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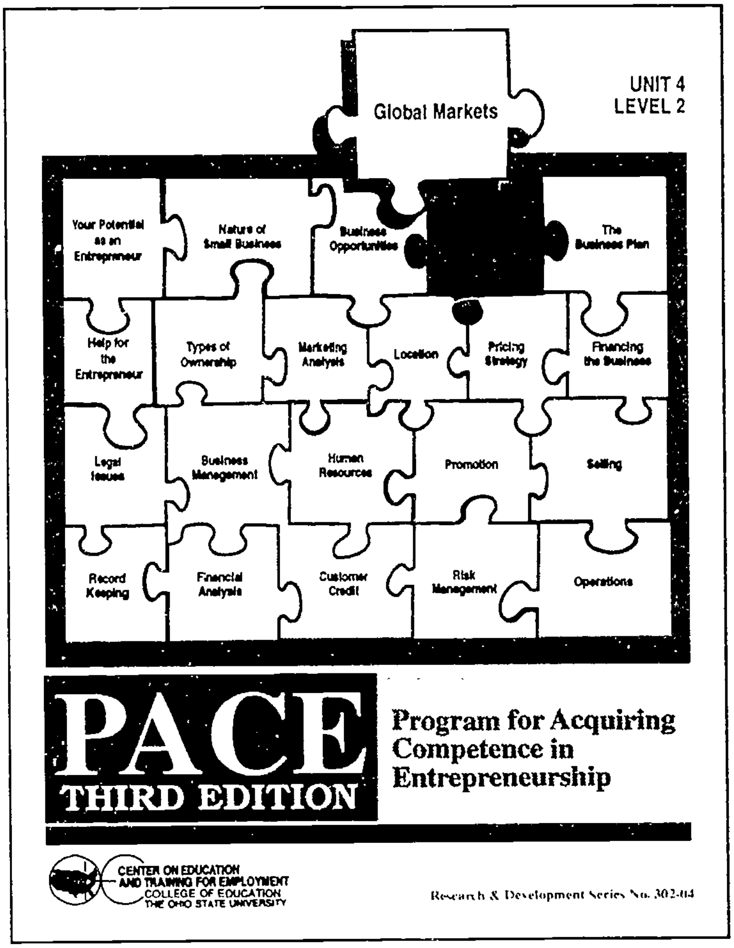
ABSTRACT

This instructor guide for a unit on global markets in the PACE (Program for Acquiring Competence in Entrepreneurship) curriculum includes the full text of the student module and lesson plans, instructional suggestions, and other teacher resources. The competencies that are incorporated into this module are at Level 2 of learning--planning for a business in one's future. Included in the instructor's guide are the following: unit objectives, guidelines for using PACE, lists of teaching suggestions for each unit objective/subobjective, model assessment responses, and overview of the three levels of the PACE program. The student module includes the following: specific objectives, questions supporting the objectives, complete content in the form of answers to the questions, case studies, individual activities, group activities, discussion questions, assessment questions, and list of 15 references. Model assessment responses are provided in the instructor materials. These six objectives are addressed: identify the importance of international trade; describe the reasons for exporting; describe the reasons for importing; use international trade/economic terms correctly; discuss the socioeconomic differences between potential trading partners; and identify international trade opportunities for one's business idea. (YLB)



INSTRUCTOR GUIDE

Unit 4

Global Markets

Level 2

Objectives:

- Identify the importance of international trade.
- Describe the reasons for exporting.
- Describe the reasons for importing.
- Use international trade/economic terms correctly.
- Discuss the socioeconomic differences between potential trading partners.
- Identify international trade opportunities for your business idea.

HOW TO USE PACE

- Use the objectives as a pretest. If a student is able to meet the objectives, ask him or her to read and respond to the assessment questions in the back of the module.
- Duplicate the glossary from the *Resource Guide* to use as a handout.
- Use the teaching outlines provided in the *Instructor Guide* for assistance in focusing your teaching delivery. The left side of each outline page lists objectives with the corresponding headings (margin questions) from the unit. Space is provided for you to add your own suggestions. Try to increase student involvement in as many ways as possible to foster an interactive learning process.
- When your students are ready to do the *Activities*, assist them in selecting those that you feel would be the most beneficial to their growth in entrepreneurship.
- Assess your students on the unit content when they indicate they are ready. You may choose written or verbal assessments according to the situation. Model responses are provided for each module of each unit. While these are suggested responses, others may be equally valid.

Objectives	Teaching Suggestions
1. IDENTIFY THE IMPORTANCE OF INTERNATIONAL TRADE	
What is the role of international trade in our economy?	The student is being introduced to the definition of international trade. Hold an open discussion about some United States historical events which emphasize international trade opportunities.
What types of businesses can take part in international trade?	Use the chalkboard or an overhead to list different types of businesses involved in international trade.
2. DESCRIBE THE REASONS FOR EXPORTING	
Why does it make sense for businesses to export?	Lead studentws in a discussion on why trading with other countries is important. Ask them about their prior knowledge about products imported from overseas and American products exported to different regions abroad. During the course of the discussion, emphasize competition, pricing, demand and supply, innovation, seasonal differences and profitability aspects of international trade. Have students give specific examples.
3. DESCRIBE THE REASONS FOR IMPORTING	
What are the reasons that businesses import?	Discuss the reasons that businesses import goods.
4. USE INTERNATIONAL TRADE ECONOMICS TERMS CORRECTLY	This objective is reached as the teacher covers the entire unit. It is useful to make a point of asking students to understand and learn to define international trade and economics terms correctly. Whenever possible, relate definitions to examples.
5. DISCUSS THE SOCIO-ECONOMIC DIFFERENCES BETWEEN POTENTIAL TRADING PARTNERS	
What are the political and legal differences between potential trading partners?	The instructor should introduce the terms *embargo trade sanction* and *quotas for import*. Gradually students should be asked to offer their opinions about the political implications of these international trade actions.
What are the cultural differences between potential trading partners?	This is a good time to acquaint students with Axtell's book *Do's and Taboos Around the World*. Coordinate a discussion about cultural differences.

Objectives	Teaching Suggestions
6. IDENTIFY INTERNATIONAL TRADE OPPORTUNITIES FOR YOUR BUSINESS IDEA	
How do you find opportunities for exports and imports? What are the major global markets?	Use the chalkboard or an overhead to list different organizations which can provide information about international trade opportunities. If possible, invite a representative of your local or state chamber of commerce as a speaker. Ask the students to go to your local library to look for directories, maps, articles that provide information about international trade opportunities.
Where does the United States export most? What types of international trade assistance could a small business use?	Ask students to consult your local library for resources that list major companies which do business around the world. Use a world map and pins to locate the markets in which these companies operate.

MODEL ASSESSMENT RESPONSES

1. *Global market* defines international marketing in the context of today's business world. This term is relatively new and is meant to replace "international trade" which became obsolete due to its product bartering connotation. Initially, global markets considered only international marketing activities as performed by larger corporations. However, the concept was extended to medium- and small-sized businesses.

2. In the last decade, the Japanese were very successful in overseas markets because they realized that the way to keep their competitive advantage was by expanding internationally. More precisely, the Japanese understood that by "adding value" to domestic products, they could sell their products overseas at good profits, and build a technological reputation.

3. Three types of business that can take part in international trade are manufacturing companies, franchises and financial institutions. Manufacturing firms sell their products to distributors or end users, or build factories to encourage cost-saving production in other countries. Examples include maquiladora plants in Mexico. Franchises can be operated overseas by independent businesspersons who buy the right to use a company'sname, logo, production process, marketing campaign, etc. for a royalty fee. Examples of franchises include McDonald's, Kentucky Fried Chicken, Wendy's, etc. Financial institutions provide assistance to businesses in international trade in the form of currency exchange, letters of credit, banking, and other kinds of financial expertise.

4. Entrepreneurs have numerous reasons to engage in international trade some of which are: (1) cost-saving production offered by low wages and low-priced raw materials/parts available overseas, (2) the opportunity to market your product in new markets when rivals enter the domestic market and force you to lower your prices, and (3) evening out of product seasonality by marketing products in foreign markets when demand in the home country is low.

5. Entrepreneurs can use several approaches to find opportunities for importing and exporting products: (1) contacting trade associations for products/services, and inquiring about information on foreign markets;

(2) contacting local import/export companies and inquiring about persons who are product knowledgeable and act as commissioned sales representatives in foreign countries; and (3) contacting local, federal and state agencies which have ongoing programs to assist in informing entrepreneurs with international commercial activities.

6. There are different ways to identify major international markets. A common approach is by the level of national industrialization, that is, the extent of development and sophistication of the businesses and the country's infrastructure. This method is important because it shows how easily companies can do business with one another within the country's boundaries and internationally. It also makes it possible for entrepreneurs to estimate risk involved with doing business and the product demand in the foreign country.

   Another method of assessing potential foreign markets is by consulting international marketing and statistical publications available at your local library. This way, the entrepreneur will be able to investigate data related to size and purchasing power of population, purchasing habits, etc.

7. The largest importer of American made products is Canada (see Figure 1, Top 25 U.S. Markets).

8. There are numerous types of international trade assistance small business can benefit from. These include U.S. Department of Commerce, U.S. Small Business Administration, and commercial banks.

9. Cultural differences between trading partners should be taken into account even before the first business meeting. Different cultures determine different people's values and attitudes, and consequently, they influence people's purchasing behavior and way of doing business. You can avoid miscommunications and business mistakes by learning the language of your trading partner, by experiencing his/her lifestyle, employing consultants or somebody from the foreign country to become part of your stategic planning.

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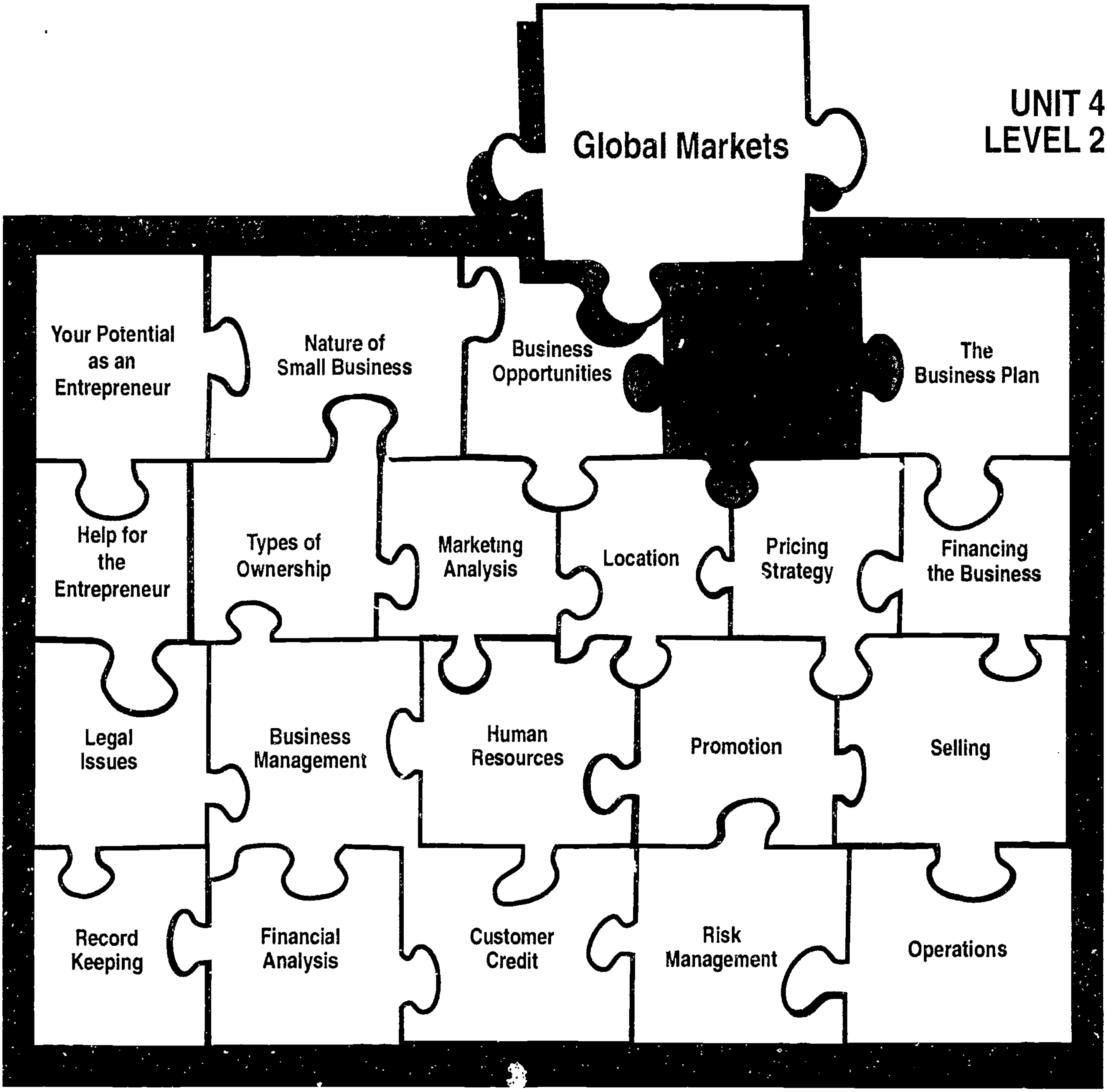
UNIT 4
LEVEL 2



PACE
THIRD EDITION

Program for Acquiring Competence in Entrepreneurship

CENTER ON EDUCATION
AND TRAINING FOR EMPLOYMENT
COLLEGE OF EDUCATION
THE OHIO STATE UNIVERSITY

Research & Development Series No. 302-04

GLOBAL MARKETS

BEFORE YOU BEGIN . . .

1. Consult the *Resource Guide* for instructions if this is your first PACE unit.

2. Read What are the Objectives for this Unit on the following page. If you think you can meet these objectives now, consult your instructor.

3. These objectives were met in Level 1.

    - Define international trade.

    - Describe trade regions of the world.

    - Discuss reasons for exporting and importing.

    - Identify the impact cultural differences have on business opportunities.

4. Look for these business terms as you read this unit. If you need help with the meanings, ask your instructor for a copy of the PACE Glossary contained in the *Resource Guide*.

Acceptance
All-risk clause
Arbitrage
Balance of trade
Barter
Carrier
Certificate of origin
Commercial invoice
Common carrier
Consulate
Customs
Draft
Duty
Embargo
Excise tax
Export broker
Franchisers
Manufacturers
Tare weight
Tariff
Open cargo policy
Retailer
Wholesaler
World Trade Club

GLOBAL MARKETS

WHAT ARE THE OBJECTIVES FOR THIS UNIT?

Upon completion of this unit you will be able to—

- identify the importance of international trade,
- describe the reasons for exporting,
- describe the reasons for importing,
- use international trade/economic terms correctly,
- discuss the socioeconomic differences between potential trading partners, and
- identify international trade opportunities for your business idea.

WHAT IS THIS UNIT ABOUT?

Advances in technology over recent decades are ensuring that the business world is becoming more globalized. This means that companies are no longer operating in isolation from one another. In the same way that a business in Chicago is affected by what happens in New York, now businesses in Chicago are also being affected by what happens in Japan, Germany, and Mexico. Increasingly, businesses are finding customers and suppliers from the other side of the world and are building profitable markets in the most unlikely places.

The purpose of this unit is to introduce you to the concepts and workings of the global marketplace. Upon completing this unit you will have a clearer understanding of how global markets will affect domestic business as well as the role of the entrepreneur in the global marketplace.

WHAT IS THE ROLE OF INTERNATIONAL TRADE IN OUR ECONOMY?

Ever since the earliest days of American settlement, trade with other countries has been an integral part of the American

economy. Before the war for independence, merchants did a lot of their business with both Great Britain and other Commonwealth countries. However, after independence was declared, many of those easy and profitable trading relations dried up overnight, and the American merchants were left to their own resourcefulness. Merchants rose to the challenge by sending ships full of American merchandise to the far ports of Asia and Africa, giving birth to the infamous "Yankee Trader." The Yankee Traders became known for their shrewdness and cunning, often getting very high prices for merchandise. The spirit of the Yankee Trader was in their willingness to throw caution to the wind and travel great distances in order to make a good profit.

The Civil War put a halt to the majority of international trade. Many industries either ceased to exist or became consumed by the war effort. Both the North and the South imported vast amounts of equipment and clothing to sustain the War, causing the whole country to fall deeply into debt. However, the economy rebounded quickly after the War, as merchants no longer traded in only agricultural goods, but now also industrial products like railways and ships. The industrial revolution led the country to a string of 90 years of trade surpluses that would have been uninterrupted but for the Great Depression.

American industry was well positioned by the time the Second Great War occurred. American soldiers acted as a distribution network for American made products, and soon the letters USA stamped on an item almost guaranteed a good price. By the end of the war, America was considered the global force in international trade. In the following decades, the United States balance of *trade surpluses* (the difference between exports and imports) grew at astonishing rates.

This trend continued up until the early 1970s, when the trade balance first went from surplus to deficit. That meant that as a country, the United States imported more than it exported in terms of dollar value. Since that time the deficit has become almost uncontrollable, and many nations have become more competitive in international markets than the United States.

The reasons for the decline in strength are many. The most clear is the development and strength of countries like Japan, who were able to rebuild their economies after the war, take the lessons learned by industrialized nations, and start from scratch. The reason the Japanese became competitive so quickly was because they understood the source of their competitive strength. They realized that their competitive strength came from their ability to "add value" to goods domestically, then sell them overseas at a profit. The Japanese had the foresight to recognize that the future of their domestic economy lay in the hands of the global economy. Consequently, the Japanese placed a great emphasis on importing and exporting. They imported raw materials, built televisions, cars, and radio transistors, and sold them overseas in the United States, Europe, and other parts of Asia. The Japanese rode the wave of globalization to build one of the most powerful economies in the world.

The Japanese recognized early on that a healthy trade balance is essential for the overall health of the economy. If there is an imbalance, that means that more money is flowing out of the economy than is flowing in, which means that overall there is less money to go around. That is not good for an economy. Nevertheless, a healthy trade balance is not the responsibility of the government alone. The business community must take the initiative and forge good trading relations with other nations and attempt to correct the imbalance. Medium and small businesses are not left out of this equation. It is time to recapture the spirit of the Yankee Trader and make bold steps toward rebuilding America's international competitiveness.

WHAT TYPES OF BUSINESSES CAN TAKE PART IN INTERNATIONAL TRADE?

Almost any type of business can benefit from international trade. Although it is a generalization, larger businesses were traditionally the main players in international markets because they had the capital required to deal with the sizable risks inherent in international trade. Meanwhile, smaller companies prospered in the growing United States economy, so they never felt the need to expand overseas.

However, today there are compelling reasons why all types of businesses should become members of the global marketplace. And there are numerous opportunities to do so. With careful planning and a thorough understanding of the risks, many businesses can increase their competitiveness and profitability by looking for opportunities overseas. The following are examples of how different types of companies can take part in international trade:

Manufacturers sell their products to distributors, customers who are end users, or even build factories to encourage cost-saving production in other countries. Manufacturers generally become a success at home before expanding internationally.

Wholesalers buy and sell large quantities of related goods to sell to retailers at a profit. These companies are called *importers* if they bring foreign goods to our country. They are called *exporters* if their job is to sell a variety of goods to customers in other countries.

Agribusinesses produce and sell food and food byproducts on a global scale.

Retailers sell goods to end consumers. They may buy imported products from manufacturers or wholesalers, or they may buy directly from both domestic and international manufacturers.

Franchisers are successful retailers who set up branch stores, additional shops, or even sell their idea through a *franchise* in order to do business in other countries. A franchise operates by an independent businessperson buying the right to use a name and logo on their own store in exchange for a royalty fee. Examples of franchises that are successful internationally include "McDonald's", "Wendy's", and "Kentucky Fried Chicken" restaurants, which can be found in almost every part of the world.

Entertainment has no borders when it comes to selling the services of popular entertainers. Agents for the entertainers and those who serve their business needs (e.g., booking shows, organizing accommodations, transporting instruments, getting backup musicians, etc.) find themselves in international business by default, as the entertainers perform around the world.

Financial institutions have begun to specialize in assistance to businesses in international trade, providing currency exchange, letters of credit, other financial exchange, and banking expertise.

Consultants are people who have expertise in any of the various international business operations, or expertise and contacts in individual countries. They may include lawyers, accountants, interpreters, management consultants, or international document experts.

Transportation whether by ship, air, truck, or rail, products must be moved quickly and safely in the international market. As the global market becomes more competitive, the need for fast and efficient transportation will continue to grow.

Hospitality industries include hotels, restaurants, and tourist agencies. They find that international trade brings new types of customers with new tastes and preferences. Many hotels have been successful at expanding overseas by offering travellers a familiar hotel in exotic and unfamiliar parts of the world.

Services are the fastest growing segment of the U.S. economy. They will find new products and processes being developed in other countries that can be introduced in America. These products require repair and other services that must be available locally. They may also find opportunities to franchise new services in other countries as well as the United States.

WHY WOULD YOU WANT TO TRADE WITH OTHER COUNTRIES?

As a small business owner, you must decide whether there is an advantage to you in trading with other countries. Some of the many reasons might include the following:

- Prices of goods may be lower in other countries, particularly where wages of the workers, or raw materials prices are low. Therefore you may be able to purchase parts or raw materials for your manufacturing process overseas for a lot less than the same materials at home.

- When competition at home is intense you may need to reduce prices, or you may identify new markets in other countries where competition is not as intense.

- Many American products may tap into overseas demand that is currently not serviced because the products are not supplied in foreign markets. However this type of opportunity will become less common as the global market becomes more aware of exactly what is available everywhere.

- New markets for your product may lead to new innovations during the product modification process that have not been considered previously.

- Seasonal differences in sales may be evened out by selling to other parts of the world. For example, your line of summer clothing will be coming into fashion in the southern hemisphere just as it is being put away for winter at home.

- Profit margins might be higher in countries where people are eager to get your unusual product. However, pricing of your product in international markets is a complicated procedure, and it is dangerous to assume that you can make more money in a market where your product is well known. There may simply be no need for it!

Several questions need to be answered before you can enter the global marketplace:

- Is your company at a point where going international makes economic sense?

- Are you capitalizing on opportunities that have presented themselves, or are you responding tc a competitive threat?

- What is the quantity of resources that you are able to commit to the effort?

- Do you have any expertise that can be utilized? How much are you prepared to pay for expertise and help? How much time do you have to make sure that it is done with the minimum of risk?

Only once these questions have been answered are you in a position to begin the search for the perfect market that offers the highest probability of success.

WHY DOES IT MAKE SENSE FOR BUSINESSES TO EXPORT?

Companies can start to export for two basic reasons. The first is for the growth in profitability of the company. The second is in response to a external threat such as a decline in domestic profitability or the entry of a new competitor into the domestic market.

Companies can improve profitability in three primary ways: they can cut costs, increase the price, or sell more. Obviously, this is a simplistic approach, but it is a useful way of breaking business down into its primary elements. Exporting is a way of both cutting costs through economies of scale, and increasing sales. The profit potential for exporting is very large, but there are a number of risks that will be discussed in detail later in this unit.

In addition to increasing sales and cutting costs, there are other benefits that can be realized by exporting. These include making use of unique competitive information that your company may possess, deriving technological competitive advantage from the product development process, and taxation benefits.

Companies may also begin to export in response to competitive pressures at home. If the company has produced too much and needs to offload excess stock, or if the production capacity of the company is not being maximized, the goods can be offloaded in international markets to the benefit of the domestic company. Similarly, if the local markets are saturated and domestic sales are declining, then there could be potential in shipping goods to less competitive markets. This may happen because new domestic or foreign companies have entered the marketplace.

WHAT ARE THE REASONS THAT BUSINESSES IMPORT?

Importing can take a variety of forms for domestic companies. These include the importing of finished goods for resale (such as a car made in Germany), the importing of raw or unfinished goods to become part of the manufacturing process, or the importing of goods that a company has manufactured overseas. Another way to import is called *global sourcing*. An example of global sourcing would be the importing of leather to make shoes that are manufactured within the United States.

The most compelling reason to source globally is that you can save a lot of money by doing it, while improving the quality of your end product at the same time. For many years the United States was the world leader in manufacturing technology, and the domestic market was the first place to look for components that companies could include in their finished goods.

However, the situation is very different today. For example, in the early days of television, General Electric (GE) was the largest producer of color television tubes. Any company that wanted to make TVs would go to GE for the tube. However, currently many companies around the world manufacture TV components, often providing higher quality at a lower cost than what is available in the United States. Can you see why it makes good business sense for manufacturers to explore other global markets for sourcing opportunities.

Another form that importing can take is that of manufacturing complete units overseas, then shipping the finished goods back home for domestic sale. This is becoming more common as companies attempt to benefit from cheap labor that is available in international markets. Many products are manufactured by American companies in their overseas manufacturing facilities. This activity is sometimes politically unpopular. The general impression is that the U.S. work force suffers from sending work abroad, and it almost certainly does. But because American consumers demand that their products represent good value, being inexpensive is becoming a competitive necessity for many domestic companies. Producing goods overseas represents one way of cutting costs, thereby giving the manufacturer the opportunity to pass the savings on to the American consumers.

HOW DO YOU FIND OPPORTUNITIES FOR EXPORTS AND IMPORTS?

The decision to market internationally could be one of the most crucial strategic decisions that your company makes. There may be a great many opportunities overseas for your product or service, yet the road to international markets is full of potholes that must be seen and avoided. Choosing the right market to enter is as important as the decision to start a small business in the first place, and this decision process may reflect much of the thinking you underwent when you first started your business.

In international trade, it is most common for a business owner to be successful in the American market first. Then, when efficiency and effectiveness are maximized, it may be possible to expand to other countries. To determine which countries might provide the greatest opportunity for your product or service, you may wish to try any of the following:

- Contact the trade association for the product or service you sell and inquire as to information pertaining to foreign markets.

- Contact your local and state chambers of commerce to gather information regarding foreign buyers active in your area. Also, indicate your interest in participating in local trade fairs and expositions that are conducted for foreign commercial and government buying activities.

- Contact local export/import companies and inquire about persons who are knowledgeable in your product or service and are acting as commissioned sales representatives or independent distributors in foreign countries.

- Contact trade promotion organizations in specific countries. Contact their U.S. embassies for names and addresses. Check your library to see if they have the *Croner's Reference Book for World Traders* to give you more details. Many foreign trade promotion agencies have offices in the United States.

- Local, state, and federal government agencies have ongoing programs to advise the small business owner about international commercial activities.

- If you have the opportunity to travel, you can make contacts directly with potential suppliers and distributors and evaluate them yourself.

- Advertise in foreign trade journals or United States trade journals that are published or distributed around the world.

- Check your library for directories of suppliers from certain countries or regions.

- Talk to other exporters in your area—they may have excellent ideas based on personal experience.

WHAT ARE THE MAJOR MARKETS OF THE WORLD?

There are over 300 countries in the world, most with different customs, languages, and needs. Selecting the country and market you wish to do business with is the most important ingredient in taking your business overseas. This decision will have a direct impact on the success of the venture and will have long-term implications for profitability. This question should be taken very seriously, as the answer lies at the heart of your reasons for expanding into foreign markets.

Entering any new marketplace demands substantial planning, and the global marketplace is no exception. The risks involved in the venture must be measured carefully and accounted for, and the entire company must be ready for the substantial changes in both operations and culture that will result.

There are a number of ways of dividing the world in terms of economic development. A popular and common method is by the level of national *industrialization*. Industrialization refers to the extent of development and sophistication of the businesses themselves, and the development of the infrastructure within the country. The infrastructure refers to the transportation and communication systems that have been built by the government to support both businesses and private citizens. The United States has an advanced level of industrialization and infrastructure. We have one of the most comprehensive transportation systems, as well as one of the best telecommunications networks in the world. The quality of the infrastructure of a country affects how easily companies can do business with one another and other companies around the world.

There are four grades of industrialization that are commonly used:

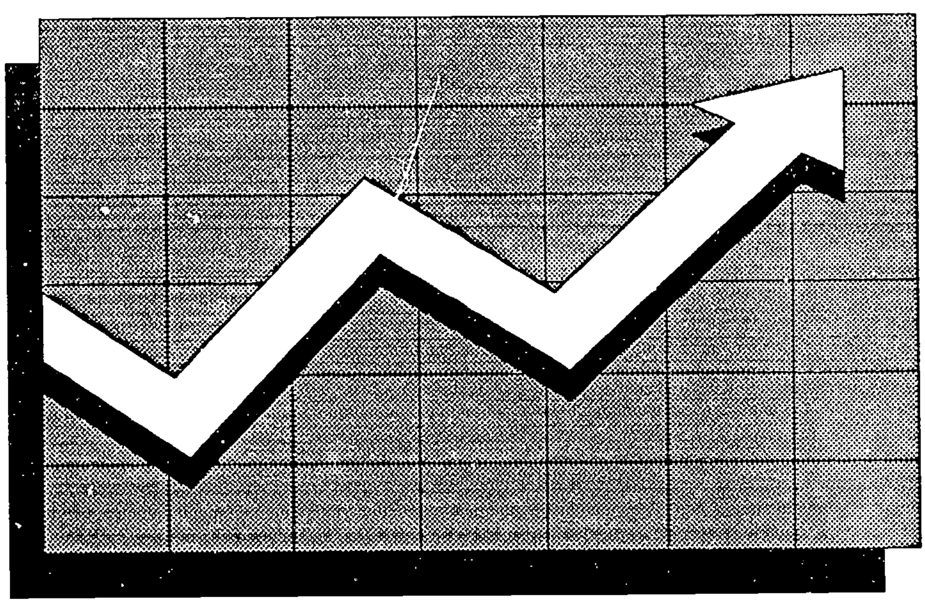
1. **Industrialized:** If a country is industrialized then it has an advanced infrastructure and a high level of sophistication within local businesses. This includes both manufacturing and service-based industries. The majority of the Western world including the European Community, North America, and some parts of Asia would be considered industrialized.

2. **Middle income developing countries:** These are countries that have primarily a natural resource or agricultural-based economy. The newly industrialized economies of South East Asia, and South and Central America would be included in this category. This sector has the fastest economic growth of all sectors of the global economy.

3. **Major oil exporting countries:** These countries consist primarily of the world's major oil producing countries, whose fundamental economic stability depends on the price of crude oil. Countries in this category include the oil rich nations of the Middle East.

It is important to know the extent of economic development of a potential trading partner. This data may provide you with an insight into the readiness of the market to accept your product. If your product is more of a commodity, then it is likely that many underdeveloped economies will have as much demand for it as a more developed economy.

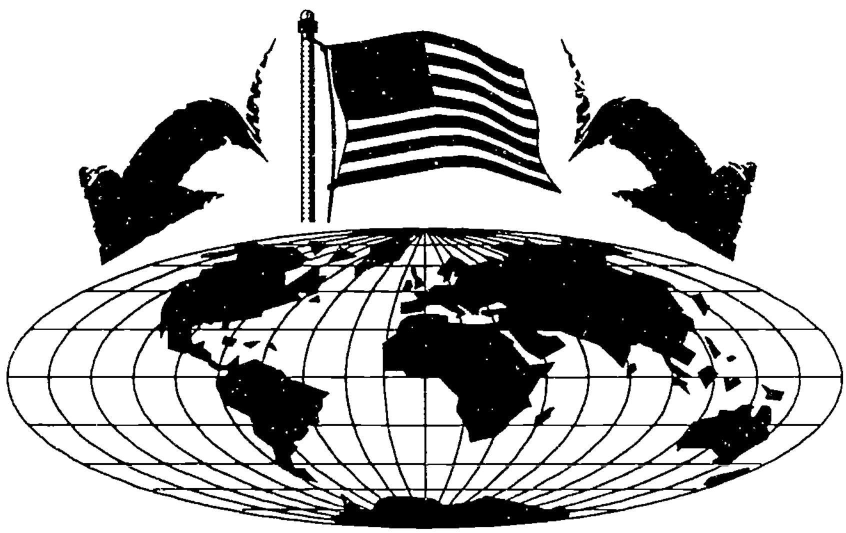
The extent of the economic development of the nation is just a starting point. A further investigation of the size of the population, and the purchasing power of the population may also be desirable as a preliminary screening device. This information is available in international marketing and statistical publications at your local library.



4. **Less-developed countries:** The less-developed countries are those that depend on agriculture and natural resources to provide national income. This category is primarily comprised of countries of the Third World.

Markets of the world can also be identified by location in addition to the level of economic development. It is more likely that when contemplating taking your product overseas, you will target a particular market by geography, then narrow the focus to a particular country or region.

In terms of economic development and industrialization, the Northern hemisphere is far more advanced than the Southern. The areas of development in the Northern hemisphere concentrate in the regions of Europe and North America. When exporting to countries whose economies and populations most closely resemble those of the United States, then the developed nations of Western Europe and Canada are obvious targets for further investigation.



WHERE DOES THE UNITED STATES EXPORT MOST?

If you seek growth opportunities, then the economies of the nations of the far east are a good place to look. The economies of the Pacific Rim nations are all developing at a faster rate than any other region in the world. These economies comprise the most dynamic and potentially powerful economic region in history, as the lessons of years of economic development are shared among these newly industrialized neighbors. As these economies grow they will develop higher standards of living and may provide numerous opportunities for the exporter.

Figure 1 illustrates the countries that currently import United States produced goods and services and the quantity imported. The table provides a good indication of the markets that are currently receptive to American made products. Find a more recent publication of the same statistics when you begin contemplating exporting and make a comparison between them. This may provide some insight into the growth regions with whom United States companies are doing business.

These figures will most likely be available in a copy of the *Statistical Abstract of the United States*, which should be available in your local library. It is published by the Bureau of the Census, and covers statistical topics that range from import price indexes, to United States domestic exports of selected commodities by geographic region. This abstract provides a fascinating look at the U.S. economy and may prove very helpful to the potential importer/exporter.

U.S. Domestic and Foreign Merchandise
Exports 1990
(f.a.s. Value)

#	Total Exports	Populations (1991 est)	$billions
1.	Canada	26,835,500	83.9
2.	Japan	124,017,000	48.6
3.	Mexico	90,007,000	28.4
4.	United Kingdom	55,496,800	23.5
5.	Germany	79,548,000	18.8
6.	South Korea	93,134,000	14.4
7.	France	56,595,000	13.7
8.	Netherlands	15,022,000	13.0
9.	Taiwan	20,658,000	11.5
10.	Belgium-Luxembourg	9,921,000	10.4
11.	Australia	16,849,496	8.5
12.	Singapore	2,756,000	8.0
13.	Italy	57,772,000	8.0
14.	Hong Kong	5,700,000	6.8
15.	Spain	39,384,000	5.2
16.	Brazil	148,000,000	5.1
17.	Switzerland	6,783,000	4.9
18.	China	1,151,486,000	4.8
19.	Saudi Arabia	17,869,000	4.0
20.	Malaysia	17,981,000	3.4
21.	Sweden	8,564,000	3.4
22.	Israel	4,477,000	3.2
23.	Venezuela	20,189,000	3.1
24.	Russian Federation	148,542,000	3.1
25.	Thailand	56,814,000	3.0

Figure 1. Top 25 U.S. Markets

Source: Statistical Abstract of the United States 1990. Table Number 706.

WHAT TYPES OF INTERNATIONAL TRADE ASSISTANCE COULD A SMALL BUSINESS USE?

The United States government is very interested in encouraging American businesses to get into the export business. Therefore, there are a great number of sources of help for you.

- **United States Department of Commerce**—The International Trade Administration (ITA) is the primary organization within the Department of Commerce that works with United States exports.

- **United States Small Business Administration**—The United States Small Business Administration offers a variety of assistance to businesses that want to export. The assistance includes export counseling and training, legal advice and financial assistance. This help is available through the SBA field offices or at Small Business Development Centers or in two-year and four-year colleges.

- **State governments**—Through both the departments of commerce or departments of development, assistance is offered through export education, marketing assistance, market development and export strategy planning, trade missions, and trade shows.

- **Commercial banks**—More than 300 United States banks have international banking departments that specialize in providing advice, letters of credit, transfer of funds to other countries, exchange of currencies, and assistance in financing exports.

- **Trading companies**—Private sector businesses take full responsibility for the export end of the business, relieving the manufacturer of all responsibilities except filling the orders. They may provide these services for a number of non-competing businesses at the same time—for a profit, of course.

- **World Trade Clubs**—Groups of business people participate in a local club to build networks, access group benefits, and participate in educational programs.

- **Chamber of Commerce and Trade Associations**—These provide sophisticated and extensive services for members including seminars, certificates of origin, overseas missions, United States pavilions in foreign trade shows, overseas contracts, hosting visiting trade missions and industry trade shows.

- **Consultants**—Individuals of all kinds with special expertise can assist the business person in product design, packaging, shipping, markets, taxes and customs regulations, travel, legal, accounting and many other kinds of information. For those with expertise, this is a growing small business opportunity in this country. Trade consultants usually specialize by subject matter and by global area or country. Consultants generally are expensive, so you will want to try the free services first.

WHAT ARE THE POLITICAL AND LEGAL DIFFERENCES BETWEEN POTENTIAL TRADING PARTNERS?

One of the least understood and yet potentially unstable areas of international trade is the political and legal environment of both the home country and that of the trading partner. This is an area of business that can have a major impact on the success of a venture simply because it is very difficult, if not impossible, for the small businessperson to influence.

Clearly there is more than one political system in operation around the world, and at the same time, there is more than one legal environment with which you will come into contact. The most important thing to recognize about the legal and political environment is that it will affect your business, so you must understand the various systems before attempting to do business there.

The domestic legal environment can affect your business by the nature of the political relationship between your government and the government of the country with whom you plan to do business. If there is a major political disagreement between two countries then the government may impose an *embargo* on trading with the other country. That means that it becomes illegal for businesses to trade with any members of the other country. This is obviously a serious detriment to doing business there.

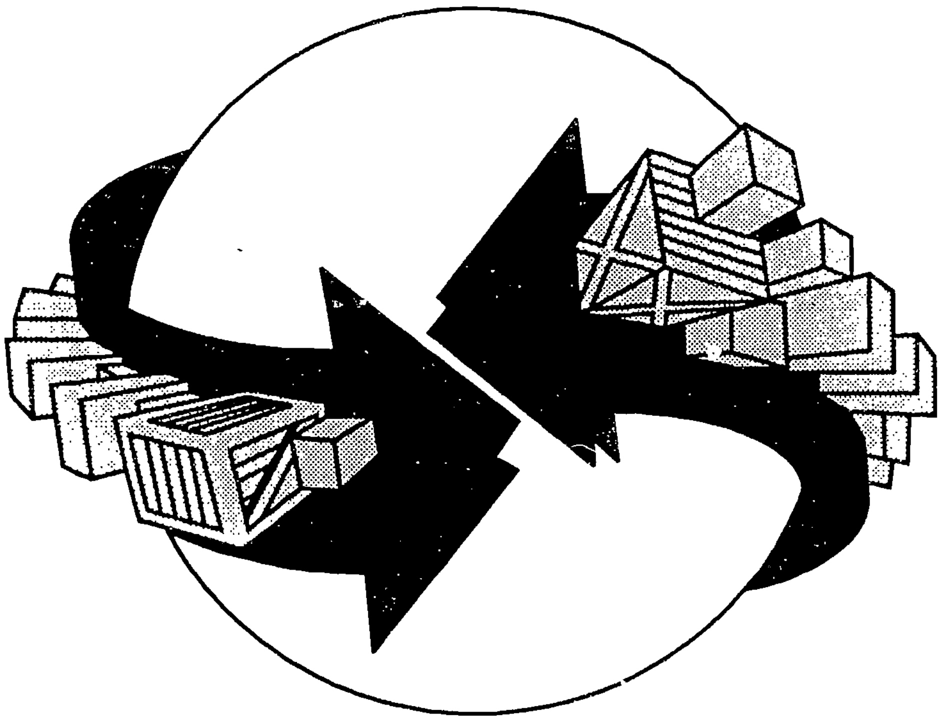
Similar to an embargo is a *trade sanction*, which imposes restrictions on particular goods that are traded between countries. Both embargoes and trade sanctions are imposed by the domestic government in order to force the foreign country to behave in a particular way that is consistent with the wishes of the home country.

Foreign governments can impose various restrictions of their own. These may include setting *quotas for import*, or specifying that a particular portion of the imported goods are manufactured in the home country. This is a popular way of facilitating technology transfer between countries and ensuring that the importer stays abreast of technological advances. Problems may also arise with the securing of intellectual property, which means that a country may import a new technology, copy it, and sell it under its own label without recognition for the company that invented the technology. This causes serious problems for companies that invest heavily in research and development, only to have the ideas copied by other countries.

WHAT ARE THE CULTURAL DIFFERENCES BETWEEN POTENTIAL TRADING PARTNERS?

Culture is the system of learned behavior patterns characteristic of a given membership of a particular society, religion, or race. In other words, it is the behaviors that distinguish people from one another. Culture is affected by language, religion, values and attitudes, customs, education, technology, and social institutions. And because culture is reflected in people's behavior, the culture of a business partner must be understood by international business people.

The first step to understanding another culture is to understand the language. This may seem obvious from a business perspective, but it is often overlooked when companies attempt to do business overseas. Many examples arise of companies who have attempted to translate slogans or product names or advertising campaigns into other languages only to end up insulting the new market or making the product a laughing stock. This is not a good way to enter a new market.



Even though English is widely spoken as a business language, it is still unreasonable to assume that English speakers are making themselves understood. Often the British, Australians, Canadians, and Americans have the greatest difficulty understanding one another. And it is not just the accent or pronunciation that can lead to problems. Often the word usage can vary considerably. For example, if a proposal "bombed" in the United States then it was a failure, however if it "bombed" in Britain then it was a success. If you "lucked out" in the United States then you were lucky, whereas an Australian would assume that this expression meant that you were out of luck! If English-speaking countries have difficulty understanding one another, imagine what it must be like for non-English speakers to understand!

Cultural differences also manifest themselves in the way people behave, or their values and attitudes. This is particularly important to recognize when you consider that it is people's behavior that leads to purchasing your products. Therefore, it is imperative that the international marketer get inside the consumer's head before attempting to sell them anything. This is where international market researchers and consultants come into play. They will be able to ensure that your product fills a need and is seen to be able to fill that need before you invest in attempting to sell it.

Often marketing campaigns that would be a complete flop in the home country are very successful elsewhere. For example, Levi's jeans are advertised with images of James

Dean and Marilyn Monroe in Japan, because they represent everything that the Japanese find appealing about the product. The campaign would be considered corny in the United States. Many companies have adopted similar strategies with success in the United States, using the fact that a product is foreign as a selling point. This strategy works well for items like perfume, fashion, and automobiles, which may have an image of exclusivity if manufactured overseas.

The best way to learn about another culture is to learn the language and experience the lifestyle firsthand. However, in international business, this is not always possible. A viable substitute for firsthand experience would include employing someone from the country with whom you intend to do business. This person then must become a crucial part of the planning process. Included in this process is: product modification, packaging, labels and names, and advertising ideas. The right employee, giving the right advice, can make the difference between success and failure in international markets.

Hiring outside consultants is another alternative to consider. This has the benefits of providing you with expertise in a particular field, however the consultant may not always be there when they are needed, nor can they predict the future of your business. Because entering a new market is an ongoing learning experience, it may be necessary to seek advice often.

ACTIVITIES

The following activities are designed to help you apply what you have learned in this unit.

INDIVIDUAL ACTIVITIES

A.

Differences in culture offer the international business person a challenging and rewarding environment in which to do business. Go to your local library and find a book that talks about differences in cultures. Most books on international business talk about culture, and there are many publications that are dedicated to culture. Find one unique cultural difference between the United States and each of the following countries. An example is given to help you get started.

COUNTRY	CULTURAL DIFFERENCE
Australia	Drive on the left side of the road.
Japan	
Mexico	
Germany	
China	
Israel	
United Kingdom	
France	

B.

Another problem encountered in participating in global markets is the difference in time. Complete the following time exercises. Use daylight savings time in all cases.

TIME	LOCATION	TIME	LOCATION
7:00 am	New York, New York		Hong Kong
10:00 am	Austin, Texas		Warsaw, Poland
1:00 pm	Cairo, Egypt		Los Angeles, California
3:00 pm	Melbourne, Australia		Columbus, Ohio
9:00 am	Anchorage, Alaska		Frankfurt, Germany
2:00 pm	Rome, Italy		Atlanta, Georgia
11:00 am	Paris, France		Stockholm, Sweden

GROUP ACTIVITY

Divide the class into two teams, allowing each team to appoint a team leader and a spokesperson. The purpose of this activity is to *debate* the pros and cons of American use of imported goods. The instructor will designate which team will support each viewpoint. Each team member will use the local library to find articles to support their team's position while also expanding the class's general knowledge on the topic. Individual findings will be shared, and consolidated at the next team meeting.

Based on the findings of all team members, the team leader will facilitate the writing of responses to the following questions:

1. Are there ethical concerns related to importing? If so, what is you team's position on this subject?

2. Should the United States concentrate on importing or exporting of goods?

3. As you've learned, there are political and legal differences between potential U.S. trading partners. Are there countries where differences are more apparent? What, if anything, would your team do to change the laws regarding import/export?

CASE STUDY

PopStickle Industries was the largest manufacturer of popsickle sticks in North America. Founded in 1946, the manufacturer had become a giant by locating the manufacturing facility near the raw material source and automating the manufacturing process. At one time there was a 75 percent chance that the popsickle you were enjoying had a PopStickle stick. However, today the popsickle market has declined due to changes in packaging trends and increased concern for health and well-being. What was once a huge industry is now a fraction of its original size.

In the early 80s, PopStickle was faced with a major strategic decision. The decision was whether to go global with their technology, in what capacity, and with what products?

At that time the company had been approached by a Korean group who was interested in buying trees and having them shipped to Korea so that they could make chopsticks. A little research into Asian eating habits revealed that the disposable chopstick market was booming in Asia. It had been demonstrated that reusing chopsticks was a major health hazard, so reuse was becoming less popular.

The potential in this marketplace was too huge to ignore. PopStickle retooled one of its stick machines to make chopsticks, and began churning out 10,000 pairs of Cedar chopsticks a day. The competition that PopStickle faced in Asia was primarily small- to medium-sized family-owned manufacturers who produced primarily bamboo chopsticks. Bamboo is more expensive than Cedar, is more labor intensive to process, and yet has the same hygienic qualities as required by law. The challenge PopStickle faced was to get the new Cedar chopsticks into the hungry hands of their customers.

DISCUSSION QUESTIONS

1. What economic events encouraged PopStickle to reconsider its product line?

2. Why would PopStickle go to Asia with its product, why not sell in the United States?

3. If you were hired to advise PopStickle, what would you say is the strategic advantage that PopStickle has over the competition?

4. Where should PopStickle go for information and advice in entering the Asian markets with its product?

5. How should PopStickle find out about the potential cultural differences between it and its Asian customers?

ASSESSMENT

Read the following questions to check your knowledge of the topics presented in this unit. When you feel prepared, ask your instructor to assess your competency on them.

1. How do you define "global markets?"

2. Why were the Japanese so successful in international trade?

3. Name three types of businesses that can take part in international trade and identify the relationship they have with the global market.

4. Name three reasons why American entrepreneurs would want to participate in international trade.

5. Identify three ways of finding opportunities for imports and exports.

6. What are the two most common ways of identifying major international markets? What are the advantages of each?

7. Which country is the largest importer of American-made products?

8. Identify three types of international trade assistance that businesses can use.

9. What are the implications of cultural differences between trading partners?

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PACE

Units on the above entrepreneurship topics are available at the following levels:

* Level 1 helps you understand the creation and operation of a business
* Level 2 prepares you to plan for a business in your future
* Level 3 guides you in starting and managing your own business