Ministry of Higher Education and Scientific Research

University of Djilali Bounaama Khmis Miliana

FINANCE AND ACCOUNTING DEPARTMENT

LEVEL: 3RD YEAR ALL THE GROUPS.
MISS: NEDJMAOUI HAMIDA

Lesson 01:

International trade

International trade, economic transactions that are made between countries. Among the items commonly traded are consumer goods, such as television sets and clothing; capital goods, such as machinery; and raw materials and food. Other transactions involve services, such as travel services and payments for foreign patents. International trade transactions are facilitated by international financial payments, in which the private banking system and the central banks of the trading nations play important roles.

Historical overview

The barter of goods or services among different peoples is an age-old practice, probably as old as human history. International trade, however, refers specifically to an exchange between members of different nations, and accounts and explanations of such trade begin only with the rise of the modern nation-state at the close of the European Middle Ages. As political thinkers and philosophers began to examine the nature and function of the nation, trade with other countries became a particular topic of their inquiry. It is, accordingly, no surprise to find one of the earliest attempts to describe the function of international trade within that highly nationalistic body of thought now known as mercantilism.

Mercantilism

Mercantilist analysis, which reached the peak of its influence upon European thought in the 16th and 17th centuries, focused directly upon the welfare of the nation. It insisted that the acquisition of wealth, particularly wealth in the form of gold, was of paramount importance for national policy. Mercantilists took the virtues of gold almost as an article of faith; consequently, they never sought to explain adequately why the pursuit of gold deserved such a high priority in their economic plans.

Mercantilism was based on the conviction that national interests are inevitably in conflict that one nation can increase its trade only at the expense of other nations. Thus, governments were led to impose price and wage controls, foster national industries, promote exports of finished goods and imports of raw materials, while at the same time limiting the exports of raw materials and the imports of finished goods. The state endeavored to provide its citizens with a monopoly of the resources and trade outlets of its colonies.

The trade policy dictated by mercantilist philosophy was accordingly simple: encourage exports, discourage imports, and take the proceeds of the resulting export surplus in gold. Mercantilists' ideas often were intellectually shallow, and indeed their trade policy may have been little more than a rationalization of the interests of a rising merchant class that wanted wider markets—hence the emphasis on expanding exports—coupled with protection against competition in the form of imported goods.

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Liberalism

A strong reaction against mercantilist attitudes began to take shape toward the middle of the 18th century. In France, the economists known as Physiocrats demanded liberty of production and trade. In England, economist Adam Smith demonstrated in his book *The Wealth of Nations* (1776) the advantages of removing trade restrictions. Economists and businessmen voiced their opposition to excessively high and often prohibitive customs duties and urged the negotiation of trade agreements with foreign powers. This change in attitudes led to the signing of a number of agreements embodying the new liberal ideas about trade, among them the Anglo-French Treaty of 1786, which ended what had been an economic war between the two countries.

After Adam Smith, the basic tenets of mercantilism were no longer considered defensible. This did not, however, mean that nations abandoned all mercantilist policies. Restrictive economic policies were now justified by the claim that, up to a certain point, the government should keep foreign merchandise off the domestic market in order to shelter national production from outside competition. To this end, customs levies were introduced in increasing number, replacing outright bans on imports, which became less and less frequent.

In the middle of the 19th century, a protective customs policy effectively sheltered many national economies from outside competition. The

French tariff of 1860, for example, charged extremely high rates on British products: 60 percent on pig iron; 40 to 50 percent on machinery; and 600 to 800 percent on woolen blankets. Transport costs between the two countries provided further protection.

Technology

Technological development can also provide a distinctive trade advantage. The relatively advanced countries—particularly the United States, Japan, and those of western Europe—have been the principal exporters of high-technology products such as computers and precision machinery.

One important aspect of technology is that it can change rapidly. This is perhaps most obvious in the computer field, where productivity has increased and costs have fallen sharply since the early 1960s. Such rapid changes present several challenges. For countries that are not in the front rank, it raises the question of whether they should import high-technology products or attempt to enter the circle of the most advanced nations. For the countries that have held the technological lead in the past, there is always the possibility that they will be overtaken by newcomers. This occurred in the second half of the 20th century when Japan advanced technologically in its automobile production to the point where it could challenge the automobile leadership of North_America and Europe. Japan quickly became the world's foremost producer of automobiles, and, by the early 21st century, Korean automakers were following the Japanese example with the aggressive export of automobiles.

Technological advances also strengthen global trade in a general sense (electronic for example, reduced the impact of geographic distance by facilitating fast, efficient, real-time ties between businesses and individuals around the world. Indeed, at the end of the 20th century, information technology, an industry that scarcely existed 20 years earlier, exceeded the combined world trade in agriculture, automobiles, and textiles.

EXAMPLES OF INTERNATIONAL BUSINESSES

International businesses must have resilient, adaptable, communicative, and resourceful employees who know when to seize expansion opportunities. They need to have a deep understanding of international economics to anticipate how global markets will affect their bottom line and international marketing to effectively communicate their organization's value to diverse audiences.

Here's a look at five well-known international businesses that have successfully—and not so successfully—navigated the global market.

1. Apple

Apple Inc., founded by Steve Jobs, Steve Wozniak, and Ronald Wayne in the 1970s, is now considered one of the most influential international companies. Headquartered in the United States, Apple designs, develops, and sells electronics, software, streaming, and online services worldwide.

Apple opened its first international location in Tokyo, Japan, in 2003 after saturating the American market. Under Jobs, Apple touted ease-of-use, innovative design, and customer loyalty with the marketing slogan, "Think Different," and it continues to use visionary strategic marketing and a tight ecosystem to overcome competition and attract creative audiences around the globe.

Apple not only sells products internationally but has supply chains from 43 countries that ship supplies to China for final production and assembly. By keeping a tight-knit and strong relationship with suppliers, strategic inventory, and a focus on sustainability, Apple stands as one of the world's most successful companies.

2. Financial Times

The Financial Times is a formerly British daily newspaper that's now owned by the Japanese holding company Nikkei. The Financial Times' mission is to deliver unbiased, informed investment and economic information to empower individuals and companies to make secure investment decisions.

The Financial Times had a rocky start trying to break into the international market. Andrew Gilchrist, former managing director of the Financial Times, describes his experience at the publication in the online course Global Business.

During his tenure, the Financial Times prioritized entering the international market in India. Despite a large English-speaking population and strong government support, domestic journalism was considered culturally and legally suspect. In fact, the Financial Times was eventually tied up in legal knots because the local newspaper barons were able to challenge every move through the courts.

Eventually, the Financial Times' attempt to go international in India led to an economic slowdown and sluggish company growth.

3. McDonald's

Two brothers, Maurice and Richard McDonald, converted their drive-through barbecue restaurant in San Bernardino, California, into a burger and milkshake restaurant—now known as McDonald's—in 1948.

The McDonald brothers focused on creating a better business system geared toward self-service and efficient and repeatable processes that relied on heating lamps instead of waiters. This model, known as "Speedee," led to lower costs, cheaper products, and faster growth. It became the epitome of "fast food."

Soon after, Ray Croc took McDonald's a step further by bringing in franchisees and suppliers, leading to the creation of restaurants across the United States. McDonald's model continued to expand, and, in 1967, the company opened locations in Canada and Puerto Rico.

McDonald's has been internationally successful, thanks in large part to the consistency its business model allows. The fact that a Big Mac tastes the same regardless of which country you order it in is a testament to the company's long history. Today, there are 38,000 restaurants in more than 120 countries.

4. Coca-Cola

Coca-Cola was created by pharmacist John Pemberton in 1886 at a soda fountain in Atlanta, Georgia. It was used as a tonic for common ailments due, in part, to the addition of cocaine and caffeine derived from the kola nut, which was a major ingredient at the time. (This was later removed from the recipe in 1903.)

Although popular at its inception, Coca-Cola became the company it is today because of the marketing and business leadership of Asa Griggs Candler and future investors, who dramatically increased sales and expanded syrup factory production into Canada.

Eventually, an independent bottle company licensed the rights to Coca-Cola's syrup production and distribution, streamlining production and generating massive profits. Coca-Cola later remarketed for Germany, China, and India, and it's now sold everywhere except Cuba and North Korea.

Coca-Cola currently has over 900 bottling and manufacturing facilities worldwide, many of which are in North America, Asia, and Africa.

5. H-E-B

H-E-B is a popular American grocery company with more than 340 stores in Texas and northeast Mexico. It was founded by Florence Butt in 1905 and expanded into Mexico in 1997.

The primary driver of international expansion wasn't a desire to capture greater market share, but rather, a desire to gain access to foreign produce markets in warmer climates, from which the company could source produce during its domestic suppliers' off-season in the northeastern United States.

Craig Boyan, president of H-E-B, explains in Global Business that, upon becoming an international business, H-E-B bought blueberries from Chile and Peru to sell year-round. Despite it being expensive to ship blueberry crates to Texas, this enabled the company to continue meeting its customers' needs. Since then, production has increased with demand, especially in Mexico, which has an ideal climate to produce blueberries year-round. H-E-B now sources blueberries mostly from Mexico, making them more available and affordable for customers.