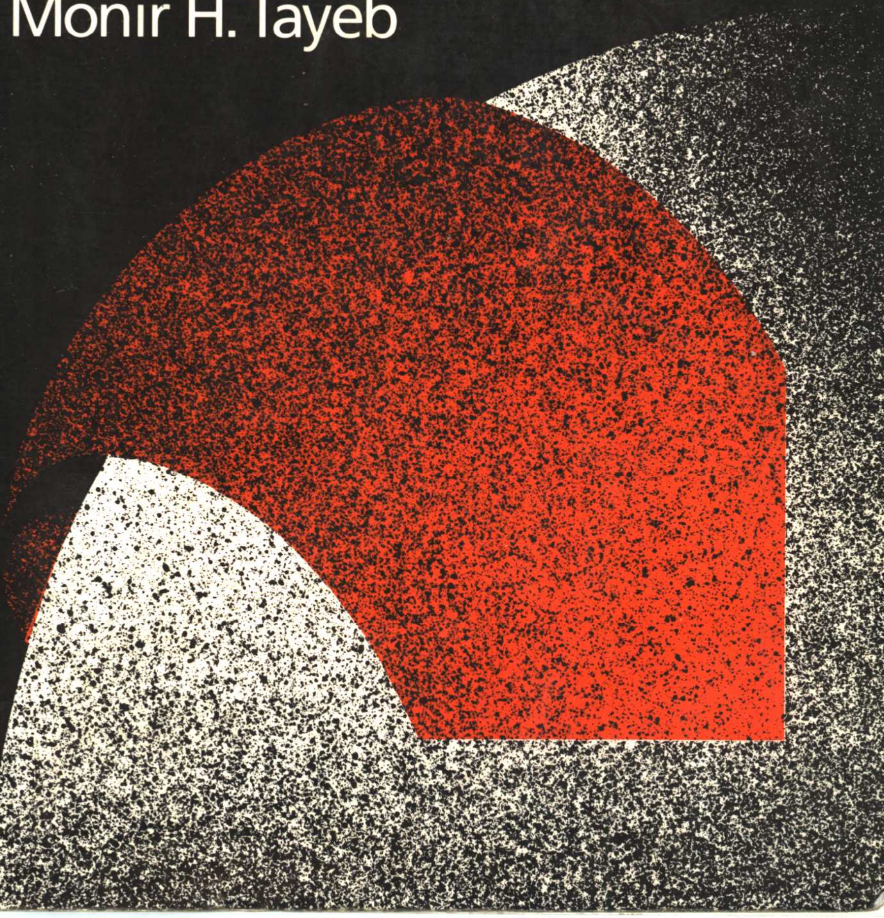
The Global Business Environment

An Introduction

Monir H. Tayeb



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Abbreviations and Acronyms

AC	advanced country
ACP	America–Caribbean–Pacific
ASEAN	Association of South East Asian Nations
BKPM	Investment Coordinating Board [of Indonesia]
BNL	Banca Nazionale del Lavoro
CACM	Central American Common Market
CIM	computer integrated manufacture
CIS	Commonwealth of Independent States
Comecon	Council for Mutual Economic Association
EC	European Community (see also EEC)
ECU	European Currency Unit
EEA	European Economic Area
EEC	European Economic Community (see also EC)
EES	European Economic Space
EFTA	European Free Trade Association
FDI	foreign direct investment
G7	Group of 7 (the seven richest industrialized countries: United States, Germany, France, Japan, United Kingdom, Canada, Italy)
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GM	General Motors [Corporation]
GNP	gross national product
GSP	Generalized System of Preferences
IBM	International Business Machines [Corporation]
IBRD	International Bank for Reconstruction and Development, generally referred to as the World Bank
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
ITO	International Trade Organization
LAFTA	Latin American Free Trade Association
LAIA	Latin American Integration Association
LDC	less developed country

MFA	Multi-Fibre Arrangement
MFN	most favoured nation
MIT	Massachusetts Institute of Technology
MITI	Ministry of International Trade and Industry [of Japan]
MPV	multi-purpose vehicle
NATO	North Atlantic Treaty Organization
NIC	newly industrialized country
NUM	National Union of Miners
NUT	National Union of Teachers
OAU	Organization of African Unity
OECD	Organization for Economic Cooperation and Development
OEEC	Organization for European Economic Cooperation
OPEC	Organization of Petroleum Exporting Countries
PLC	public limited company
PSE	producer subsidy equivalent
R & D	research and development
SDR	special drawing right
SPEC	South Pacific Bureau for Economic Cooperation
SPF	South Pacific Forum
T & GWU	Transport and General Workers Union
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
USSR	Union of Socialist Soviet Republics (see also CIS)
USTR	United States Trade Representative
VAT	value added tax
VER	voluntary export restraint

Introduction

The historical and economic background

The first chapter introduces international business at national and company levels. The first section discusses briefly the reasons for and the nature of trade between nations. The discussion is then brought to the company level and the forms in which business organizations engage in international business. Various forms of internationalization, ranging from business activities without foreign management (for example, export and import) to those which involve foreign direct investment and managerial control, are outlined. Barter and countertrade are also dealt with in the section. The final section examines major reasons behind a firm's decision to engage in international business.

Chapter 2 gives a brief account of the historical evolution and the present state of the political and economic world within which international business operates. Events such as the Industrial Revolution in the eighteenth century, the two World Wars, the 1929 depression and the acquisition of their independence by former Western colonies, which changed the global scene considerably, are discussed.

The chapter is then brought up to the present time, via a discussion of the emergence of the USA and later Japan as economic superpowers, the North–South division, East–West blocs, and outlines the most significant challenges that firms engaged in international operations are likely to face. These are then dealt with in detail in the remainder of the book.

Major challenges to free international trade

In an ideal world, free international trade, based on the principle of comparative advantage, should benefit all. But in reality, restrictions of all kinds hinder the free flow of goods and services, even though the eventual outcome of these restrictions is an overall loss to the ultimate consumer.

Part II outlines some of these restrictions and Part III deals with efforts made by various countries at both regional and global levels to remove them in such a way as to bring about a fairer trade system.

Chapter 3 discusses the risks involved in international business which emanate from governments' intervention for both political and economic reasons. It defines political risk and suggests its likely sources, such as conflict of interests, threat to national sovereignty, perceived exploitation of national resources, and economic and socio-cultural factors. The chapter then outlines various forms of action that governments take in order to exert control and restrictions over the activities of multinationals and the ways in which the latter could deal with them.

Chapter 4 outlines some of the protectionist measures that governments take in order to improve their terms of trade with the outside world and to protect their domestic economy. It starts by discussing the political and economic rationale for protectionism, such as avoiding dependence on foreign products, protecting certain industries, full employment at home, restrictions on exports to hostile countries, and restrictions on imports from some countries as a form of punishment. The chapter points out the drawbacks that protectionism may entail, such as poor quality products and services, and retaliation by other countries.

One of the major problems faced by international companies is the differences between accounting, taxation and legal systems practised in different countries. Chapter 5 outlines these differences, and discusses their implications for multinational companies.

Western banks are currently facing a major crisis because of, among other things, the inability of some developing countries to repay their loans. Chapter 6 focuses on the extent of this problem and the proposed solutions for it. The chapter starts by describing briefly the global financial system and international banking. It is pointed out that because of the growing interdependence among various financial institutions and capital centres, these are becoming increasingly vulnerable to international crises such as the debt crisis. The discussion is then concentrated on the historical reasons behind the debt crisis, from both conservative and radical viewpoints. The last section of the chapter examines the solutions put forward by various international bodies so far.

Efforts to enhance free international trade

Chapter 7 focuses on major global institutions and agreements, namely, the IMF, World Bank and GATT, to highlight the steps taken by nations to bring down barriers to free trade. The performance of these international bodies is assessed critically.

Chapter 8 concentrates on regional agreements in various parts of the world, such as the OECD, EFTA and EC (in Western Europe), OPEC and ASEAN (in Asia), OAU (in Africa), CACM and LAIA (in Latin America), and SPEC in the Pacific Basin. The effectiveness of these organizations to protect their member states and to enhance international trade is examined.

Doing business with others

The chapters in this part include comparisons between, on the one hand, the European and American 'way of life', and on the other, the different ways in which some other nations conduct their social, cultural and business life.

Chapter 9 explores the possibilities of cultural influences on organizations and on their members' relationships with each other and with the outside world. The chapter consists of five sections. The first defines culture and outlines its scope. The second examines the likely origins of culture in primary and secondary social institutions.

The third section concerns the ways in which culture influences organizations from 'without', through institutions such as trade unions, political and economic structure, and consumers and other interest groups. The cultural origins of employees' work-related attitudes and behaviours, and the implications of these for organizations' management style and structure are also examined in this section. The fourth section of the chapter discusses the management of culture, which includes strategies ranging from cultural synergy to building organizations' own cultural identities which aim at suppressing cultural characteristics that may have been carried over from outside the organizations. The chapter concludes by discussing the transfer of management practices between cultures.

In the past three decades or so many researchers have sought to study the interaction between organizations and various levels of the environment, but only a very small number of studies have been carried out to examine the influence on organizations of the two major forms of the economic system of production, namely capitalism and socialism. Chapter 10 addresses this issue. Major differences between the two systems, especially in the areas of ideology and value systems, characteristics of class structure, ownership and control of the means of production, management of the economy, and the role of the state, are discussed.

The current political and economic events in East European countries, and the likely challenges they face in their attempts to move from a centrally-planned economic system to one based on capitalism and free enterprise are examined. The final section of the chapter speculates on the implications of the political reforms in ex-socialist countries for international business.

A major proportion of multinational companies' foreign direct investment is within industrialized countries, but the trend to move to less developed countries (LDCs) and newly industrialized countries (NICs) is on the increase. The reduction in the cost of production in an increasingly competitive world is more than ever becoming a significant determining factor in the choice of location of foreign manufacturing plants. LDCs and NICs are more likely to offer a competitive tender in this respect.

The first section of chapter 11 concentrates on less developed countries. Major characteristics which are common in almost all LDCs, such as the role of the state in the management of the economy, protectionism, inadequate infrastructure, poverty, and political instability, are discussed. The chapter then examines the position of the LDCs in the world of international trade, and discusses the way ahead for them. The final section of part one focuses on the opportunities and constraints facing the multinational companies which locate some of their foreign subsidiaries in LDCs.

The newly industrialized countries of South East Asia are becoming an increasingly competitive and formidable force to be reckoned with. They have made inroads in the markets which have hitherto been regarded as the domain of Japanese and Western companies. These NICs and some of the major reasons for their spectacular economic growth in the past three decades or so are discussed in the second part of chapter 11.

The success of Japanese managers in the past few decades has encouraged many researchers to study Japanese organizations in either single-culture frameworks or in comparative paradigms, in an attempt to establish whether or not Japan's distinctive culture accounts for the success of Japanese companies.

Chapter 12 identifies some of the salient characteristics of the Japanese culture in general and Japanese business culture in particular. In the light of these characteristics, some of the features attributed to Japanese organizations, such as the *ringi* method of decision making, employee-centred leadership style, non-class distinctions between management and workers, lifetime employment, employee commitment to company, teamwork and quality circles, the practice of Just-in-time, and single-union agreements, will be discussed. The degree to which the Japanese organizations are uniquely Japanese phenomena is also examined. The chapter gives examples of Western firms which have in the past tried to apply one or more of Japanese management practices in their organizations, and evaluates their success.

The international manager's world

The concluding chapter draws on the previous parts of the book and examines the global opportunities and threats with which international business organizations have to deal. Strategic planning, interface activities, organization and the management style of multinational companies in the light of their global challenges, are discussed.

Contents

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Firms and the international market

The involvement of companies in international business is the level at which trade between nations is translated from principles and policies to actions and practices. In other words, the actual exchange of goods and services, and of money, usually takes place between companies, even if in some cases, such as the sale and purchase of arms, governments are directly involved.

The most prevalent and perhaps the oldest form of international business is the **import** and **export** of goods and services. Some firms may buy, or sell, or facilitate the import and export of commodities, products and services of other companies in international markets. Others may import raw materials and semi-processed goods for use in their own manufacturing operations, mainly because either these do not exist in their own country in sufficient quantity or they might be cheaper abroad. There are also companies which export their own products and services. Individual firms may, of course, engage in any combination of these forms of import and export activities.

Exporting firms could choose to have local partners or sales agents abroad to handle the sale of the goods once they arrive at their destination. Some will go further than this and operate their own transport and distribution network in the foreign country.

In most cases, imports and exports involve exchanges of money, usually in the form of hard currencies, such as the US dollar or the UK pound sterling. But sometimes the trading firms may import from or export to countries whose national currencies are not convertible, such as in the case of the former Soviet Union, China and some of the ex-socialist East European countries. In situations like these, products and services are usually exchanged for products and services under **barter** agreements.

In 1990, for example the former Soviet Union and an American firm, Pepsico, signed a $3 billion agreement according to which the Soviet Union would trade ships and spirits for expanded Pepsi production. Barter was used because the Soviet currency, the rouble, was not readily convertible to Western currencies.

Pepsico, which previously produced 40 million cases of soft drinks in the Soviet Union each year in exchange for the right to ship Stolichnaya vodka to the United States, would under the