International business and trade

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International business relations are much older than we usually think. The epoch of global economy began, when prehistoric hunters first reached a tribe of prehistoric farmers and exchanged their products. Nowadays we define international business as all business transactions, involving 2 or more countries, and such a wide notion brings us to the idea, that international business is an extremely complex system, including different types of activities. Typically for market economy, people or organizations, involved in foreign business affairs, aim to maximize their profits, but the rule doesn't work when we speak about governments, which may be motivated not only by profit prospects, but by other forces, like supporting financial stability or acquiring irreplaceable goods, needed to satisfy some vital social needs.

Three major factors that make firms to pursue international business are sales expansion, resource acquisition and diversification.

The first reason is easily explained as even in huge countries domestic market is limited by the number of population and for some categories it's much narrower. Many developing states have constructed high-tech industries with the help of western investments and sell the products to other countries, as local population simply cannot afford them! Generally, even if you have a plenty of rich customers, you are still interested in entering a foreign market.

But before selling goods, you need to produce them. Process of production implies combining different resources and transforming them into the output. Internal resources markets may offer an unacceptable price, and some kinds of resources may inaccessible at all! That's why large companies, like petroleum refiners, fully exist on imported raw materials. However, in most cases, searching for outer supplies is motivated by making higher profits. Multinationals establish their plants in the 3rd world countries, due to the cheaper labor force and favorable legislation.

And even having a reliable supplier or market, a company should be aware of unexpected troubles. A strike or a natural cataclysm may put an end to its prosperity. To avoid wild swings in their sales and profits, many companies start international activity. Another reason to diversify the sources of supplies is a potential probability of a resource shock, when a monopoly supplier can set any price, and your company will have to accept it or just go out of business. In case a company cooperates with a number of foreign partners, they are likely to reduce the price in the competitive struggle.

Fees are another form of earnings from international activities. They are payments for the performance of such services as banking, insurance, rentals, engineering, and management.

Surprisingly, but a company can make profits without performing any actions! I mean receiving royalties – payments for use of assets from abroad (copyrights, trademarks, patents etc.)

A country should specialize on goods and services; it can produce with relatively low alternative costs and imports the others from abroad. Sometimes governments try to beat fundamental laws of economics and order to produce all types of goods within their country's economy, which may result in tremendous expenditures and low quality of these substitutes.

However, despite the fact the international trade can bring considerable benefits, all countries impose restrictions of one form or another to protect some of their domestic industries. Governments have to provide employment, stable salaries and sufficient living standards. International practice usually includes the following types of restrictions: tariffs, import quotas, nontariff barriers. Tariffs are customs duties or taxes imposed by a government on the importation of a good. Tariffs maybe specific, in the form of a tax per unit of the commodity, or ad valorem, based on the value of the commodity. Reasonable taxes, as well as moderate inflation, are useful for economies. Import quotas are laws that limit the number of units of a commodity that may be imported during a specified period. Practice says they are often violated with the help of shadow economy.

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