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Glossary of Terms: International Business

absolute advantage
A country has an absolute advantage when it is more efficient than any other country at producing a product.
balance of payments accounts
National accounts that track both payments to and receipts from foreigners.
bill of lading
A document issued to an exporter by a common carrier transporting merchandise.
common market
A group of countries committed to the pursuit of a common external trade policy.
comparative advantage
The theory that countries should specialize in the production of goods and services they can produce most efficiently.
current account deficit
The current account of the balance of payments is in surplus when a country exports more goods and services that it imports.
deferral principle
Parent companies are not taxed on the income of a foreign subsidiary until they actually receive a dividend from that subsidiary.
economic risk
The likelihood that events, including economic mismanagement, will cause drastic changes in a country's business environment that adversely affect the profit and other goals of a particular business enterprise.
Eurobonds
A bond placed in countries other that the one in whose currency the bond is denominated.
Eurocurrency
Any currency banked outside of its country of origin.
European Monetary System (EMS)
EU system designed to create a zone of monetary stability in Europe, control inflation, and coordinate exchange rate policies of EU countries.
European Union (EU)
An economic group of 15 European nations: Austria, Belgium, Great Britain, Denmark, Finland, France, Germany, Greece, the Netherlands, Ireland, Italy, Luxembourg, Portugal, Spain and Sweden.
exchange rate
The rate at which one currency is converted into another.
expatriate manager
A national of one country appointed to a management position in another country.
exporting
Sale of products produced in one country to residents of another country.
fixed exchange rates
A system under which the exchange rate for converting one currency into another is fixed.
floating exchange rates
A system under which the exchange rate for converting one currency into another is continuously adjusted depending on the laws of supply and demand.
free trade
The absence of barriers to the free flow of goods and services between countries.
fronting loans
A loan between a parent company and a foreign subsidiary that is channeled through a financial intermediary.
General Agreement on Tariffs and Trade (GATT)
International treaty that committed signatories to lowering barriers to the free flow of goods across national borders led to the WTO.
globalization of markets
Moving away from an economic system in which national markets are distinct entities.
horizontal foreign direct investment
Foreign direct investment in the same industry abroad as a firm operates in at home.
import quota
A direct restriction on the quantity of a good that can be imported into a country.
infant industry argument
New industries in developing countries must be temporarily protected from international competition to help them reach a position where they can compete on world markets with the firms of developed nations.
International Accounting Standards Committee (IASC)
Organization of representatives of 106 professional accounting organizations from 79 countries that is attempting to harmonize accounting standards across countries.
International Monetary Fund (IMF)
International institution set up to maintain order in the international monetary system.
international strategy
Trying to create value by transferring core competencies to foreign markets where indigenous competitors lack those competencies.
law of one price
In competitive markets free of transportation cost and barriers to trade, identical products sold in different countries must sell for the same price when their price is expressed in terms of the same currency.
lead strategy
Collecting foreign currency receivables early when a foreign currency is expected to depreciate, and paying foreign currency payables before they are due when a currency is expectecd to appreciate.
local content requirement
A requirement that some specific fraction of a good be produced domestically.

mercantilism
An economic philosophy advocating that countries should simultaneously encourage exports and discourage imports.
minimum efficient scale
The level of output at which most plant-level scale economies are exhausted.
mixed economy
Certain sectors of the economy are left to private ownership and free market mechanisms, while other sectors have significant government ownership and government planning.
multinational enterprise (MNE)
A firm that owns business operations in more than one country.
multidomestic strategy
Emphasizing the need to be responsive to the unique conditions prevailing in different national markets.
nonconvertible currency
A currency is not convertible when both residents and nonresidents are prohibited from converting their holdings of that currency into another currency.
North American Free Trade Agreement (NAFTA)
Free trade area between Canada, Mexico, and the United States.
political risk
The likelihood that political forces will cause drastic changes in a country's business environment that adversely affect the profit and other goals of a particular business enterprise.
polycentric staffing
A staffing policy in an MNE in which host-country nationals are recruited to manage subsidiaries in their own country, while parent-country nationals occupy key positions at corporate headquarters.
positive sum game
A situation in which all countries can benefit even if some benefit more that others.
predatory pricing
Reducing prices below fair market value as a competitive weapon to drive weaker competitors out of the market .
price discrimination
The practice of charging different prices for the same product in different markets.
price elasticity of demand
A measure of how responsive demand for a product is to changes in price.
Smoot-Hawley Tariff
Enacted in 1930 by the U.S. Congress, this tariff erected a wall of barriers against imports into the United States.
specific tariff
Tariff levied as a fixed charge for each unit of a good imported.
Structural Impediments Initiative
A 1990 agreement between the United States and Japan aimed at trying to decrease nontariff barriers restricting imports into Japan.
subsidy
Government financial assistance to a domestic producer
systematic risk
Movements in a stock portfolio's value attributable to macroeconomic forces affecting all firms in an economy, rather than factors specific to an individual firm.
tax haven
A country with exceptionally low, or no, income taxes.
tax treaty
An agreement specifying what items of income will be taxed by the authorities of the country where the income is earned.
temporal method
Translating assets valued in a foreign currency into the home currency using the exchange rate that existed when the assets were originally purchased.
transaction exposure
The extent to which income from individual transactions is affected by fluctuations in foreign exchange values.
translation exposure
The extent to which the reported consolidated results and balance sheets of a corporation are affected by fluctuations in foreign exchange values.
transnational corporation
A firm that tries to simultaneously realize gains from experience curve economies, location economies, and global learning, while remaining locally responsive.
Treaty of Rome
This 1957 treaty established the European Community.
turkney project
A project in which a firm agrees to set up an operating plant for a foreign client and hand over the "key" when the plant is fully operational.
vehicle currency
A currency that plays a central role in the foreign exchange market (e.g., the U.S. dollar and Japanese yen).
voluntary export restraint (VER)
A quota on trade imposed from the exporting country's side, instead of the importer's; usually imposed at the request of the importing country's government
World Bank
International institution set up to promote general economic development in the world's poorer nations.
World Trade Organization (WTO)
The organization that succeeded the General Agreement on Tariffs and Trade (GATT) as a result of the successful completion of the Uraguay round of GATT negotiations.
zero sum game
A situation in which an economic gain by one country results in an economic loss by another.

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Source: International Business: Competing In the Global Marketplace, by Charles W.L. Hill, Irwin/McGraw-Hill, 1997