THE IMPACT OF INTERNATIONAL BUSINESS ON THE GLOBAL ECONOMY

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Abstract

With the dawn of globalization, international business is becoming increasingly popular. Multinational organizations are among the most profitable in the world. A company needs to be aware of the language and culture of the country where it plans to embark with its investment. Politics and laws of the nation can either make international business easy or hard. With the success of international business, its future is gleaming, on a global scale.
The International Business Imperative

Revolutionary changes in technologies have provided the mechanisms that propel the growth of international business. The intensification of competition at both domestic and international levels has driven firms to look beyond their domestic markets for new opportunities. The progressive removal of barriers to trade and capital movements has stimulated greater flows of exports, imports, and foreign direct investment (FDI). Multinational enterprises have emerged as the key agents of international economic coordination. They provide the capability to generate innovations and deliver new goods and services to the market; they also provide the capability to exploit these technological advances at a global level; and they are a depiction of the capacity of international managerial coordination to operate efficiently across international boundaries. Furthermore, the growing economic strength of the newly-industrializing countries (e.g., Taiwan, Hong Kong, Singapore, Korea) and the opening up of China and Eastern Europe have provided an additional stimulus to international business activities (Wei).

Culture and International Business

Chevrolet was unsuccessful at marketing the Chevy Nova in Mexico, and the result was lost revenue because in Spanish, “Nova” means “it doesn’t go.” The American Motor Corporation named one of its products the “Matador,” to create images of strength and virility. But “Matador” means “killer” in Puerto Rico, where the traffic fatality rate is exceedingly high. It is therefore imperative to conduct an evaluation of names prior to introducing a product on the market (“International Business Customs”).

A 30-second advertising spot proved to be a costly mistake for Doubletree Hotels Corporation. The advertisement was the announcement of a $31 million marketing campaign to illustrate the warm, friendly atmosphere of the hotels. Deemed offensive to the Muslim community, the spot portrayed employees of the hotel dressed in Arab-style clothing and bowing to the guests. This was interpreted as the employees worshipping or “praying” to hotel visitors. As the Muslims worship the one true God, this advertisement was seen as ridicule of reality.

Moreover, translation errors are the cause of the majority of blunders in global trade. The Coors slogan “Turn it Loose,” turned into “Drink Coors and Get Diarrhea.” Even the largely popular “Got Milk?” campaign lost its edge when it was introduced in Mexico as “Are you Lactating?” As is obvious, these mistakes and others like them can result in a devastating loss of revenue for companies in today’s global marketplace. Hence, it is very important to know its culture before conducting international business with a country (“International Business Customs”).

National Trade and Investment Policies

The 1996 National Trade Estimate of the European Union explains the notions of national trade and investment policies. The European Union and the United States share the largest two-way trade and investment relationship in the world. In 1995, the US had a trade deficit with the EU of $8.3 billion, $3.4 billion less than that recorded in 1994. In 1995, US merchandise exports to the EU were $123.6 billion, an increase of $15.9 billion from those in 1994. US imports from the EU totaled $131.9 billion in 1995, or 10.4 percent greater than those in 1994. The stock of US foreign direct investment in the EU was $256.1 billion in
1994, an increase of 6.9 percent over that in 1993 (“1996 National Trade”).

As an example of import policies, when Austria, Finland, and Sweden joined the EU on January 1, 1995, these countries adjusted their tariffs to the EU’s common external tariff, resulting in increased tariffs on $3 billion of US industrial and agricultural exports. The European Commission was required to negotiate with the US and other affected trading partners a package of compensating tariff cuts. During 1995, the EU adopted interim compensation for the US under which the EU continued to apply pre-accession tariff levels on imports into the three countries on most of the affected industrial products, but provided no compensation in agriculture. In December 1995, the EU and US concluded negotiations on the permanent compensation owed to the US. Some of the concessions were in the form of acceleration of tariff reductions agreed in the Uruguay Round, while others involved reductions of tariffs beyond levels agreed in the Round or the establishment of tariff-rate quotas.

EU member states had widely differing standards, testing and certification procedures in place for some products. These differences served as barriers to the free movement of these products within the EU and could cause lengthy delays in sales due to the need to have products tested and certified to account for differing national requirements. Nonetheless, the political will and the advent of the “New approach,” which streamlined technical harmonization and the development of standards for certain product groups, based on minimum health and safety requirements, generally pointed toward the harmonization of laws, regulations, standards, testing, quality and certification procedures in the EU. The European standardization process had been closed to US firms’ direct participation.

Italy’s highly fragmented and sometimes non-transparent government procurement practices created obstacles to US firms’ participation in Italian government contracts. Procurement in certain areas was heavily directed toward Italian suppliers. In 1994, the Italian parliament enacted legislation aimed at providing more transparent procurement procedures, including establishment of a central body to monitor implementation. Due to its complexity, the bill was not fully implemented.

The US cling peach industry complained in 1994 that the EU had failed to observe and enforce a commitment made in the 1985 US-EU Canned Fruit Agreement (CFA) to not subsidize EU processing operations for peaches in syrup. The US industry claimed implementation of the EU’s minimum grower price and fruit withdrawal programs was undermining the no-processing subsidies commitment made by the EU in the CFA, and that the sale of subsidized Greek canned peaches in the US and a number of foreign markets, including Japan, Mexico, and Canada, was harming the US industry.

The level of software piracy continued to be a source of concern in Germany, as in other large developed markets. The effects of Germany’s 1993 implementation of the EU’s software directive, as well as an educational campaign by the software industry, might have helped reduce piracy from previous levels.

US express package services like UPS and Federal Express remained concerned that the prevalence of postal monopolies in many EU countries restricted their market access and subjects them to unequal competitive conditions. Proposals to liberalize many postal services and to otherwise constrain the advantages enjoyed by the monopolies might not be sufficient to fully redress these problems.
In 1992, the EU established a calendar for liberalizing the cabotage practice. While cabotage within peninsular Spain had been liberalized, the EU had allowed Spain to restrict merchant navigation to and within the Balearic Islands, the Canary Islands and Ceuta and Mililla to Spanish flag merchant vessels until 1999. The benefits of EU law in the aviation and maritime areas were reserved to firms majority-owned and controlled by EU nationals. In addition, the EU Commission had proposed that companies wishing to benefit from the mutual recognition of licenses for the provision of satellite network or communications services be 75 percent owned, and effectively controlled by, EU nationals.

French regulations prohibited the import of poultry products, except offal, from the US. A French decree of 1962 banned imports of poultry products from countries using arsenicals in poultry feed, as is the case with American poultry. The US had renewed its objection to this barrier, which was imposed only by France. While harmonization of policies within the EU may end this ban, the US may continue to monitor this issue closely (“1996 National Trade”).

Politics and Laws

Political risk in international business entails discontinuities occurring in the business environment that are: difficult to anticipate; and that result from political action(s) or changes(s) that possess the potential to significantly affect profit or business goals. Political risk may be related to political instability but it need not be (Kluyver).

Cox’s account of business conflict over US policy toward Central America progressed through three stages. During the 1950s and 60s, the principal cleavage divided nationalist from internationalist business groupings. Following World War II, internationalist firms were attracted to Central America as a potential site for low-wage manufacturing and these interests sought three policy changes to aid the movement of foreign investment to the region: (1) expanded aid programs to improve Central America’s poor economic infrastructure, (2) changes in US tax law to encourage American direct foreign investment abroad, and (3) reductions in US tariff rates so that goods produced by US firms in Central America and elsewhere could be profitably exported back to the US. Nationalist firms, fearing increased import competition, opposed all three initiatives. But they succeeded in blocking only the latter. US tariff levels remained high until implementation of the Kennedy Round of tariff cuts in the Sixties. Discouraged from using Central America as an export platform by US tariff barriers, internationalist firms began to advocate Import Substitution Industrialization in Central America and other Third World countries (Cox).

World business has consistently recommended to governments that they could best support further growth of electronic commerce by focusing their energies on providing a basic legal and institutional framework that ensures effective competition as well as general trust through more predictable and media-neutral rules. The European Commission has stated that its primary aim in issuing the draft -- Directive on Certain Legal Aspects of Electronic Commerce -- is to respond to this call from the private sector and to eliminate certain legal obstacles that remain to the online provision of services, particularly for small and medium sized enterprises (“Policy Statement”). Politics and laws are therefore, very important in international business. They determine how
and where international business may be conducted by an organization or country. In terms of international business, brotherhood, friendship and universality of laws are the best ideas.

The Theory of International Trade and Investment

International trade is not limited to commodities that some countries produce and others do not. Countries sometimes import goods that they themselves could produce more cheaply than the countries from which they get them. It has been claimed, for example, that Britain could raise dairy produce more cheaply than Denmark. But Britain nevertheless imports part of its supplies from that country and devotes its main energies to producing machinery, electrical equipment, motor vehicles and other manufactures, because its advantages over Denmark in producing these things are greater than its advantages in producing dairy produce. This concentration on manufacturers involves what is known as the principle or the law of comparative costs, or simply comparative advantages in this theory of international trade. As applied to international trade this means that a country tends to concentrate on producing those things that will give it the best return for any given investment of its productive resources. The law of comparative costs is an extension of the principle of division of labor to the international field (Gartside, 195). The theory of international investment explains international capital movements in the context of international production and trade. International investment creates international production and is integrated via international trade. Knowledge, know-how and technology are generally transferred between countries along with financial capital (Wei).

The International Economic Activity of the Nation: The Balance of Payments

Economists keep score by looking at income statements and balance sheets and in the area of international economics, the key accounts are a nation’s balance of payments. A country’s balance of international payments is a systematic statement of all economic transactions between that country and the rest of the world, the statement of international economic activity of a nation. The major components of the balance of payments account are the current account and the capital account (Samuelson and Nordhaus, 682).

International Financial Markets

Today’s financial market is truly international in scope but the international legal system continues to be based on the principle of national sovereignty. The result is an absence of international institutions capable of regulating this global financial market and criminal organizations taking advantage of this situation in pursuit of their interests. The activities of criminal organizations on the global financial market should be of great concern because they constitute formidable obstacles to law enforcement and represent a risk to the stability of these markets that are especially sensitive to exchange rates and taxes. The international financial market is an extremely important mechanism in the global economy, as it enables the international allocation of capital, and as such should be protected by appropriate institutions.

Criminal organizations are capable of using the international financial market to take advantage of the limitations of an international legal system based on the sovereignty of states; and a wide variety of
economic crimes can be facilitated by using the international financial market to move capital throughout the globe quickly and often anonymously. The primary motive of criminal participants in the international financial market, to avoid law enforcement efforts, can lead to rapid shifts of capital that have the potential of disrupting the stability of this market. Institutions designed to regulate the international financial market must be based on voluntary cooperation, and the international community should recognize its collective interest in regulating the global financial market and establish institutions for that purpose (Sussman).

**Economic Integration**

International economic integration is not a new phenomenon. Some communication and trade took place between distant civilizations even in ancient times and since the travels of Marco Polo seven centuries ago, global economic integration—through trade, factor movements, and communication of economically useful knowledge and technology—has been on a generally rising trend. This process of globalization in the economic domain has not always proceeded smoothly; nor has it always benefited all whom it has affected. However, despite occasional interruptions, such as following the collapse of the Roman Empire or during the interwar period in this century, the degree of economic integration among different societies around the world has generally been rising. Indeed, during the past half century, the pace of economic globalization has been particularly rapid. With the exception of human migration, global economic integration today is greater than it ever has been (Crafts).

Three fundamental factors have affected the process of economic globalization. Firstly, improvements in the technology of transportation and communication have reduced the costs of transporting goods, services, and factors of production and of communicating economically useful knowledge and technology. Secondly, the tastes of individuals and societies have generally, but not universally, favored taking advantage of the opportunities provided by declining costs of transportation and communication through increasing economic integration. And thirdly, public policies have significantly influenced the character and pace of economic integration, although not always in the direction of increasing economic integration (Mussa).

**Market Transitions and Development**

In Seattle, there was a manifestation of popular opposition to globalization under the rules of free trade. What has been happening in Puerto Rico is a result of that same process in a specific national context. This is the country where the free trade model of development was implemented decades before it became the dominant global paradigm. For over 100 years, the history of the Puerto Rican people has been dominated by the economic imperatives of the US, living under an evolving colonialism that has always manifested itself in significant socio-political movements against it. The general strike in 1998 was a representative of such movements. This strike made transitions in relation to international market integration difficult. Thus, new international businesses were not allowed to integrate in the market healthily (Diaz).

The Brattle Group’s extensive experience with all sectors of the natural gas industry, from wellhead to burner-tip, allowed them to offer a wide array of services to firms looking to thrive in this complex environment. In addition to their North American practice,
The Brattle Group as their way into international market development, began assisting clients in the United Kingdom, Europe, Australia, and other countries in policy debates over privatization and restructuring of their natural gas industries. They also provided testimony in their regulatory and legal proceedings regarding such matters as pricing and terms of access, and conflicts over contract performance (“The Brattle Group”).

**International Business Research**

International business research is about enterprise development in another country. Enterprise development, especially as it relates to micro, small and medium enterprise development is a complex endeavor with many facets such as looking into the policy environment, entrepreneurship, innovation, competitiveness, subcontracting, etc. These facets of international enterprise development require investigation and research (“Enterweb”).

**International Business Entry**

Many countries make it attractive to incorporate in their area, even when activities are to be conducted elsewhere. In fact, there are so many tax efficient jurisdictions that an initial problem for most organizations wanting to form an international business company, is how to select from the available options. Belize is such a country that entered the offshore industry after carefully analyzing and adopting the best features of some of the best offshore jurisdictions in existence. Its long history of democracy and stability, enhanced by its legal system which is based on English common law, have made it the premier source for easy market transition (“Belize Offshore Consultants”).

**Multinational Corporations**

A multinational corporation is a company or enterprise operating in several countries, usually defined as one that has 25% or more of its output capacity located outside its country of origin. The world’s four largest multinationals in 1994 were General Motors, Ford, Exxon, and Shell. Their total sales exceeded the gross national product of all of Africa, and the top 100 multinational corporations controlled $3.4 trillion in financial assets. In 1993, multinational corporations accounted for one-third of the world’s industrial output, with sales of $4,800 billion. They are seen in some quarters as posing a threat to individual national sovereignty and as exerting undue influence to secure favorable operating conditions. Unsuccessful efforts were made 1992, under UN auspices, to negotiate a voluntary code of conduct for multinationals, but governments and corporations alike were hostile to this idea. In 1993, 11 of the 100 largest multinational corporations were British (“Hutchinson Family Encyclopedia”).

**Strategic Planning in International Business**

The strategic plan must be developed and owned by the management team that has the job of implementing it. Strategic planning in international business must be objective. After international business research, the international business must define a first year operating budget, build an infrastructure flexible enough to meet expansion needs, and prepare the company for expansion. It must understand different growth options available for developing transatlantic operations, and know the risks and rewards of each. The international business must also build a long-range plan, and then adhere to
that plan. It must find the right mix of direct and indirect operations, and the right rollout sequence to keep risk low while maximizing longer-term market share and revenue potential. To craft a good business strategy for international success, the company must have broadened awareness, coupled with business experience. Specialized organizations such as Atlas Venture help international businesses formulate the strategic plan (“Atlas Venture”).

**International Marketing**

International Marketing Services, Inc, (IMS) is a uniquely positioned international marketing firm. Since 1986, it has assisted over five hundred US, European and Russian companies export products, develop joint ventures, locate foreign investment, and form strategic relationships. Its extensive experience with business practices and culture in North America, East-Central Europe and the C.I.S. is the foundation of its success. IMS’ cross-cultural perspective allows it to rapidly overcome significant obstacles to export sales and joint ventures that most firms are unequipped to deal with alone. The company also brings broad analytical skills to bear on its global projects. This includes substantial international trade and joint venture negotiations expertise, market and competitive assessments, macroeconomic, financial and statistical analyses, and political risk evaluations. In addition to broad skills, IMS’ employees hail from diverse backgrounds and industries. The company offers a full spectrum of services ranging from one-time primary market research assignments to marketing and strategy consultation where it walks its clients through each difficult stage of expanding their business presence abroad (“International Marketing Services”). The successful operation of IMS indicates the factors needed for lucrative international marketing. These factors include knowledge of culture, political risk evaluation, etc.

**International Services**

International businesses like Shell provide international services. Shell Services International provides, among many other specialized services, electricity in the US. Shell Energy was formed in 1997 to pursue new growth opportunities in the retail electricity and gas markets that have recently been opening to competition. Today, Shell Energy serves more than 300,000 gas and electricity customers in Ohio and Georgia (“Shell Services International”).

**International Logistics and Supply-Chain Management**

International logistics are about international freight forwarding, moving and storage, warehousing and storage, project shipping, office building and letters of credit. Currently, there are organizations that specialize in making the task of international logistics easier for international business (“International Logistics Management”). A supply chain is a network of facilities and distribution options that performs the functions of procurement of materials, transformation of these materials into intermediate and finished products, and the distribution of these finished products to consumers. The geographic placement of production facilities, stocking points, and sourcing points is the first step in creating a supply chain. The strategic decisions include what products to produce, and which plants to produce them in, allocation of suppliers to plants, etc. Inventory decisions refer to means by which inventories are managed. And the mode choice aspect of
transportation decisions is the more strategic ones (Ganeshan and Harrison).

**Multinational Financial Management**

International trade, financing and investments have grown at an extremely rapid pace in recent years, and the operations of corporations are increasingly becoming multinationalized. Corporate executives buying and selling goods and services, and making financing and investment decisions across national boundaries, have formulated policies and procedures for managing cash flows denominated in foreign currencies. These policies and procedures, and the related managerial actions of executives, change as new relevant information becomes available and this field is that of multinational financial management (Reid).

**Countertrade**

Countertrade simply refers to listening to the company’s international customers and meeting their needs. This could be in the areas of hard currency generation, technology transfer, or marketing assistance (“The American Countertrade”).

**International Accounting and Taxation**

In Malta, taxation of an international trading company (ITC) is based on the Tax Refund Mechanism. An ITC is taxed at the normal company rate of tax, which is currently about 35%. Non-resident shareholders of an ITC are taxed at a flat rate of 27.5% on all distributions received from the firm. Non resident shareholders of an international holding company which has a participating holding in a non-resident company qualify for a full refund of the Malta tax paid by the Maltese company on income arising from these foreign holdings. Such refund is triggered upon a distribution of this income to the non-resident shareholders of the Maltese firm (“Accounting and Taxation”).

**International Human Resource Management**

Effective management of expatriate managers is one of the most important areas in human resource management, and there is abundant research on expatriates of American, European, and Japanese multinationals with large expatriate populations. In the age of globalization, strategic management of human resources is becoming critical for organizational survival. Global business environments demand flexibility and rapid response and there is a growing realization that the human dimension provides the key to flexibility and adaptability in organizations. Multinational and transnational corporations have been increasingly aware of the growing necessity to have not only international business strategies, but also international human resource strategies. Just as international business strategy is likely to have unique features and needs to be understood well, international management of human resources has its own peculiarities that have to be managed well to be able to flourish in overseas operations (Naresh).

**Organization, Implementation, and Control of International Operations, and their Future**

Effective management of international business operations includes efficient management of finance, personnel, product development, marketing, and communication. This is so that the
organization, implementation and control of the operations go well. The future of international business is bright as globalization and the need for universality continue.

References


