



UNIVERSITAS
INDONESIA

Veritas, Probat, Aequitas

FEB

Muthia Pramesti | Mutiara Baby Admeinasthi | PPJJ

INTERNATIONAL BUSINESS

What will you get from this class?



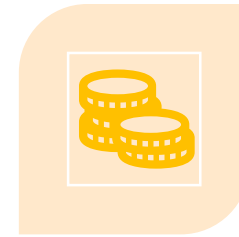
GET TO KNOW THE DRIVER
OF INTERNATIONAL
BUSINESS AND SUPPORTING
INSTITUTIONS
(CH 1)



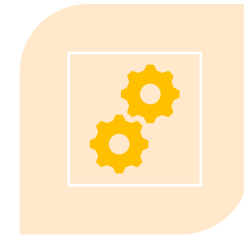
PROBLEM FACED
(CH 2,3,4)



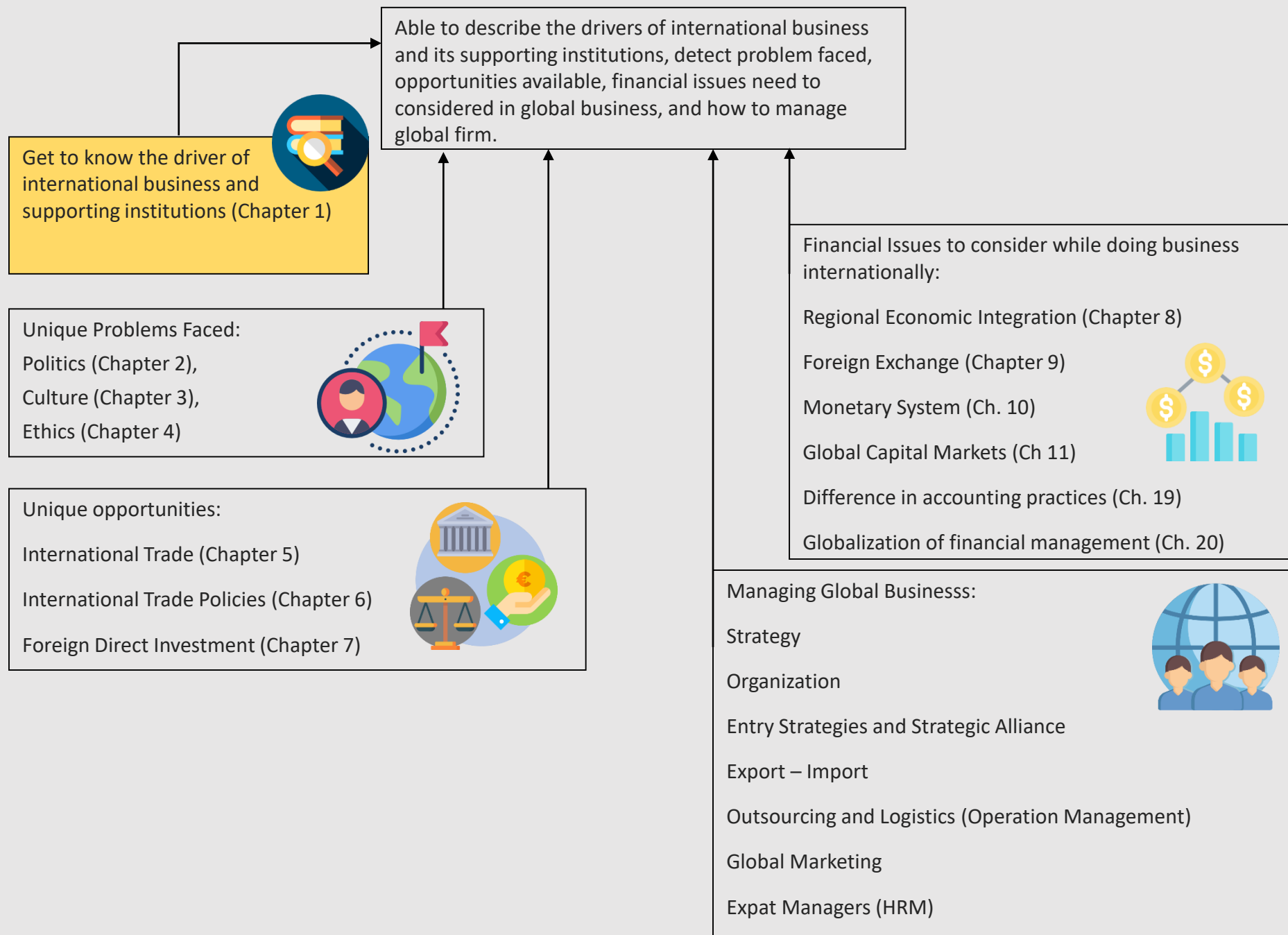
OPPORTUNITIES
(CH 5,6,7)



ISSUES (PARTICULARLY
FINANCE) TO CONSIDER
WHILE DOING BUSINESS
INTERNATIONALLY
(CH 8-11, 19, 20)



MANAGING GLOBAL
BUSINESS (STRATEGY,
ORGANIZATION, HRM,
OPERATION,
MARKETING, ETC
(CH 12-18)





INTRODUCTION

01

The World Today



UNIVERSITAS
INDONESIA

FEB



New **Global Business** Realities

1

The world
flatten

2

Companies got
internationalized

3

Trade
agreements

4

Rapid and
extensive global
communication

5

Rapid
development and
transfer of
technologies

6

And so on..



The rapid growth and spread of these drivers led to

GLOBALIZATION





Globalization

Refers to the shift toward a more integrated and interdependent world economy.

Globalization Common Types

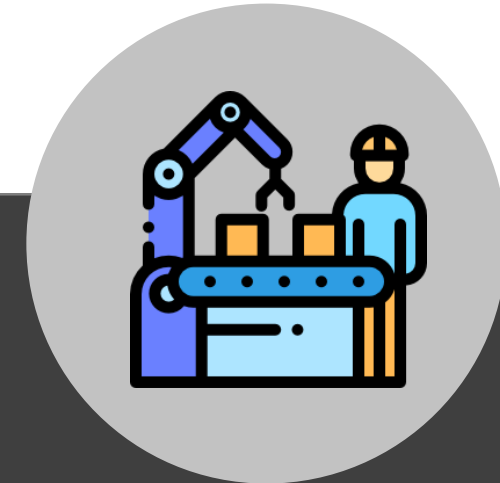
01



Globalization of Markets

- Falling trade barriers make it easier to sell globally
- Consumers' tastes and preferences are converging on some global norm
- Firms promote the trend by offering the same basic products worldwide

02



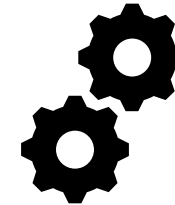
Globalization of Production

- Lower overall cost structure
- Improve the quality or functionality of their product offering

International Organizations



Why do we need international organization?



Help manage, regulate, and police the global marketplace.

Promote the establishment of multinational treaties to govern the global business system.





WTO

- Polices the world trading system
- Makes sure that nation-states adhere to the rules laid down in trade treaties
- Promotes lower barriers to trade and investment

What do International Organizations do?



IMF

- Maintains order in the international monetary system



World Bank

- Promotes economic development

What do International Organizations do?



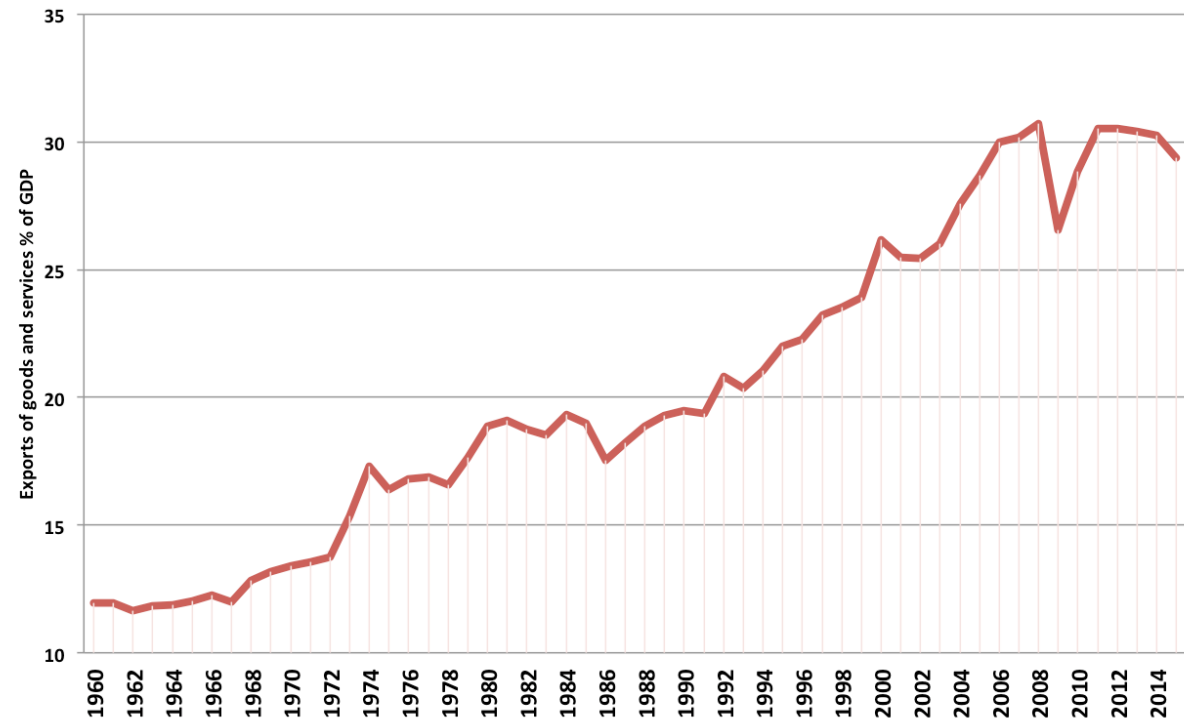
UN

- Maintains international peace and security
- Develops friendly relations among nations
- Cooperates in solving international problems and in promoting respect for human rights
- Is a center for harmonizing the actions of nations

The Changing Demographics of World GDP and Trade



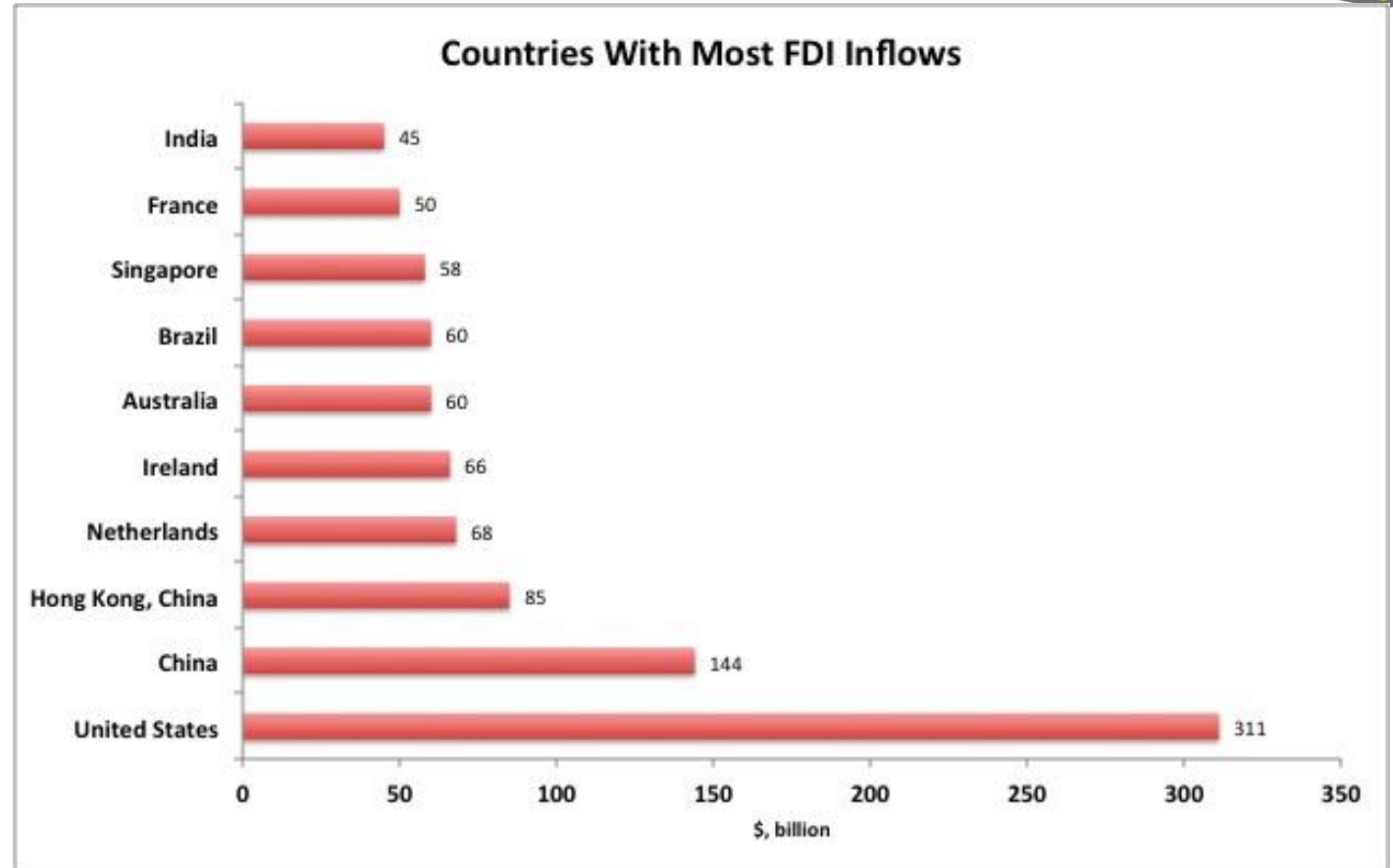
World exports as % of GDP



www.economicshelp.org | Source: World Bank - NE.EXP.GNFS.ZS - Accesed 8 Sep. 2017

%

**Share of
Total FDI Stock
in 2018**



Source: <https://www.gfmag.com/topics/macro-economy-and-globalization/countries-most-fdi-inflows-2018>

Debates on Globalization

Globalizations



Risks



The **financial crisis** that swept through **South East Asia** in the late **1990s**

The recent **financial crisis** that started in the **U.S.** in **2008**, and moved around the world



Debates on Globalization



SUPPORT

CRITICS

Lower prices for goods and services

Job losses

Greater economic growth

Environmental degradation

Higher consumer income, and more jobs

the cultural imperialism of global media and MNEs

Globalization

VS



Environment

- Free trade encourages firms from advanced nations to move manufacturing facilities offshore to less developed countries with lax environmental and labor regulations.
- Carbon dioxide emissions which appear to rise along with income levels



National Sovereignty

- The worry that economic power is shifting away from national governments and towards supranational organizations like the WTO and the European Union, or EU.



Rich-poor gap

- The gap between rich and poor are widen

Multinational Enterprise

- A multinational enterprise (MNE) is any business that has productive activities in two or more countries



Implication for Managers

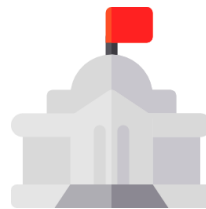
Managing an **international business**, or any firm that engages in international trade or investment, will be different from managing a domestic business for several key reasons.



Countries differ.



Greater and more complex problems



Government intervention in markets creates limitations.



Deal with exchange rate changes

NATIONAL DIFFERENCES IN POLITICAL ECONOMY



FEB

02

- This chapter focuses on how the political, economic, and legal systems of countries differ.
- Collectively, we refer to these system as constituting the political economy of a country



INTRODUCTION

What Is A Political Economy?



The **political economy** of a nation refers to how the political, economic, and legal systems of a country are interdependent

- they interact and influence each other
- they affect the level of economic well-being in the nation

What Is A Political System?



“The system of government in a nation”

Assessed according to

emphasizes
collectivism
as opposed to individualism



Democratic
or
Totalitarian?



What Is Collectivism?



Collectivism stresses the primacy of collective goals over individual goals



Today, collectivism is equated with socialists (Karl Marx 1818-1883)

advocate state ownership of the basic means of production, distribution, and exchange

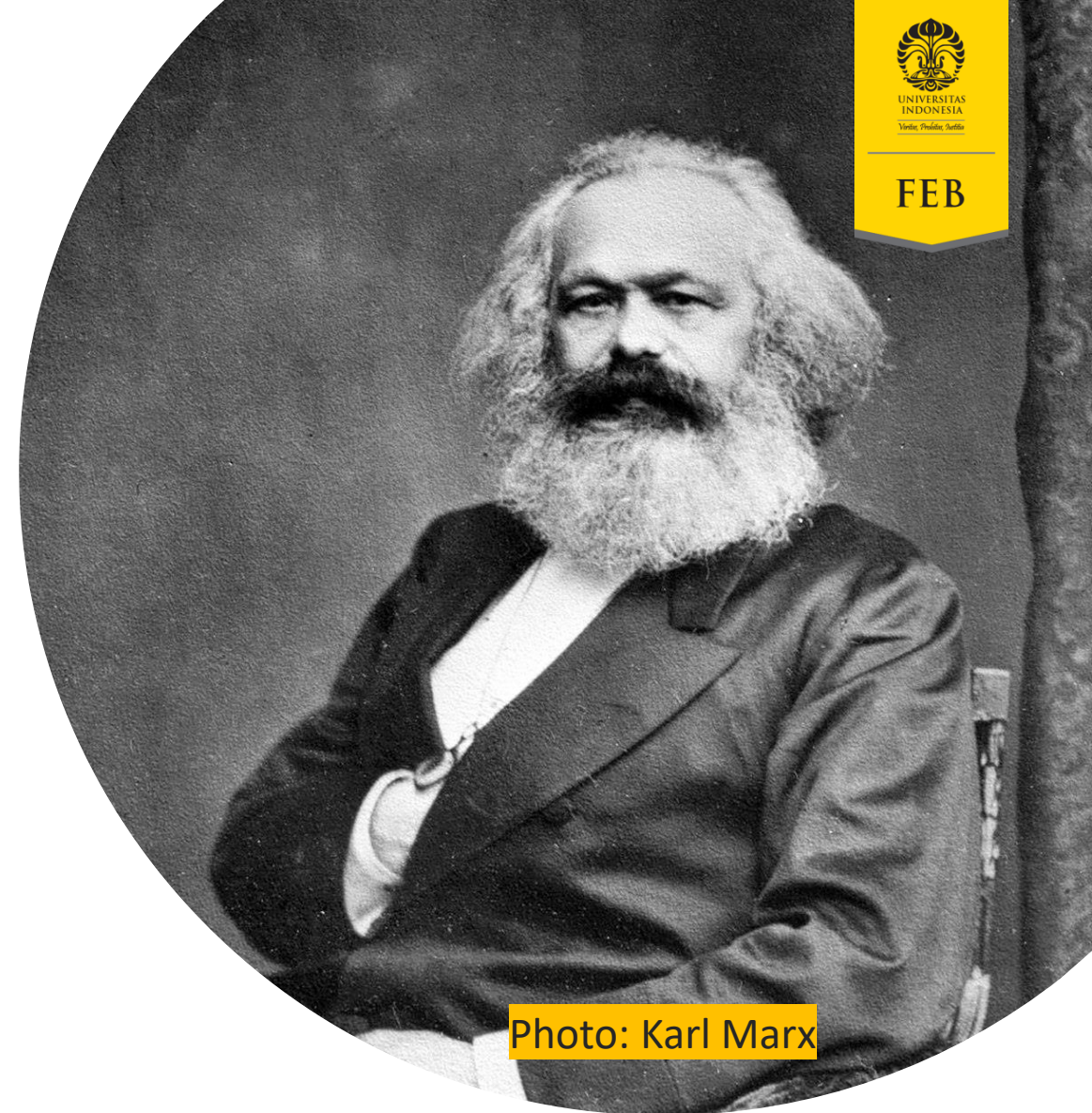


Photo: Karl Marx



How Does Modern-Day *socialism*

Look?

COMMUNISM

can only be achieved through
violent revolution and
totalitarian dictatorship.

SOCIAL DEMOCRATS

state-owned
enterprises have been
privatized



What Is Individualism?

Individualism

refers to philosophy that an individual should have freedom in his own economic and political pursuits

- can be traced to Greek philosopher, Aristotle (384-322 BC), who argued that individual diversity and private ownership are desirable
- individual economic and political freedoms are the ground rules on which a society should be based
- implies democratic political systems and free market economies

What Is Democracy?

a political system in which **government is by the people**, exercised either directly or through elected **representatives**.

Individualism

citizens should
be directly
**involved in
decision making**

**Representative
democracy**
Citizens periodically
elect individuals to
represent them



What Is Totalitarianism?

Totalitarianism is a form of government in which one person or political party exercises absolute control over all spheres of human life and prohibits opposing political parties

Communist totalitarianism

Tribal totalitarianism

Theocratic totalitarianism

Right-Wing totalitarianism



WHAT IS AN ECONOMIC SYSTEM?

MARKET ECONOMIES

- Privately owned
- Production determined by supply and demand
- Free and fair competition between private producers

COMMAND ECONOMIES

- Production quantity and prices determined by government
- State-owned
- “The good of society”
- Stagnate

MIXED ECONOMIES

- Governments tend to own firms that are considered important to national security
- Certain sectors of the economy are left to private ownership

LEGAL SYSTEM

The **legal system** of a country refers to the rules that regulate behavior along with the processes by which the laws are enforced and through which redress for grievances is obtained



29

Common law - based on tradition, precedent, and custom

01

Civic law - based on detailed set of laws organized into codes

02

Theocratic law - law is based on religious teachings

03

CONTRACT

A **contract** is a document that specifies the conditions under which an exchange is to occur and details the rights and obligations of the parties involved



How Are Contracts Enforced In Different Legal Systems?

- **Contract law** is the body of law that governs contract enforcement
- Under a common law system, contracts tend to be very detailed with all contingencies spelled out
- Under a civil law system, contracts tend to be much shorter and less specific because many issues are already covered in the civil code
- Many countries have ratified the **United Nations Convention on Contracts for the International Sale of Goods (CISG)** which establishes a uniform set of rules governing certain aspects of the making and performance of everyday commercial contracts between buyers and sellers who have their places of business in different nations

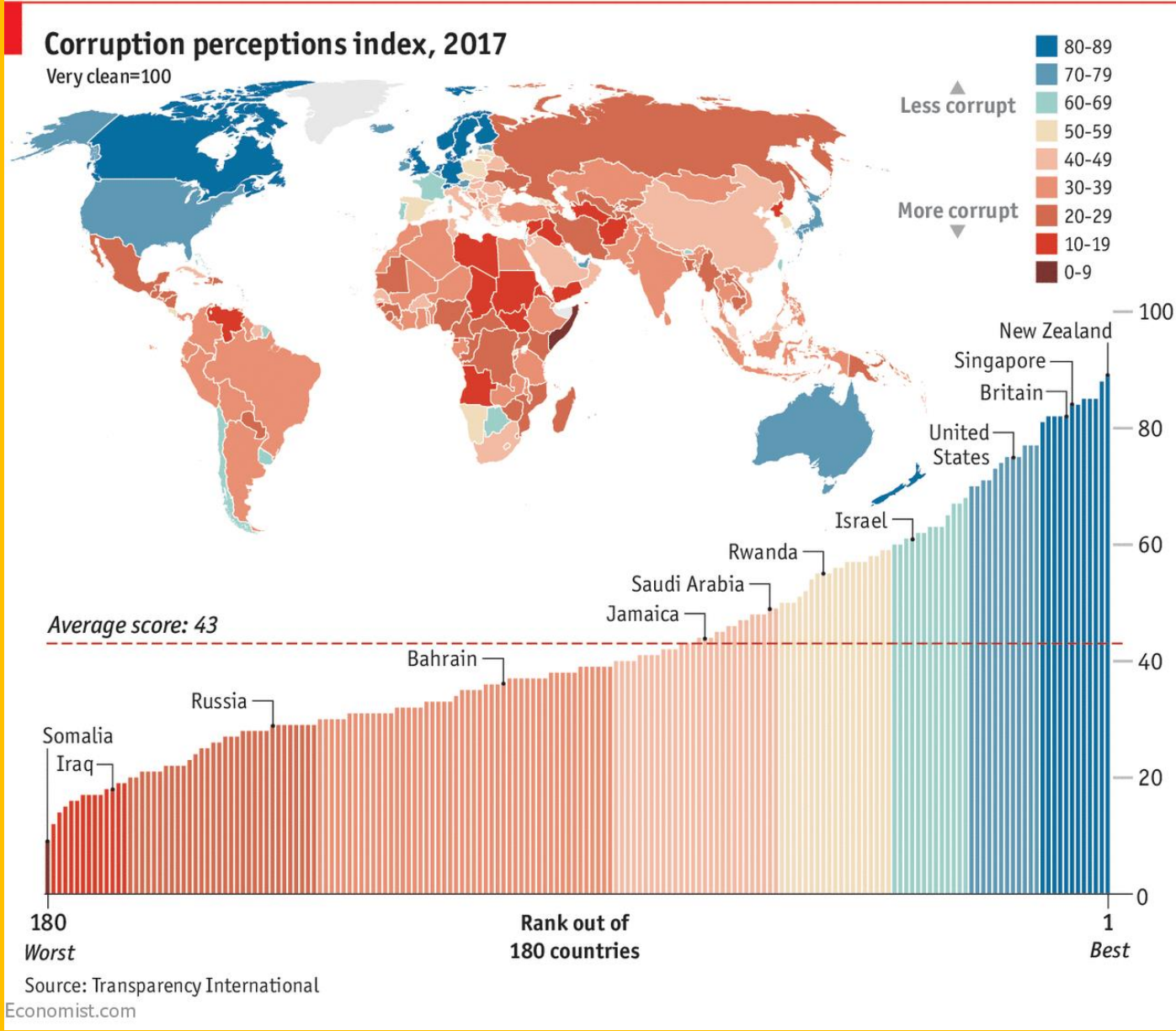
Property Rights And Corruption

Property rights refer to the legal rights over the use to which a resource is put and over the use made of any income that may be derived from that resource

Can be violated through

1. **Private action** – theft, piracy, blackmail
2. **Public action** - legally - ex. excessive taxation or illegally - ex. bribes or blackmailing
 - high levels of corruption reduce foreign direct investment, the level of international trade, and the economic growth rate in a country

The **Foreign Corrupt Practices Act** makes it illegal for U.S. companies to bribe foreign government officials to obtain or maintain business over which that foreign official has authority



Rankings of Corruption by Country

INTELLECTUAL PROPERTY

Property that is the product
of intellectual activity.

Can be protected using:

01

Patents – exclusive rights for a defined period to the manufacture, use, or sale of that invention

02

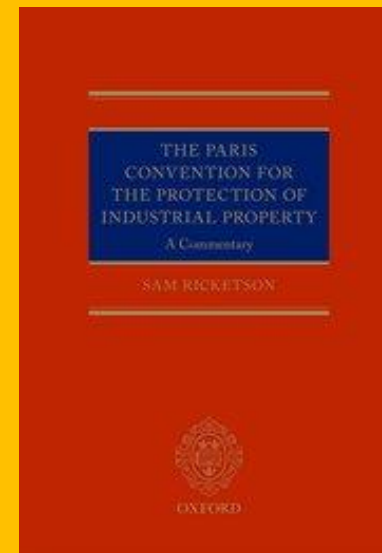
Copyrights – the exclusive legal rights of authors, composers, playwrights, artists, and publishers to publish and disperse their work as they see fit

03

Trademarks – design and names by which merchants or manufacturers designate and differentiate their products

Intellectual Property Protection

Protection of intellectual property rights differs from country to country



Paris Convention for
the Protection of
Industrial Property

How Can Intellectual Property Be Protected?



To avoid piracy, firms can:

1

Stay away from countries where intellectual property laws are lax

2

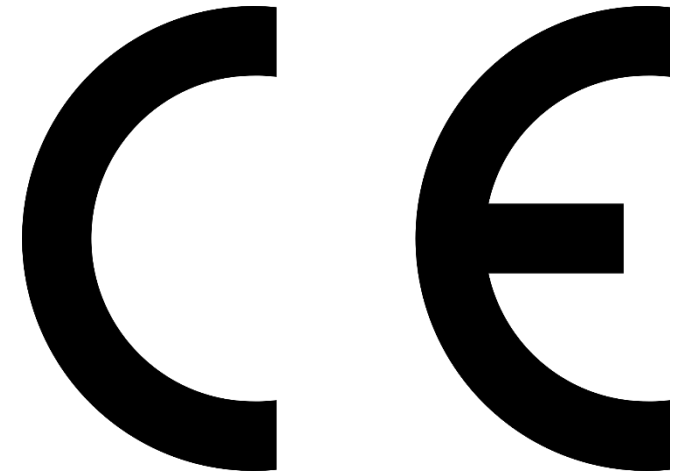
File lawsuits.

3

Lobby governments for international property rights agreements and enforcement.

Product Safety And Liability

- **Product safety laws** set certain standards to which a product must adhere
- **Product liability** involves holding a firm and its officers responsible when a product causes injury, death, or damage
- When product safety laws are stricter in a firm's home country than in a foreign country, or when liability laws are more lax, the firm has to decide whether to adhere to home country or host country standards



Determinants of a Country's Level Of Economic Development

Two ways to measure levels of economic development are

GNI

PPP

- Nobel-prize winner Amartya Sen argues economic development should be seen as a process of expanding the real freedoms that people experience
 - the removal of major impediments to freedom like poverty, tyranny, and neglect of public facilities
 - the presence of basic health care and basic education

Determinants of a Country's Level Of Economic Development

The United Nations used Amartya Sen's ideas to develop the **Human Development Index (HDI)** which is based on:

01

life expectancy at birth

02

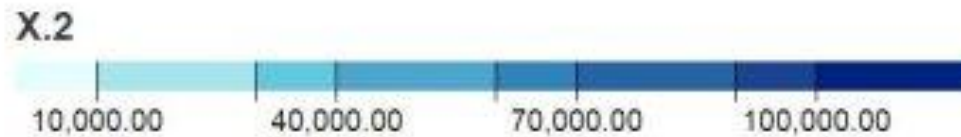
educational attainment

03

whether average incomes are sufficient to meet the basic needs of life in a country

Worldwide GDP Per Capita

This heatmap shows GDP per capita throughout the world, according to the World Bank. Countries marked in grey did not have economic data available through the World Bank.



Created with [Datawrapper](#)
[Get the data](#)

Source: [World Bank](#).

THE HUFFINGTON POST
HuffPost Canada

Source: <https://ourworldindata.org/economic-growth>

Countries Compare on Economic Development

Political Economy and Economic Progress

1

Innovation and entrepreneurship are the engines of long-run economic growth

2

Innovation and entrepreneurship require a market economy and strong property rights

3

Democratic regimes are probably more conducive to long-term economic growth than dictatorships, even the benevolent kind

4

Subsequent economic growth leads to the establishment of democratic regimes

Geography, Education and Economic Development



Countries with **favorable geography** are **more likely to engage in trade**, and so, be more open to market-based economic systems, and the economic growth they promote

Countries that **invest in education** have **higher growth rates** because the workforce is more productive

The **Changing** Political Economy

Since the late 1980s, two trends have emerged:

01

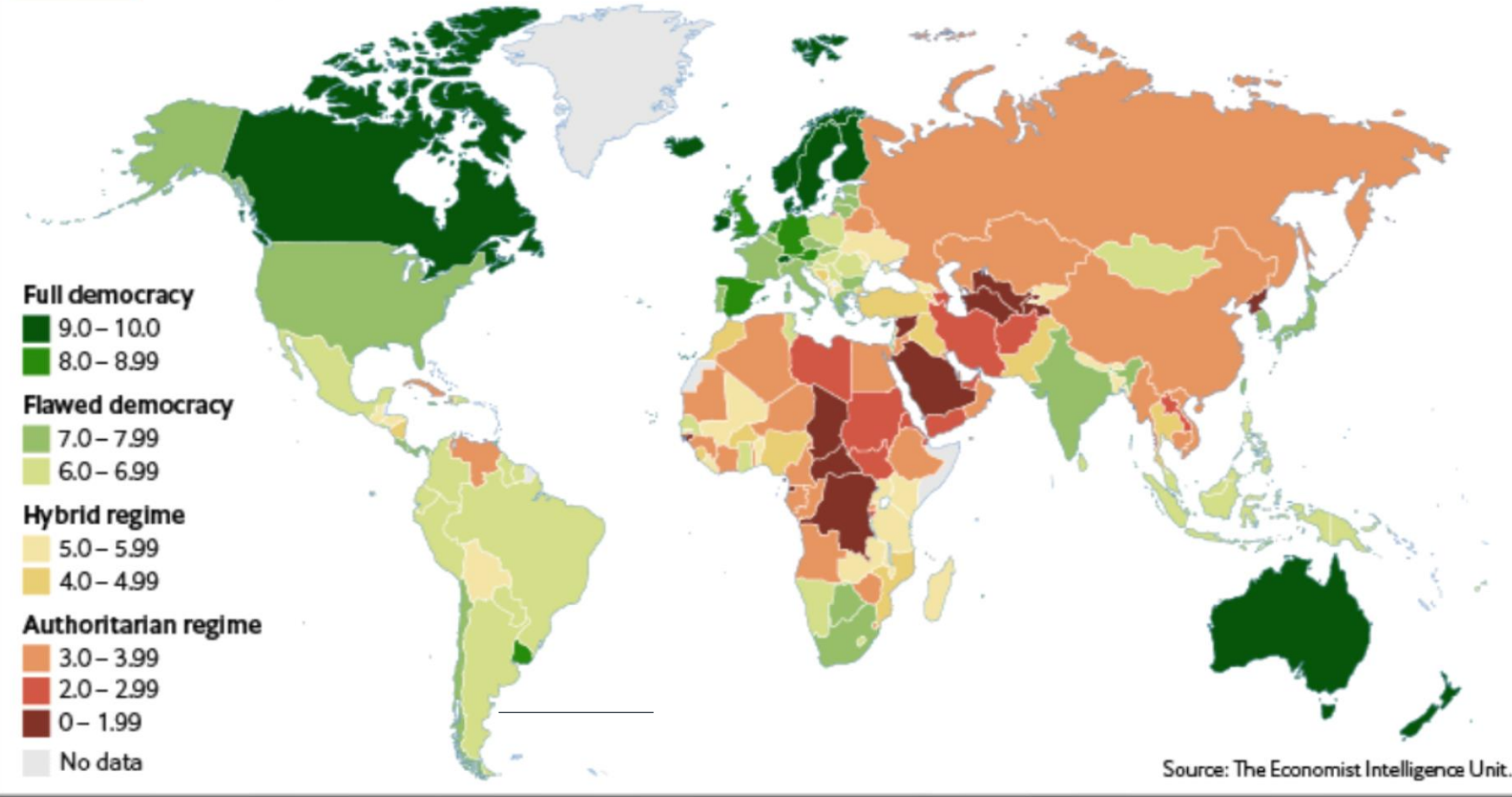
Democratic revolution (late 1980s and early 1990s)

- Many totalitarian regimes failed to deliver economic progress to the vast bulk of their populations
- New information and communication technologies have broken down the ability of the state to control access to uncensored information
- Economic advances of the last 25 years have led to increasingly prosperous middle and working classes who have pushed for democratic reforms

02

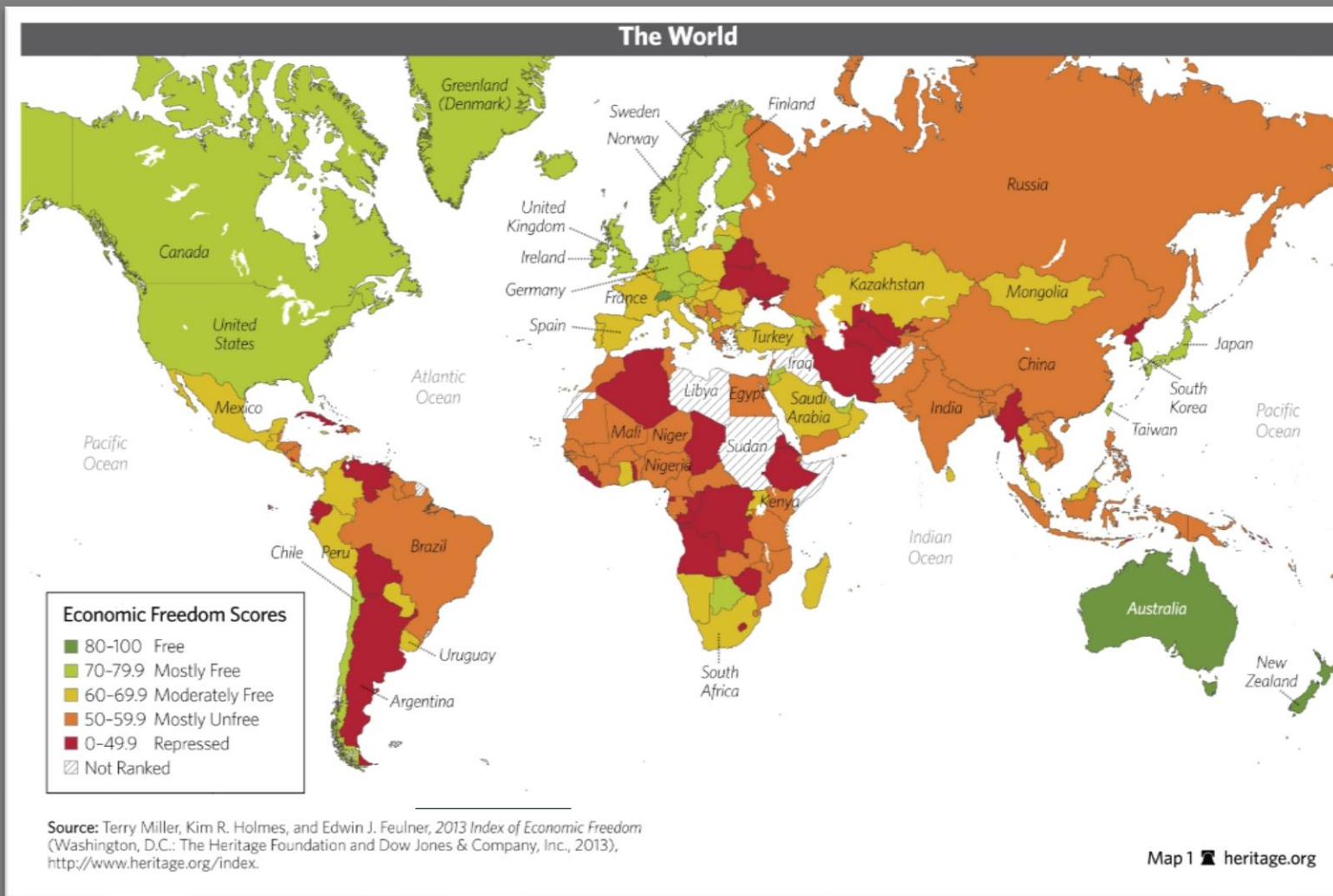
A move away from centrally planned and mixed economies

- More countries have shifted toward the market-based model



Political Freedom in 2017

HOW FREE ARE COUNTRIES POLITICALLY?



Distribution of Economic Freedom in 2013

HOW FREE ARE COUNTRIES ECONOMICALLY?

The Nature Of Economic Transformation

The shift toward a market-based system involves

Deregulation

Removing legal restrictions to the free play of markets, the establishment of private enterprises, and the manner in which private enterprises operate.

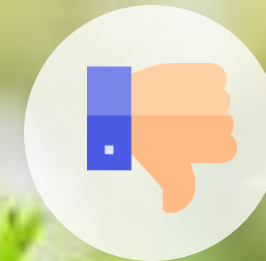
Privatization

Transfers the ownership of state property into the hands of private investors.

Legal System

The creation of a legal system to safeguard property rights

What Does The Changing Economy Mean For Managers?



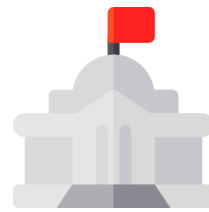
- Markets that were formerly off-limits to Western business are now open
- By identifying and investing early in a potential future economic stars, firms may be able to gain **first mover advantages** and establish loyalty and experience in a country
 - ex. China -1.2 billion people and India – 1.1 billion people



- Potential risks are large
- It can be more costly to do business in countries with dramatically different product, workplace, and pollution standards, or where there is poor legal protection for property rights



What Does The Changing Economy Mean For Managers?



Political risk - the likelihood that political forces will cause drastic changes in a country's business environment that adversely affects the profit and other goals of a business enterprise



Economic risk - the likelihood that economic mismanagement will cause drastic changes in a country's business environment that adversely affects the profit and other goals of a business enterprise



Legal risk - the likelihood that a trading partner will opportunistically break a contract or expropriate property rights

How Can Managers Determine A Market's Overall Attractiveness?

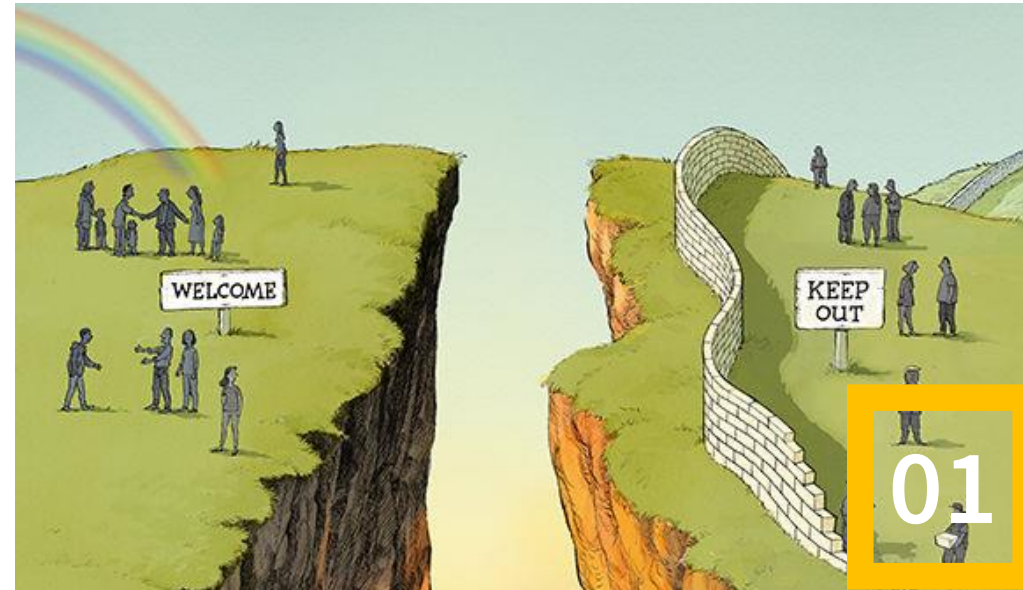
The overall attractiveness of a country as a potential market and/or investment site for an international business depends on balancing the benefits, costs, and risks associated with doing business in that country



Other things being equal, the benefit-cost-risk trade-off is likely to be most favorable in politically stable developed and developing nations that have free market systems and no dramatic upsurge in either inflation rates or private sector debt

Read the Article

- The new political divide
- How the West got China wrong
- Video: How does China's government works



Quiz

Please check your understanding by answering the chapter's quiz.



Source

Chapter 1

- Hill, Charles W.L, Wee, Chow-Hou & Udayasankar, Krishna. International Business: An Asian Perspective.
- <https://amp.economist.com/leaders/2016/07/30/the-new-political-divide#top>
- <https://www.youtube.com/watch?v=xPD477FuqtY&t=45s>

Chapter 2

- Hill, Charles W.L, Wee, Chow-Hou & Udayasankar, Krishna. International Business: An Asian Perspective.
- <https://www.economist.com/graphic-detail/2018/02/22/corruption-is-still-rife-around-the-world>
- <https://www.economist.com/leaders/2018/03/01/how-the-west-got-china-wrong>
- <https://www.youtube.com/watch?v=fgor9fmA6po>