of your choice. What types of job opportunities would be created by these foreign business activities?

30. TECHNOLOGY Use the Internet to find examples of businesses that are involved in pure competition, monopolistic competition, oligopolies, and monopolies.

31. ECONOMICS Go to the web site of an economic community. Make a list of the members of that community and some of the activities in which it engages.
DEVELOPING AN EXPORTING PLAN

Use a product or service that your chosen company is actively exporting or that you believe has potential for sales in other countries. Then select a country that would provide a market opportunity for that product or service. Use information collected for Chapters 1–5 and additional research to prepare an exporting plan. Include the following components.

1. Product description
   - Describe the product or service in detail, including specific features.
   - Describe any changes in the product or service that may be necessary before exporting.

2. Foreign business environment
   - List cultural and social factors that may affect the sale of the product.
   - Discuss the geography of the country to which you have chosen to export this product or service.
   - Describe economic conditions that may affect exporting this product.
   - Report any political or legal factors that could affect exporting activities.

3. Market potential
   - Describe the type of customer who is best suited for this product or service in the country you have chosen.
   - Identify methods that could be used to contact potential buyers in the country you have chosen.
   - Estimate sales for the product or service based on country size, market demand, and competition.

4. Export transaction details
   - Describe import taxes or other restrictions that may affect exporting costs.
   - Discuss the shipping and documentation requirements for the country you have selected.
   - Identify the amount of time the exporting plan will take to execute.

Sources of information for researching your exporting plan are listed below.

- Reference books such as encyclopedias, almanacs, and atlases
- Current news, business, and travel articles, including news stories, company profiles, and advertisements
- Materials from companies, airlines, travel bureaus, government agencies, and other organizations involved in international business
- Interviews with people who have been to the country

Prepare a written summary or a short oral report (two or three minutes) of the key information in your exporting plan.