

## Topics in global markets



adapted from Keith Head (2006)

## Chapter 1: Business Across Borders

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### Objectives of this session

- Define "international."
- Introduce the key international business (IB) *transactions* and *entities*.
- Analyze the factors that make *International Business* more costly than domestic business and—potentially—more rewarding: *The Six Forms of Separation*.

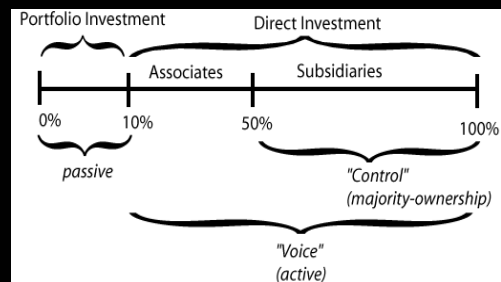
### What makes a transaction "international"?

Residence Test: are the permanent addresses ("centres of economic interest") for buyer and seller in different countries?

Other criteria: nationality, "origin"

### Transaction types

- Trade: exports (+) & imports (-)
  - Merchandise
  - Services
  - Goods for processing
- Income receipts (+) & payments
  - Investment income
  - Employee compensation
- Investment sales (+) & purchases
  - Portfolio Investment
  - Direct Investment
  - Acquisitions of intangibles (IP)



## I.B. Entities

- Uninational Enterprises
- Multinational Enterprises
  - MNCs (ex McKinsey)
  - MNPs (Exxon, GM, Nokia.....)
- Multinational Contractual Networks
  - Supply & distribution networks (ex Nike)
  - Alliances between competitors (ex airlines)

## Six Forms of Separation

- Political Separation
- Physical Separation
- Relational Separation
- Environmental Separation
- Developmental Separation
- Cultural Separation

## Political Separation



## Political Borders Impede

- Movement of Goods: *Customs*
- Movement of People: *Immigration*
- Movement of Money: *Currency exchange*
- Movement of Capital: *Regulation, Taxation*
- Movement of Ideas: *Censorship, Firewalls*

## Political Separation

- Since 1945 three major trends:
  - a) 1950 74 countries  
2006 220 countries  
(but, note EU creation...)
  - b) Creation of international institutions
  - c) Proliferation of preferential trading agreements

## Physical Separation



## Physical Separation

- Natural barriers to movement of goods, people, and information.
  - Oceans
  - Mountains
  - DISTANCE
- Costs of
  - transport (goods)
  - travel (people)
  - communication (information)

## Physical Separation



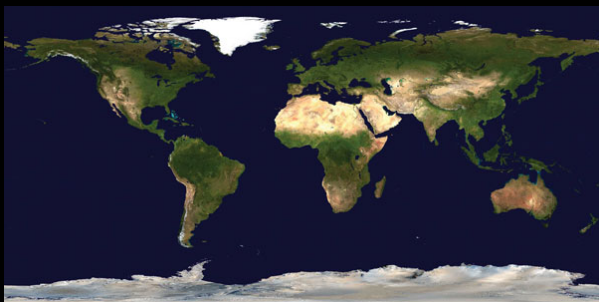
## Relational Separation



## Relationships, Trust, & IB Transactions

- Transactions rely on trust
  - Between buyers and sellers
  - Of public officials
  - Of intermediaries
- International transactions undermine trust
  - Lack of information about *reputations*.
  - More unforeseen contingencies make contracts incomplete.
  - Unfamiliar legal systems
  - Distant and possibly biased courts
- Role of networks

## Environmental Separation



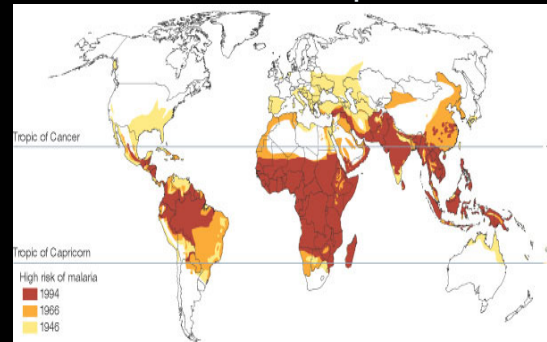
## Environmental Separation: Why?

- Foreign countries are far away (phys. sep.)
- Far away countries tend to be **different** (env. sep.)
  - Climate
  - Surface and sub-surface resources
  - Topography (→population density)

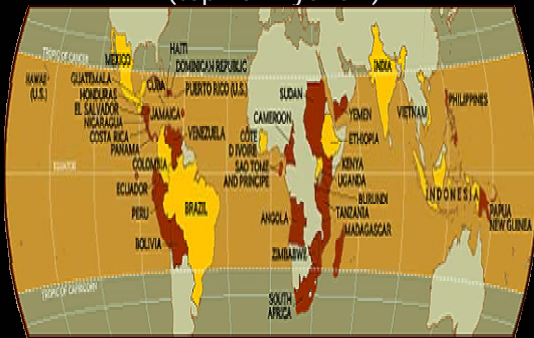
## Environmental Separation: So What?

- ES generates two conflicting effects on int. bus. (especially trade in goods)
  - a) Supply side: differences create opportunities for gains from trade
  - b) Demand side: differences change consumer demands and require market adaptations in product attributes
- Differences raise difficulties for expatriate managers ("hardship" areas)

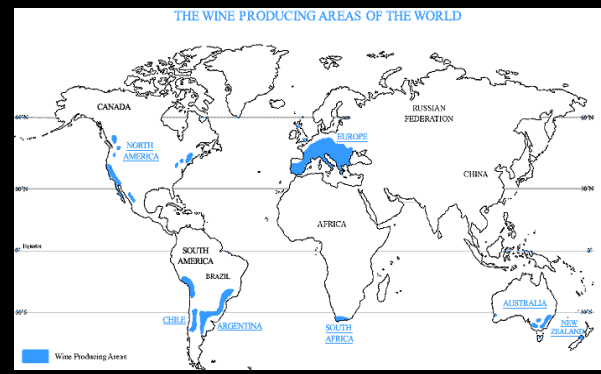
## Environmental Separation



## Environmental Separation: the coffee belt (top 10 in yellow)



## Environmental Separation: wine producers



## Developmental Separation



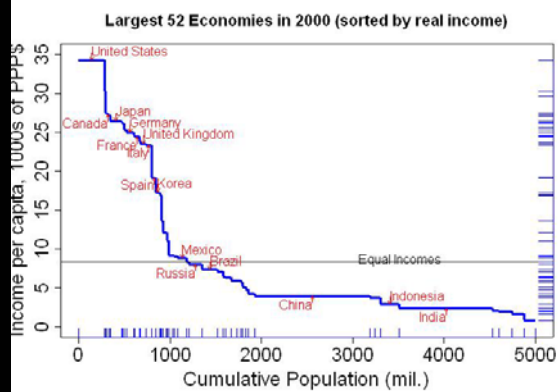
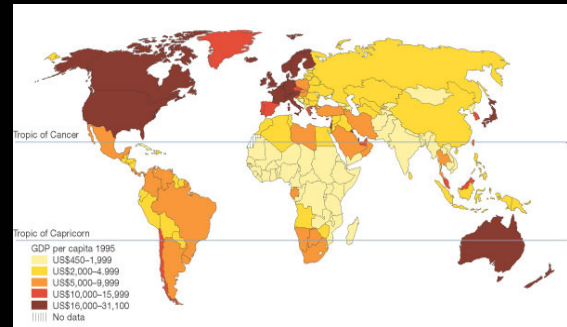
## Developmental Separation: How to Measure it?

- Canada: leb 79.2 years, 0% live on <\$1/day
- China: 70.2 years, 16% live on <\$1/day
- Indonesia: 66.2 years, 7.2% live on <\$1/day
- Nigeria: 51.8 years, 70% live on <\$1/day

## Developmental Separation: How to Measure it?

- Economists focus on Real Income per Person, or the closely related *per capita gross domestic product (GDP)*
- The idea is to capture the total amount of goods and services the average person could buy.

## Developmental Separation



## Developmental Separation: Why?

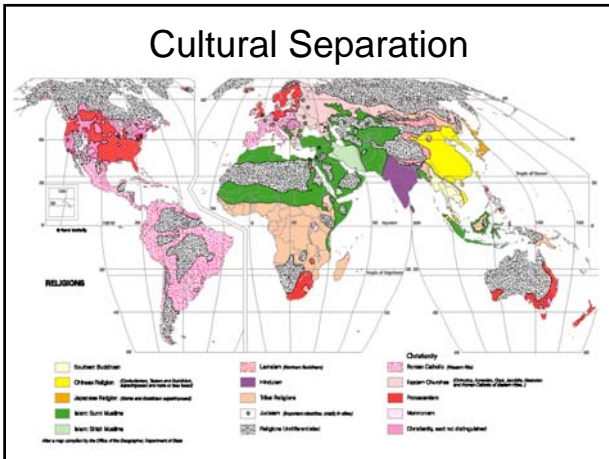
- Differences in income per capita arise mainly from
  - different rates of economic participation
  - differences in "capital" per worker.

## Capital takes many forms

- Physical capital (plant & equipment)
- Natural capital (rivers, sunshine, oil reserves)
- Human capital (skills from education & experience)
- Intellectual capital (patents & brands)
- Social capital (trust & associations)

## Developmental Separation: So What?

- Income differences affect *how much* consumers can purchase and also the *attributes* of goods that they demand.
- Incomes differences reflect differences in capital endowments that determine worker productivity. **Poor** countries are often **not cheap** countries due to corruption, lack of infrastructure, etc.



### Cultural Separation: Two Mechanisms

I. Legacy of a predominately *common heritage*

- We teach our children what our parents taught us, which they learned from their parents...
- Examples: surnames, religion, language, politics, family recipes, home remedies.

### Cultural Separation: Two Mechanisms

II. Imitation of “peers” (*local interactions*)

- Conformism (direct desire to imitate)
- Social learning
- Conventions (coordination)



### Social Separation leads to differences in norms of conducting business

- HSBC’s slogan: “Never underestimate the importance of local knowledge”
- In partnership with Time Magazine, prepared a guide to business “styles” in 10 countries: [alphabetically] Brazil, Canada, China, France, Hong Kong, India, Japan, Kazakhstan, United Arab Emirates, United Kingdom.

### Country 1

- Goodwill expressed through giving of small gifts.
- Obligatory exchange of business cards
- Slow pace of negotiations
- Unlikely to enter into business until a personal relationship or “guan xi” has been established.
- At conclusion of deal, expect a lavish banquet.

## Country 2

- Enjoy "heated" debates, but must maintain composure and mask frustration.
- Intensely hierarchical
- Formal: use business titles and the "v----" not the "t---" form.
- Never mention money in the early part of a meeting.
- Passionate about good food and wine.

## Country 3

- Flexible in managing problems, have a special word for "innovative" ways around difficulties.
- Open-minded and receptive to new ideas
- Offended if you assume they speak Spanish.
- Relaxed about time-keeping; don't rush off after meetings.

## Country 4

- Move very quickly.
- Arriving late for a meeting is seen to signify a lack of serious interest.
- Shrewd negotiators, with entrepreneurial flair
- Business cards should be presented with both hands.

## Country 5

- English is not widely spoken; translators needed.
- Pace of business is slow.
- Foreign delegates may be invited home for tea or to visit a communal sauna.
- Frequent toasts of vodka and cognac are customary at business dinners.
- Intensely hierarchical; seating dictated by rank.

## Country 6

- Consider it very rude to keep people waiting.
- Class-system still important: "old boy's network"
- Firm handshake is customary
- Humor is sarcastic but not intended to offend.
- Often aloof but detached manner does not mean uninterested.
- If invited to associate's home, bring a bottle of wine, and follow-up with a thank-you note.

## Country 7

- Proud of their distinct heritage and unique cultural identity
- Business culture can be hierarchical.
- Meetings usually very democratic, with everyone encouraged to voice opinions.
- Important to be punctual.
- Lunches are light with no alcohol or smoking.

## Country 8

- Relaxed about time, meetings begin with small talk and tea.
- Negotiations are good humored and informal.
- Men do not usually shake hands with women.
- Visitors should not order alcohol unless host tells them it is OK.
- Eat with right hand only.

## Country 9

- Formal, hierarchical culture: never use first names
- They bow to each other, but you expect a nod and light handshake from you.
- Receive a business card with both hands and read it carefully.
- Do not be abrupt or display negative emotions.
- Business entertaining may be on golf course.

## Country 10

- Meetings start with small talk and tea.
- Very hierarchical society: awareness of rank.
- Those with authority are decisive; subordinates avoid decision making.
- Business negotiations can be long and itineraries subject to last minute changes.
- A deal is often sealed with a meal.
- Leave a little food on you plate.

## Score your own "local knowledge"

1. China
2. France
3. Brazil
4. Hong Kong
5. Kazakhstan
6. United Kingdom
7. Canada
8. United Arab Emirates
9. Japan
10. India

## Country X

- Arrive at meetings on time.
- Be patient if meetings are slow to start or finish.
- Shake hands and present and receive business cards *attentively*.
- Be aware and respectful of hosts' religious and linguistic differences.
- Observe rules of rank and seniority.
- Be formal until invited to be familiar.