International business (IB) is a generic term that describes any form of business transaction, whether undertaken by individuals or organizations, involving parties from more than one country. It includes trade in raw materials and finished goods, in services, investment and financial transactions, collaborations and joint ventures, and relocation of business units to capitalize on lower costs of doing business. Contemporary IB involves activities in the field of e-business: buying, selling, communicating, and cooperating using the Internet.

**Conceptual Overview**

International business has been conducted since national boundaries were formed, from the days of the Phoenician Empire to the present. Czinkota, Ronkainen, and Moffett point out how, throughout history, IB has been used as a tool of governmental policy; either as an enabler, or as a form of coercion and control. Though IB has a long history, its economic, social, and political importance has increased with phenomena such as industrialization, transportation, globalization, and the growth of *multinational enterprises* (MNEs). As Buckley outlines, contemporary theory of IB embraces elements of applied economics, finance, business policy and corporate strategy, organization theory, and of applied management fields such as marketing.

Early theories of IB assumed imbalanced power relationships between nations in relation to financial and physical resources. *Mercantilists* believed that the prosperity of a nation was dependent on its reserves of precious metals, which in turn would be increased through generating high exports and reducing imports. In the mercantile system, the state fulfilled an active *protectionist* role, through the application of selective tariffs to promote exports and minimize imports. Between the 16th and 18th centuries, protectionism was one of the key factors underpinning European imperialism and many European wars.

The 18th-century economist Adam Smith opposed the mercantilists’ restrictive and regulated system and, in his book *The Wealth of Nations*, he argued that free trade, competition, and choice spur economic development, reduce poverty, and stimulate social and moral improvement. Using examples from across the world, Smith provided a new understanding of the wealth-creating process and paved the way for an era of free trade and economic expansion in the 19th century. Adam Smith’s arguments were based on the concept of *absolute advantage*, whereby each nation should export goods that it can produce more efficiently than any other, and should import those for which another country holds absolute advantage.

It is possible for two countries to engage in exchange even where one holds absolute advantage over the other in relation to the production of all goods. This is explained by the theory of *comparative advantage*, which places emphasis on the relative efficiency of the utilization of resources both within and between countries. Robert Torrens first described the concept in 1815, but it became widely known following David Ricardo’s explanation in his 1817 book, *The Principles of Political Economy and
Early theories of IB were concerned with the competitiveness of countries rather than companies, and with trade in products rather than services, seeking to explain how countries could achieve and maintain a positive balance of trade, and why particular countries offered suitable targets for exports within the global supply chain. In addition to a shift in the focus of exchange from products to services, the second half of the 20th century saw the growth of MNEs: those companies owning separate operations in more than one country, accompanied by a move away from country-based theories to development of firm-based theories and consideration of industries and products.

Key firm-based theories include country similarity theory. Developed by Swedish economist Steffen Linder, this theory suggests that trade in manufactured products should take place between countries with similar per capita incomes and be related primarily to differentiated goods: those for which brand names and reputation play a crucial marketing role. Raymond Vernon's product life cycle theory describes the three stages of the cycle: from new product development, through maturing, into standardization. Associated with these three stages are parallel developments of domestic production, export, and net import by the innovating firm’s home country. From looking more closely at interorganizational competition, Paul Krugman and Kelvin Lancaster developed global strategic rivalry theory, which outlines the numerous ways in which MNEs can seek to gain competitive advantage over their rivals. These include the ownership of intellectual property rights, strong investment in research and development (R&D), achievement of global economies of scale or scope, and the successful exploitation of the experience curve, relating high-value new product innovation to reducing unit costs over time.

Finally, Michael Porter offers the theory of national competitive advantage and outlines four major components from the point of view of a potential investor: (1) factor conditions, the appropriateness of the factors of production and their continuous development; (2) demand conditions, and the health and competitiveness of the company’s home market; (3) related and supporting industries and supply-chain relationships; and (4) firm strategy, structure and rivalry, and the supporting or constraining conditions of the home environment. In addition, he highlights the mediating roles of government and chance factors.

Though trade is the most obvious form of IB, international investment also plays a key role, through cross-border supply of capital. International investment takes the form of either portfolio investment, passive investment without active control or management, and foreign direct investment (FDI), where the intention is acquisition of assets with the purpose of control. There are several key theories of international investment. Ownership advantage theory states that ownership of a key asset that creates advantage in the home market can be used to penetrate foreign markets through FDI. Internalization theory considers why organizations employ FDI, where the transaction costs and associated risks of contracting exceed those of ownership. John Dunning's eclectic theory sees successful FDI as being based upon three conditions: (1) ownership advantage, of a brand or technology, for example; (2) location advantage, in terms of costs and tariffs; and (3) internalization advantage, where direct control offers benefits over contracting.

A number of supranational agencies play key roles in the field of IB, including the International Monetary Fund (IMF), World Trade Organization (WTO), World Bank, and the G-8 group of nations. The IMF serves to promote international monetary harmony, to monitor exchange rates and policies, and to provide...
support to economies in difficulty. The key functions of the WTO include the administration of trade agreements, acting as a forum for negotiation, addressing disputes between members, and monitoring the national policies of members. The World Bank is an agency of the United Nations, and its purpose is to fund development projects around the world. Finally, Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States comprise the G-8. Its purpose is to review economic developments within the member states and across the global economy and to initiate international economic and financial policies.

Related to IB is the concept of economic integration, a process aimed at reducing barriers to trade between national markets. The extent of integration is usually classified under six stages that involve establishing: a preferential trade area, free trade area, customs union, common market, economic and monetary union, and complete economic integration. A number of trade blocs exist, with different degrees of integration; e.g., the North American Free Trade Agreement (NAFTA), the European Union (EU), the Association of South East Asian Nations (ASEAN), and MERCOSUR, the group of South American countries.

Critical Commentary and Future Directions

Early theories of IB related primarily to consideration of products, whereas in the 21st-century IB is to a large extent grounded in cross-border facilitation of services and investment and increasingly relies upon use of Internet and telecommunications technologies. Contemporary literature on IB presents a range of viewpoints on whether the activities of MNEs, the policies of governments, and the actions of supranational agencies are seen to be supportive of economic growth and development for all, or contributing to an ever-greater socioeconomic divide between a super-rich global elite and an impoverished multitude. Central to the discussion is the concept of globalization and separate consideration of the respective impacts of the globalization of markets and of production. The former implies a convergence of markets, and of consumer buying power and buying behavior, while the latter depends on differences in factors of production between countries to enable economies of scale from lowering the costs of doing business through country selection.

Creating advantage in the field of services requires consideration of labor skills and access to capital, and countries like China, India, and Mexico seek to combine high levels of technological capability with lower costs of labor than in the developed world. In relation to products, particularly those with low technical specifications, advantage is dependent primarily on low labor costs, and these are the subject of critical debate in terms of how and why they are maintained. A number of viewpoints exist in the literature. Mainstream IB textbooks aver to issues of environmental impact, slave labor, and political corruption, but the predominant discourse is one of guidance and information on how best to engage in international business, with an implicit assumption that the growth and development of IB are both necessary and inevitable. Likewise, the idea of economic integration is underpinned by the notion that free trade is good. The concept of free trade has been criticized on several grounds, and alternatives have been proposed, including Tobin Tax, fair trade, balanced trade, and international barter. There is a body of writings that challenge the fundamental principles of growth and development. George Ritzer critiques the process of global homogenization, most famously in his McDonaldization thesis. His arguments are, however, developed across a broader range of issues of consumption and its dematerialization.

Naomi Klein considers the inherent tensions between the unifying effects of global markets and the
social fragmentation of global production as problematic, due to their different impacts on socioeconomic structures. For others, globalization offers the only solution to the problems of social and economic exclusion and impoverishment. Philippe Legrain considers that, subject to supranational constraints to eliminate the excesses of corporate and individual greed and exploitation, a totally free market is the only course for future development. For Klein, however, fundamental problems of inequality cannot be addressed by the free market approach.

Despite the range of views and opinions on the benefits and problems of IB, it is apparent that there will be ongoing growth and development in the use of the Internet and of e-commerce. Individuals and organizations undertake transactions at a global level in real time, with increasingly open communications and transparency of pricing and costing structures. This has led to the development of new forms of interorganizational collaborations and networks and to novel ways of doing business, such as the reverse auction, whereby an organization seeks the lowest price for the supply of a particular product or service from bidders across the globe. The future potential of such developments will be linked to concerns of global social, political, and economic stability and turmoil; to the outcome of issues of security and attack, both physically and digitally; and to the extent and impact of climate change.

See also
Capital Movement, Migration, and Maquiladoras; E-Commerce; Globalization; International Management; Multinational Enterprises

Further Readings

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