INTERNATIONAL TRADE AND INVESTMENT

a managerial approach

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International Trade and Investment A Managerial Approach

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International Trade and Investment

To
Eunice, Pierre, and Annetta

Preface

In the second half of this century, several developments have fostered a growing realization of the dependence of countries on the resources and production of other countries in the world economy. European regional integration gave birth to the European Economic Community and the European Free Trade Area. The growing dependence of U.S. firms on raw materials and products from foreign markets has increased American involvement in the world economy. Transnational enterprises have developed worldwide export markets and built worldwide distribution systems to serve the foreign markets. These firms have also developed worldwide networks of production systems to manufacture components that are shipped to assembly points in other countries, with the finished products exported to their global markets.

A growing number of U.S. firms participate in world trade and foreign investment in one way or another. Their managers need to know the concepts and methods of international trade and investment. They can use this knowledge to formulate strategies to improve their performance and develop skills to help them compete effectively in international business.

Previous texts on international trade and investment have taken the macroeconomic viewpoint of looking at the effect of foreign trade on the economies of the trading countries and the benefit of international investment to the recipient countries. International business texts have emphasized the political, social, and cultural factors affecting international trade and foreign investment.

This book deals with the microeconomic aspects of international trade and foreign direct investment. It is written specifically for managers and for students in business schools who will be managers. Its primary focus is the trading firm and how its managers can use international economic and business concepts in planning the company's strategy for foreign exports or investment. The growth of the multinational corporation and the emergence of the transnational enterprise as the main channels of international trade and direct foreign investment dictate this microeconomic emphasis.

The book is divided into four parts. The first part includes five chapters dealing with international trade and country risk. Chapter 1 presents an overview of the dimensions of world trade and foreign investment and the competitive position of the United States in world trade. In Chapter 2, the rationale of trade is examined in order to develop some understanding of why countries trade with each other. It is important that the manager understand the nature of the forces that influence the structure and direction of world trade.

Chapter 3 examines the barriers to free trade that governments sometimes impose in order to foster growth and development in their domestic economies. The chapter goes on to discuss specific trade barriers and the efforts made since World War II to reduce them by way of multilateral trade negotiations, which culminated in the Tokyo Round Agreements. Chapter 4 uses the information discussed in the first three chapters to sketch various strategies that a firm can use in export management. A variety of factors contributing to country risk are examined in Chapter 5; alternative approaches to measuring country risk are evaluated and strategies are developed to minimize risk.

Part 2 covers balance of payments and the international payments mechanism. Chapter 6 analyzes the balance of payments in a way that facilitates understanding its components and the remedies available to fix any imbalance. A country's balance-of-payments policies affect its international trade and its foreign investment problems and opportunities, so an understanding of the balance of payments of specific countries can aid a firm in planning its international operations.

The foreign exchange market is examined in Chapter 7, followed by a discussion of how foreign exchange rates are determined. Chapter 8 discusses the kinds of risks to which firms in international trade are exposed because of foreign exchange rate fluctuations and outlines strategies to cope with such risks.

Part 3 treats the international capital markets and the institutions that provide financing and guarantees for international trade and foreign investments. The offshore banking system and the international capital markets are presented in Chapter 9. Chapter 10 deals with private sources of financing, which are provided largely by commercial banks, and Chapter 11 examines the array of guarantee programs provided by the Export-Import Bank in support of private financing, as well as the bank's medium- and long-term direct financing programs. Chapter 12 is a survey of the export credit financing systems of national and regional agencies.

Part 4 deals with the foreign direct investment of transnational and multinational enterprises. Chapter 13 outlines the dynamics of decision-making in foreign investment and the factors influencing decisions. Techniques for evaluating foreign projects and other opportunities for direct foreign investment are developed in Chapter 14. In Chapter 15 the transnational enterprise's role in the internationalization of production processes and technological diffusion is examined, as well as strategies that have been developed for locating industries in foreign countries.

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A. O. W.

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