

8.8: The Global Market and Advantages of International Trade

Learning Objectives

By the end of this section, you will be able to

- Define global market opportunities.
- Explain why international trade is advantageous to business.
- Discuss the challenges of international trade.

Global Market Opportunities Defined

For some, the thought of expanding business operations into the global market is new, exciting, and fun. For others, it may seem daunting or impossible. At some point, most if not all companies will decide if and how they will expand into global markets based on global market opportunities. Global market opportunities simply refer to favorable conditions for a company to expand outside its home country market. These conditions include internal factors, such as the company's ability and knowledge, and external factors, such as market growth, customer demand, and regulations or trade barriers within the industry.

Many companies have a presence in the global marketplace at some level. Consider a small Etsy shop that sells custom-printed T-shirts. While the T-shirts may be printed in the United States (maybe even in someone's garage), the T-shirts may be purchased in foreign markets, such as China. While Etsy is a small-scale example, larger companies may have a greater presence in the global marketplace. Consider that Nike, founded in 1964, now sells its products in 170 countries that serve more than 30 major sports and consumer lifestyles (Nike, Inc., n.d.). While there are considerable risks to entering global markets, there are also numerous advantages.

Advantages to International Trade

There are several advantages to international trade, including increased revenues, decreased competition, faster growth, diversification of risk, and the ability to more easily find buyers of excess inventory. Let's look at each of these in more detail.

Increased Revenues

One of the most obvious advantages of international trade is increased revenue. Recall that revenue is the money earned from business operations, so the more countries in which a product or service is available, the more revenue will be generated.

Decreased Competition

A US-based company may have a great deal of competition. Consider the automobile industry. In the United States, most households own at least one vehicle. Competition in this industry is fierce, and it would be difficult for a new company to enter the market. However, in developing countries where automobiles are not as prevalent or infrastructure is still in development, competition for automobile buyers could be much lower.

Alternatively, fiercer automobile competition in some countries may force competitors to leave the market or choose not to enter. China is the world's largest vehicle market in sales and manufacturing output (International Trade Administration, 2022). As such, carmakers worldwide continue to vie for the Chinese automobile market share. However, the market is mainly dominated by China's domestic automakers, making international competition difficult (Daxue Consulting, 2020).

For example, the Hongguang Mini EV, a battery electric microcar manufactured by China-based SAIC-GM-Wuling, has been a top EV seller since 2020 (Wikipedia, 2024). In an effort to take market share, Ford has set the "groundwork to accelerate a refresh of the company's product portfolio in China by launching three new vehicles offered only in China" (Ford Motor Company, 2022).

Faster Growth

For companies with a growth strategy, international expansion may be a viable option to achieve these goals. This is particularly true when the home country's market is saturated or experiencing slow or no growth. A market becomes saturated when there is enough capacity in the industry to meet all consumer demand or when consumer demand begins to decrease. Either instance may make the international market an attractive opportunity for a business.

In addition to the growth of the company, as firms decide to expand into global markets, the international market will also experience growth. For example, when Amazon expanded its global operations to include a fulfillment center in Poland, the

company hired employees to fulfill those orders. As of 2022, the Poland fulfillment center employed 25,000 people (Public Relations Team, 2022). These individuals use their paychecks to purchase goods and services within their economy, causing the economy to grow. As new companies enter these markets, individuals are given the opportunity to consume a wider selection of goods and services and to move into higher standards of living.

Diversification of Risk

Risk refers to any situation or condition that leads a company to decreased profits or even failure (Kenton, 2022). Have you ever heard the saying “Don’t put all your eggs in one basket”? It refers to putting all of your effort into one area and risking great loss. It’s a reminder of how international expansion can help diversify business risk. Rather than focusing on one product or one market, companies can spread their risk across various markets. Additionally, while one country may be experiencing a recession and causing sales for a company to decline, another country may be experiencing a boom, which would likely result in an increase in sales for that same company. With operations in multiple countries, a company can potentially balance the up-and-down markets. A downturn in one or a few markets will not cause the company to fail because the demand in other markets may be growing.

Disposal of Surplus Goods

A final major advantage to international trade is the ability to dispose of surplus goods. For example, before each Super Bowl, the NFL makes clothing for both teams that states each is the winner so that supply is available immediately after the game. However, only the winning team’s clothing is sold after the game. Rather than the losing team’s clothing going to landfills, it is donated to other countries, decreasing the waste of the unsold product (Mendoza, 2022). Do not confuse the disposal of surplus goods with the concept of *dumping*, an illegal practice that will be discussed later in the chapter.

Challenges to International Trade

While there are numerous advantages to international trade, there are also challenges. Those challenges are discussed in more detail in the following sections.

Understanding the Business Environment

Regardless of a business's location, its success depends largely on management’s understanding of the business landscape. The business landscape refers to all internal and external factors of the business, its industry, and its environment. Companies that intend to expand internationally often make the grave mistake of assuming the landscape of a new market is the same as that in the home country, a concept known as ethnocentrism. In most instances, this causes companies to stumble or even fail. Understanding the nuances, expectations, and regulations in international markets is one element that drives success.

Understanding the Target Country’s Business Politics

Politics, laws, and industry relationships shape the environment of businesses both locally and abroad. The way business is conducted varies greatly from country to country, and businesspeople must not only be aware of these differences but must also have the ability to adapt to the local business politics.

Differences in Regulations and Marketing

Remember, there is no one-size-fits-all marketing campaign. You can imagine how this notion is amplified considering marketing in various countries. Marketers must be in tune with their target markets to succeed. Additionally, marketing is perceived differently in various cultures, and it is important to understand how cultural differences influence consumer behavior.

For example, in the United States, it is not uncommon to see a plethora of advertisements for prescription medications targeting the general public. Most other countries do not regularly advertise prescriptions to the public but rather to the doctors prescribing those medications. In fact, the United States and New Zealand are the only countries where this type of marketing is allowed (Harvard Medical School, 2017). Each international market requires marketers to adapt or create new marketing strategies, which can vary considerably with each of the marketing mix elements—product, price, place, and promotion.

Cultural Differences

Local culture has an impact on marketing campaigns. It’s common for marketers and other businesspeople to find it challenging to understand the differences between their own culture and the target market. Cultural sensitivity can help to alleviate these challenges when preparing marketing campaigns for other countries and cultures. Cultural sensitivity is the awareness and appreciation of and the ability to adapt to a cultural, ethnic, racial, or other group other than one’s own (APA Dictionary of

Psychology, 2018). By increasing cultural sensitivity, marketers can better create marketing campaigns that truly encompass the target market.

Two examples of companies not readily prepared come from Nivea and Gucci. In 2017, Nivea launched a social media campaign stating “White Is Purity.” The public perceived the phrase as racially insensitive. To make matters worse, the slogan was then used by white supremacists in their propaganda (Thunderfoot Team, 2017). While the company apologized and removed the campaign, these marketers should never have let the campaign leave the idea room. In 2019, luxury fashion designer Gucci introduced a balaclava knit jumper with material that went up and around the mouth. The advertisement for this clothing featured a White woman modeling the sweater with bright red lipstick. Many critics noted its similarity to blackface. The company immediately pulled the \$890 sweater from stores (Ollerton, 2021).

Link to Learning: Gucci

Read more about the [balaclava polo jumper from Italian designer Gucci](#), the public commentary, and Gucci’s official response. Also check out the details behind the [Nivea “White Is Purity” ad](#) and the uproar from consumers.

Cultural differences are an important factor in product marketing, but these differences are also critical with business practices. Suppose you are meeting with a business partner in another country. Do you know if there is a gift-giving expectation? You may be aware that there are ethical concerns and sometimes prohibitions with gift giving in the United States, but in other countries, it would be unprofessional to attend a meeting without a gift. For example, in Japan, it is customary to bring a small gift with an initial sales call (Aperian, 2020). In the United States, some companies won’t allow employees to accept gifts.

Using another U.S. example, it is not unusual to “get right down to business” when meeting with others. Conversely, it may take several meetings to develop rapport with Japanese businesspeople before business is ever discussed. In addition, it’s commonplace in Japan for people to not shake hands (see Figure 8.2) but bow to one another (The City of Yokohama Europe Representative Office, 2024).



Figure 8.2 Understanding cultural differences is important in marketing products and in business practice; for example, shaking hands is not globally accepted. (credit: “CC-BY-Mapbox-Uncharted-ERG_Mapbox-b053” by Mapbox Uncharted ERG/flickr, CC BY 3.0)

Link to Learning: Cultural Sensitivity

There are many ways you can begin to be more culturally sensitive. The first step is awareness. [Read this short article](#) and find ways to improve your cultural awareness and multicultural relationships. Also check out this video to learn how to develop cultural competency as a skill.



Knowledge Check

It's time to check your knowledge on the concepts presented in this section. Refer to the Answer Key at the end of the book for feedback.

1.

When conditions are favorable for a company to expand globally, the company is experiencing _____.

- a. global market opportunities
- b. international trade
- c. growth
- d. increased sales

2.

Which of the following is NOT an advantage of international trade?

- a. Increased sales
- b. Growth
- c. Cultural barriers
- d. Diversification of risk

3.

Being aware of and appreciating variations in culture is known as _____.

- a. cultural sensitivity
- b. cultural barriers
- c. cultural differences
- d. marketing regulations

4.

Ashia is planning a business dinner with her new clients in Chile. She has never visited Chile before and is not familiar with their customs. Which of the following would you NOT advise Ashia to do?

- a. Tell Ashia she should consider talking with a colleague who has traveled to Chile before.
- b. Tell Ashia to study some of the most important Chilean customs to avoid embarrassing herself or offending her dinner guest.
- c. Tell Ashia that if she is in doubt, she should follow her dinner guests' lead on what is appropriate.
- d. Tell Ashia not to worry about it because the Chilean businesspeople should adapt to her customs because her customs are the best ones to follow.

5.

Which of the following is true regarding business politics?

- a. They do not vary from culture to culture.
- b. Business politics can vary greatly across cultures, and businesspeople should decide what is within their own ethical compass before deciding to conduct international business.
- c. Business ethics are the same across every culture.
- d. When conducting business in a foreign market, you should always do what is asked of you, even if it's unethical or illegal in your home country.

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