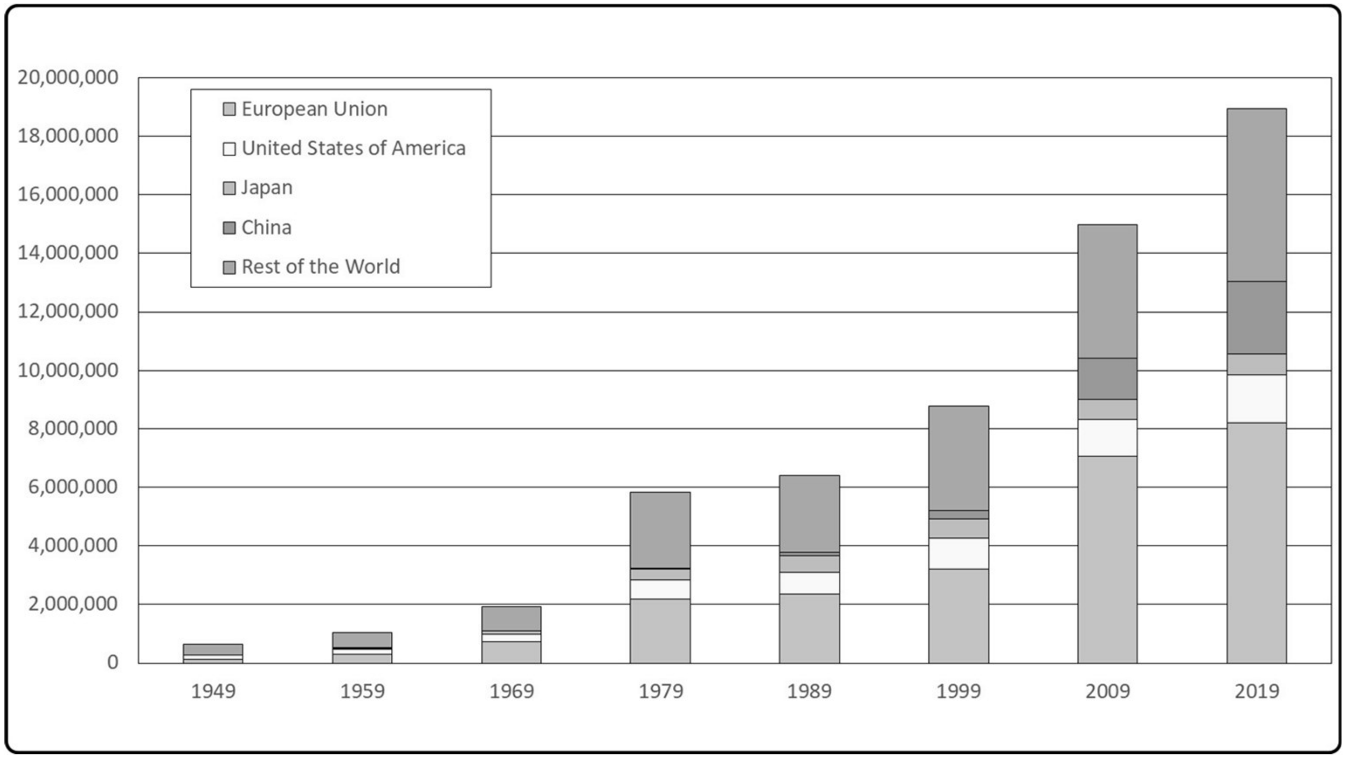
Chapter 1
International Trade

International Trade

- International Trade Growth
- International Trade Milestones
- Largest Exporting and Importing Countries
- International Trade Drivers
- International Trade Theories
- International Business Environment

International Trade Growth



International Trade Growth 1953-2019 (in 2019 constant dollars).
Source: World Trade Organization

International Trade Milestones

- Bretton-Woods Conference (1944)
  - Creation of the International Monetary Fund (1945)
  - First General Agreement on Tariffs and Trade (Geneva, 1948)
  - General Agreement on Tariffs and Trade
  - Multiple reductions on tariffs:

    GATT's Kennedy Round (1964-67), Tokyo Round (1973-79), and Uruguay Round (1986-94). Currently in the Doha Round (started in 1998, stalled).

- World Trade Organization (1995)

Bretton-Woods Agreement

The Mount Washington Hotel, in Bretton-Woods, NH, the site of the 1944 Conference
Source: Pierre David

International Trade Milestones

- Treaty of Rome (1957) creates the European Union

  1958: Belgium, France, Germany, Italy, Luxembourg, the Netherlands

  1973: United Kingdom, Ireland, Denmark

  1981: Greece

  1986: Spain and Portugal

  1995: Austria, Finland, Sweden

  1999: Creation of the euro

  2002: The euro becomes the currency of twelve countries

  2004: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia

  2007: Bulgaria, Romania

  2013: Croatia

  2020: United Kingdom "Brexit"

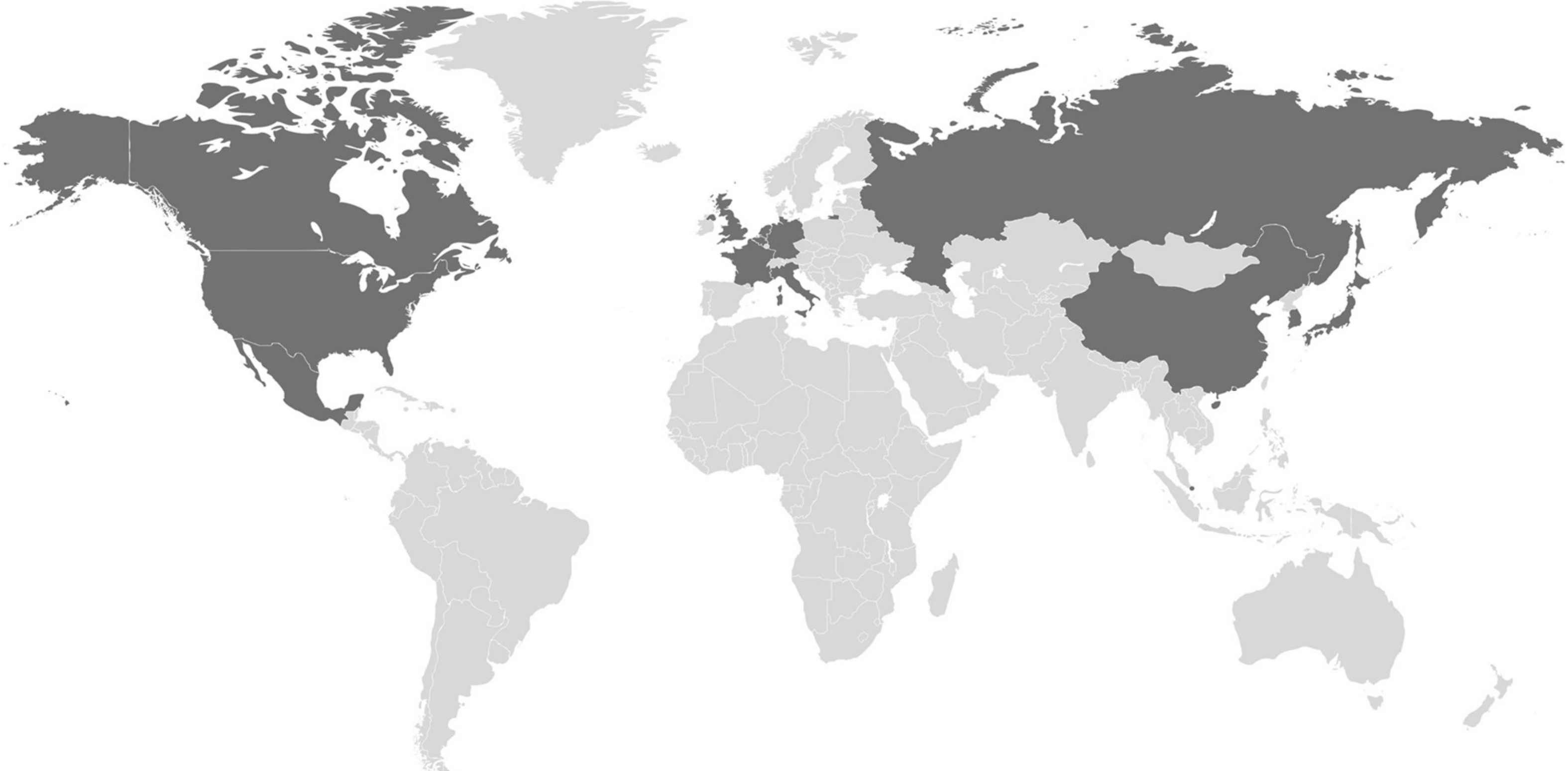
  2021: The euro is the currency of 19 countries

International Trade Milestones

Progressive steps in the creation of a trade bloc:

- Free-Trade Agreement
  - Elimination of tariffs between group members
- Customs Union
  - Common tariff structure for all group members
- Common Market
  - Free circulation of goods and persons between group members
- Economic Union
  - Common economic and monetary policies among group members
- Political Union
  - Common government

Major Exporting Countries



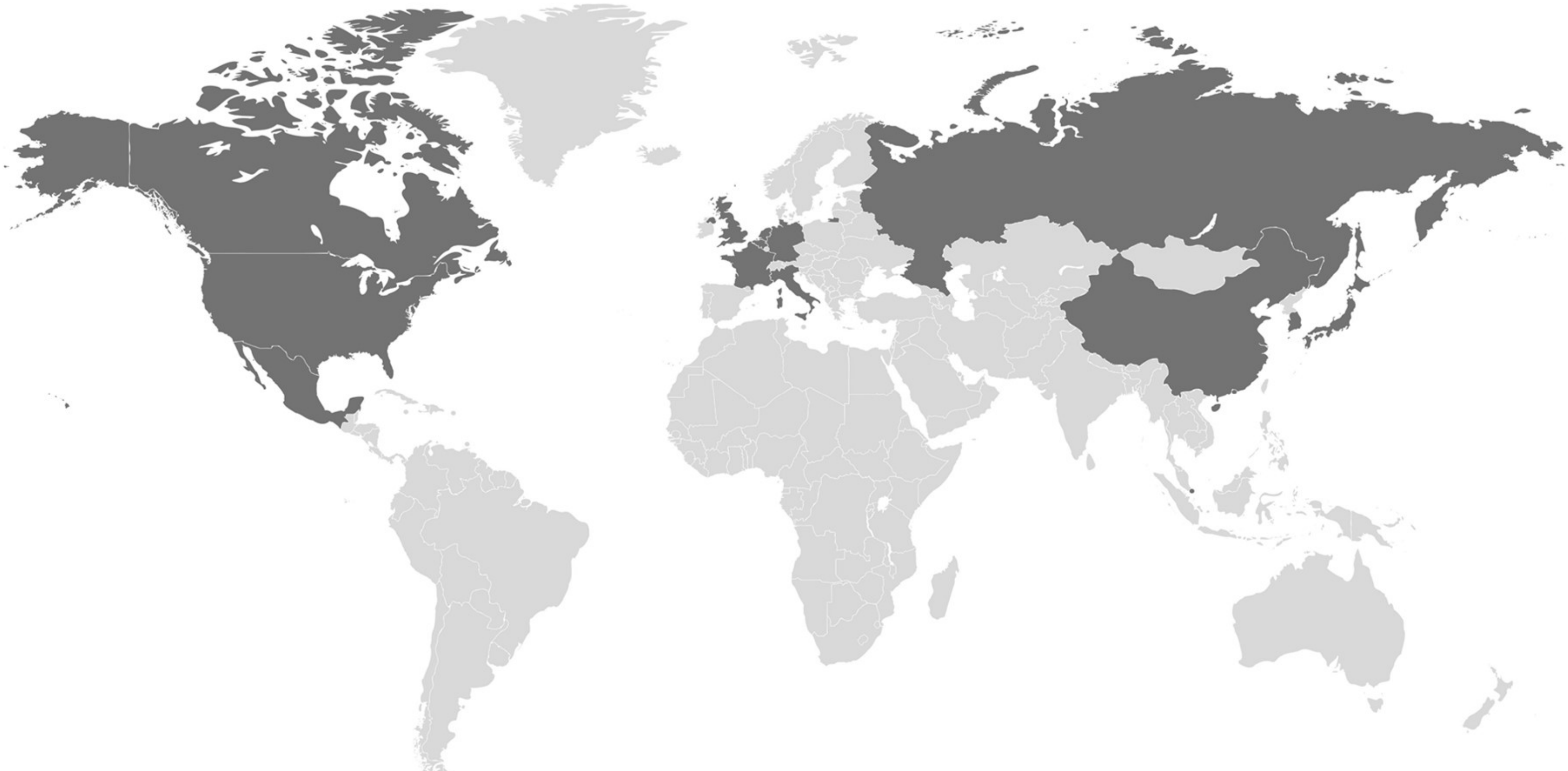
Major Exporting Countries (2019).
Source: World Trade Organization

Major Exporting Countries

Rank	Country	Exports (US$ billions)	Percentage
1	China	2,499	13.2%
2	United States	1,643	8.7%
3	Germany	1,489	7.9%
4	The Netherlands	709	3.7%
5	Japan	706	3.7%
6	France	571	3.0%
7	Republic of Korea	542	2.9%
8	Hong Kong, China	535	2.8%
9	Italy	533	2.8%
10	United Kingdom	470	2.5%
11	Mexico	461	2.4%
12	Canada	447	2.4%
13	Belgium	445	2.3%
14	Russian Federation	420	2.2%
15	Singapore	391	2.1%
	Rest of the World	7,072	37.4%
	Entire World	**18,993**	**100.0%**

Major Exporting Countries (2019).
Source: World Trade Organization

Major Importing Countries



Major Importing Countries (2019).
Source: World Trade Organization

Major Importing Countries

Rank	**Country**	**Imports (US$ billions)**	**Percentage**
1	United States	2,567	13.3%
2	China	2,078	10.8%
3	Germany	1,234	6.4%
4	Japan	721	3.7%
5	United Kingdom	696	3.6%
6	France	654	3.4%
7	The Netherlands	635	3.3%
8	Hong Kong, China	578	3.0%
9	Republic of Korea	503	2.6%
10	India	486	2.5%
11	Italy	474	2.5%
12	Mexico	467	2.4%
13	Canada	464	2.4%
14	Belgium	426	2.2%
15	Spain	372	1.9%
	Rest of the World	6,907	35.9%
	Entire World	**19,263**	**100.0%**

Major Importing Countries (2019).
Source: World Trade Organization

International Trade Drivers

- Cost Drivers

  Companies increase their sales worldwide to recover their high investment costs.

- Competition Drivers

  Companies enter foreign markets to keep up with their competitors, retaliate against them, or enter a market first.

- Market Drivers

  Companies enter foreign markets because their customers expect them to be present in those countries.

- Technology Drivers

  Companies enter foreign markets because their customers use technology to make purchases from these markets.

Cost Drivers

Companies in industries with high fixed costs try to spread these costs over many units, and therefore seek sales outside of their home markets.

Automobile companies were among the first to seek sales abroad:

- Automobile production was dominated by 20 companies in 2017
  (87 percent of all automobiles worldwide)
- Automobile production was concentrated in 15 countries in 2019
  (87 percent of worldwide production)

yet

- Automobiles are sold worldwide.

Note: Data from 2017 (the International Organization of Automobile Manufacturers stopped collecting these data by company)

Top Vehicle Manufacturers

Rank	Company	Total Production	Brands
1	Toyota Motors Corp.	10,466,000	Toyota, Lexus, Daihatsu, Hino
2	Volkswagen Group AG	10,382,000	Volkswagen, Audi, Porsche, Škoda, Scania, SEAT, MAN
3	Hyundai Motor Group	7,218,000	Hyundai, Kia
4	General Motors Corp.	6,857,000	Chevrolet, Buick, Cadillac, GMC, Opel, Holden
5	Ford Motor Company	6,387,000	Ford, Lincoln, Troller, Bedford
6	Nissan	5,769,000	Nissan, Dacia, Infiniti, Datsun
7	Honda Motors	5,237,000	Honda, Acura
8	Fiat Chrysler Automobiles	4,601,000	Fiat, Chrysler, Dodge, Alfa-Romeo, Ferrari
9	Renault	4,154,000	Renault
10	Peugeot-Citroën SA	3,650,000	Peugeot, Citroën
11	Suzuki	3,302,000	Suzuki, Maruti
12	SAIC Motors	2,867,000	Wuling, Baojun
13	Daimler AG	2,526,000	Mercedes-Benz, Mitsubishi-Fuso, Setra
14	BMW AG	2,506,000	BMW, Mini, Rolls-Royce
15	Geely	1,950,000	Geely, Emgrand, Englon, Gleagle, Shanghai Maple
	Rest of the World	18,102,000	Chang'An, Mazda, Dongfeng, Fengshen, BAIC, Mitsubishi, Subaru, Great Wall, Tata, Jaguar, Land Rover, Saipa
	Total Worldwide Production	96,922,000	

Top 15 Auto Manufacturers (2017).
Source: International Organization of Motor Vehicle Manufacturers.

Top Vehicle Manufacturing Countries

Rank	Country	Vehicles Produced
1	China	25,721,000
2	United States	10,880,000
3	Japan	9,684,000
4	Germany	4,661,000
5	India	4,516,000
6	Mexico	3,987,000
7	Republic of Korea	3,951,000
8	Brazil	2,945,000
9	Spain	2,822,000
10	France	2,202,000
11	Thailand	2,014,000
12	Canada	1,917,000
13	Russia	1,720,000
14	Turkey	1,461,000
15	Czechia	1,434,000
	Rest of the World	11,872,000
	Total	91,787,000

Top 15 Automobile (Car and Truck) Manufacturing Countries (2019).
Source: International Organization of Motor Vehicle Manufacturers.

Competition Drivers

Companies that see themselves as global players seek to counter their competitors' international moves in order to retain global market share.

Every move by one of the players is met with some retaliatory measure:

- When Benetton—an Italian company—, entered the U.S. market, The Gap—an American company—, retaliated by entering the Italian market.
- When Carrefour—a French retailer—enters a market, Walmart enters another. And when Walmart enters a market, Carrefour does as well.

Competition Drivers

The way Carrefour and Walmart split the world (2021)

Countries in which both are present	Argentina, China, Japan, Kenya
Countries in which only Carrefour is present	Armenia, Bahrain, Belgium, Brazil, Cameroon, Dominican Republic, Egypt, France, Georgia, Indonesia, Iran, Iraq, Italy, Ivory Coast, Jordan, Kuwait, Lebanon, Monaco, Morocco, Oman, Pakistan, Poland, Portugal, Qatar, Romania, Saudi Arabia, Spain, Syria, Taiwan, Tunisia, Turkey, United Arab Emirates.
Countries in which only Walmart is present	Botswana, Canada, Chile, Costa Rica, El Salvador, Ghana, Guatemala, Honduras, India, Lesotho, Malawi, Mexico, Mozambique, Namibia, Nicaragua, Nigeria, South Africa, Swaziland (Eswatini), Tanzania, Uganda, United Kingdom, United States, Zambia.

Walmart and Carrefour (2021).
Source: Companies' Annual Reports.

Market Drivers

Companies in industries where customers travel will follow these customers internationally:

- Hotel chains were first to offer a standardized experience worldwide.

- Fast-food restaurants followed their customers abroad (McDonald's first foreign ventures followed U.S. military personnel in Germany and Japan).

Market Drivers

Number of countries in which selected companies are present

McDonald's Restaurants	122
Hilton Hotels	119
Benetton Stores	120
Cartier Jewelry Stores	59
Rolls-Royce Dealerships	52
Samsung Phone Stores	74
Adidas Retailer	160

Self-reported country presence (2021).
Source: Companies' websites.

Technology Drivers

Buyers and sellers are increasingly technologically savvy and purchase goods from all over the world. The internet makes this process very simple:

- Paypal can be used to make and receive payments in 53 countries and can be used to make payments in 84 countries.
- eBay's “international shipping program” allows sellers to ship to 94 countries.
- Shutterstock has contributors in 150 countries.
- Apple’s “App Store” is present in 175 countries.

International Trade Theories

Multiple economic theories explain why countries trade with one another:

- Adam Smith's Theory of Absolute Advantage
- David Ricardo's Theory of Comparative Advantage
- Eli Hecksher and Bertil Ohlin's Factor Endowment Theory
- Raymond Vernon's International Product Life Cycle Theory
- Michael Porter's Cluster Theory
- Yossi Sheffi's Logistics Cluster Theory

Theory of Absolute Advantage

Adam Smith determined that, if a country can produce a certain good more efficiently than other countries, it trades with a country that produces other goods more efficiently.

	Wine	**Machinery**
France	20,000	2
Germany	15,000	3

In this case, both countries are using the same amount of labor to produce these alternatives. France will specialize in making wine, and Germany will specialize in making machinery.

Theory of Comparative Advantage

David Ricardo determined that nations trade with one another as long as they can produce certain goods relatively more efficiently than one another.

	Tons of Wheat	**Units of Machinery**
UK	25	5
Brazil	21	3

The UK has an absolute advantage in both machinery and wheat. However, in the UK, the relative price of 1 unit of machinery is 5 tons of wheat, and in Brazil, it is 7 tons of wheat.

The nations will trade: If the UK sells 1 unit of machinery to Brazil for 6 units of wheat, both the UK and Brazil are better off. The UK has a comparative advantage in producing machinery, Brazil in growing wheat.

Factor Endowment Theory

Eli Hecksher and Bertil Ohlin explain that a country would enjoy a comparative advantage over other countries if it is naturally endowed with a greater abundance of one of the factors of economic production.

The economic factors are land, labor, capital and entrepreneurship.

Country	**Abundant Resource**	**Comparative Advantage**
Argentina	Land	Beef
India	Educated Labor	Call centers
Hong Kong	Capital	Banking and trade
USA	Economic system where entrepreneurship and risk taking are rewarded	Innovation & development of intellectual property

International Product Life Cycle Theory

Raymond Vernon theorized that, over its life, a product will be manufactured in different types of countries, in stages, generating trade between these countries.

Stage 1

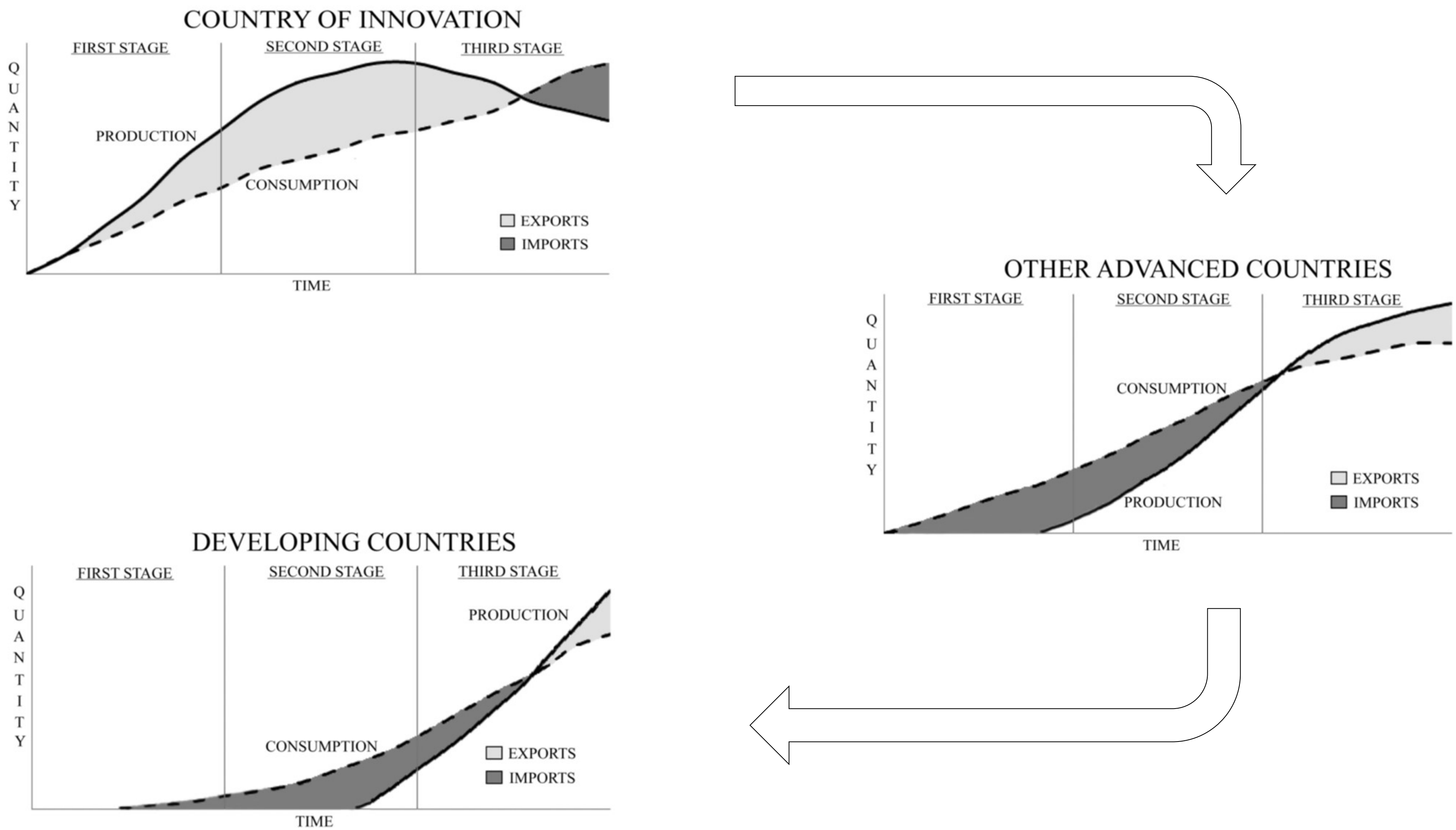
Product is created in developed country, using new technology and serving a market need.

Stage 2

As sales grow, competitors start to make similar products in other developed countries, responding to local needs.

Stage 3

Manufacturing of product has become routine, costs need to be reduced, and production moves to developing countries.


COUNTRY OF INNOVATION
FIRST STAGE
SECOND STAGE
THIRD STAGE
QUANTITY
PRODUCTION
CONSUMPTION
EXPORTS
IMPORTS
TIME
OTHER ADVANCED COUNTRIES
FIRST STAGE
SECOND STAGE
THIRD STAGE
QUANTITY
CONSUMPTION
PRODUCTION
EXPORTS
IMPORTS
TIME
DEVELOPING COUNTRIES
FIRST STAGE
SECOND STAGE
THIRD STAGE
QUANTITY
PRODUCTION
CONSUMPTION
EXPORTS
IMPORTS
TIME

Cluster Theory

Michael Porter observed that competitive clusters form when companies in the same industry, as well as their suppliers, concentrate in one geographic area. When this happens, the companies "feed" on each other's know-how, pushing them to innovate faster. They become so efficient and innovative that they become world-class suppliers.

Clusters

Silicon Valley, California, U.S.	Information technology
Sassuolo, Italy	Ceramic tiles
Genève, Switzerland	Watches
Yiwu, China	Socks & hosiery
Limoges, France	Porcelain

Logistics Cluster Theory

Yossi Sheffi expanded Porter's Cluster Theory to include clusters formed by companies involved in international trade. Logistics clusters form when logistics companies concentrate in one geographic area. When this happens, the companies allow manufacturers to operate more efficiently, since all the services they need to ship are located in one area. The logistics suppliers, even though they are competitors, actually help each other attract new customers.

Logistics Clusters

Singapore

Memphis, Tennessee

Amsterdam-Rotterdam, the Netherlands

Zaragoza, Spain

International Business Environment

To be successful in international logistics, not only is it important to have an understanding of logistics, but it is also fundamental to understand the international environment.

This can be achieved by learning a foreign language, taking classes in international economics, international finance, intercultural communication, and international marketing, but also by traveling frequently, meeting foreign nationals, and making an effort to understand what is happening in foreign countries.