INTERNATIO NAL TRADE, IS IT A NATURAL EXTENSION OF A DOMESTIC TRADE?

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Abstract

This paper deals with the relationship between international trade and the domestic one. It aims to show whether the former is a merely an extention to the latter.

It discusses the reasons behind doing business abroad, and the aspects of the international business, then some comparaisons between the international and domestic trade.

Key Words: international trade, domestic trade, barter, international business, international environment.

ملخص:

تتطرق هذه الورقة البحثية إلى العلاقة بين التجارة الدولية والتجارة المحلية، وتهدف من وراء ذلك إلى محاولة الإجابة على التساؤل القاضي فيما إذا كانت التجارة الدولية عبارة عن امتداد للتجارة المحلية.

نتناول من خلالها الأسباب التي أدت إلى قيام التجارة الدولية ومظاهر ممارسة الأعمال خارج الحدود مع الإشارة إلى المقارنة بين التجارة الدولية والمحلية.

الكلمات الدالة: التجارة الدولية، التجارة المحلية، المقايضة، الاعمال الدولية، المحيط الدولي.

Introduction

The traditional way of doing business abroad used to be through exporting and importing, that is, selling goods and services produced by the business firm on the country to the residents of others. Thus, international operations were mainly consisted of the movement of goods and services across national boundaries and the resultant monetary transaction in the opposite direction , this is called " foreign trade " or " international trade" , however, this movement of goods between nations was first, existed through" swapping goods" in the form of "barter" method.

International business today involves not only the movement of goods and services across nationall borders, but also all business activities in their broad meanings.

However, as far as this article is concerned, whether the international trade is a narural extension of the domestic one, attempts are made here to found the differences between domestic and international trade, and analyze the environment in which both operates and the risk elements and uncertainties confronted by the international business in operating in more than one environment.

This all started first by discussing the nature of international business, its definition and its evolution, then studying the reasons behind doing business abroad, giving in details the aspects of the international business and the scope of its activities , then some comparisons are made between domestic and international trade to find the simularities and differences between them, and in the light of this, we draw a conclusion in which we state, whether the international business is a natural extension of a domestic one or not.

The nature of international business and its evolution

The term international business refers to all business activities that cross national boundaries; it is concerned not only with the movement of goods and services between nations, but involves all business activities including management processes and transmission of various types of resources and services.

International business, then, is broader area than those economists traditionally refer to as international trade in which analysis is focused primarily on the flow of commodities among nations.

The field of international business as it refers to is operating within the broad context of the world environment (Vernon, R. 2002), with the contribution of its basic disciplines, including geography, history, politics, law, economies and anthropology. In addition international business overlies the functional business fields of marketing, management, finance, etc. All these play a significant role in the conduct of international business, and their importance is necessary for international managers to grasp in order to perform their tasks effectively within the international environment .Geography is important as it helps to determine the location, quantity and quality of the world's resources and their availability of exploitation, history as well helps to describes the relationship that shaped the role the businessmen play in society, politics determines the relationship between business and national political development and explain the behavior pattern of governments and people in relation to business activities. Law is more important in both domestic and international business, as it states the rules and regulatory that determines what international company can and cannot do when doing business abroad. Economics provides the analytical tools necessary for measuring the impact of corporation on the economy and also the effect of economic policy on business. International trade explains why nations find it profitable to trade with each other. Anthropology is also important, as it describes the values, attitudes and belief and this help in explaining the behavior pattern of people in a particular society.

International marketing embraces the problems involved and decisions which must be made in selling and distributing goods and services abroad, international finance involves a consideration of the monetary variables of international business operations, and international management involves activities which include organization structure, production, control and personal.

International business, then, is a combination of basic disciplines and functional areas, focusing on problems and opportunities involved when a company makes its first step in going international. In the light of its nature and although it has many restricted definitions, it can be generally agreed that international business is that which deals with all types of business activities that cross national boundaries, whether they are movement of goods, services, capital or personnel, transfer of technology, or even the supervision of employees (Casson, M. 2003).

This perhaps could be the more acceptable definition, as it is broader in its sense and includes all business activities.

Business transactions between countries, however, are not new in the world economic scene, in fact, international trade, which is seen as one activity among many activities of international business, and as an old and important factors in the emergence of international business, has venurable history dating back to the emergence of the nation- state; and some business firm have had foreign direct investment and foreign operation for many years in the field of mining, petroleum etc.

Nevertheless, since the Second World War, a dramatic change has occurred in the pattern of international business activities, as many business firms in many countries have developed into multinational enterprises with ownership control or other links that cross national borders. Although, international trade between domestic firms of different nations continued to grow, it becomes less important due to the emergence of new trends towards international business and the complexity of its activities and the risk it confronted as a result of operating in more than one nation with different environment; and thus, the prime concern of international business become on issues facing international managers, and national government with respect to their roles in this changing patterns of business activities overseas,(Vernon, R. 2002) thus asperial attention was given to business entreprise based in one country and operating in one or more countries other them home based one.

International business in its new form is not limited to international trade, but it considered as one of its activities, it is not only concerned with activities of a firm engaged in performing international services, as communication or transportation, but it also comprises all activities of multinational entreprise .

International trade has recently become massive in scale and expanding rapidly and is regarded as an influencing pattern of political, economic and social development throughout the world. It take the businessman beyond the border of his native country, and as a result of this, new dimensions must be added to the long list of variable factors with which he is familiar in the domestic environment, among these factors one can see, political and monetary systems as well social custom and language, etc. such factors are unfimiliar to the businessman as he makes his first step in foreign country, and thus a great attention must be given in order to gain a great understanding of their effects on his business.. Since international trade is concerned with business between environments, it is then necessary to see what parts of the environment are critical in shaping a business firm and it is also necessary to have a framework for studying the relation between an environment and its business units (Farmer, R. 1996).

The study of the environment and its variables is critically important,(John ,D. 2007) as all countries are jealous of their sovereignty and their purpose is to promote the well being of their population, and if they see that a foreign firm is acting against this will, or there is a possible political, social and economic dominance by foreigners, the host government would not hesitate to take protective measures. Economic theory deals with barriers that are set up to prevent economic flows that are thought to be disadvantageous to the country in dealing with another. Thus, when a firm sees an opportunity for profit outside its own country, it has to put into account the constraints that could limit its activities, before taking any action towards attaining that profit. These constraints are not all one way, apart from preventing in roads by foreigners into the domestic market, as for instance to encourage local production...etc; countries also prevent outwards flows of goods or services that are considered to be necessary at home. Therefore, a firm willing to go international, must first overcome the barriers that its home country has set up to prevent outward flows of goods or services outside the domestic economy, and then overcome the barriers set up by foreign country in which it is willing to operate.(Michael,Z. 1997)

However, despite all that, it must be recognized that the well - being of most-if not all- nations depends on international trade and cooperation between them, as the natural resources are not equally divided between countries, some lack raw materials and depends entirely on importing them from other countries, an example of this is Japan.

Some have surplus in some but short in others, the Middle East countries have plenty of oil, but are short of agricultural produce.

The reasons behind going international:

It may be useful to start this section by stating reasons that lead nations to engage in international trade, since this is regarded as one of the oldest activityof international trade. International trade takes place between countries, for reasons that they wish to acquire commodities that would be to costly to produce than to import them, or they can't produce because of natural reasons, such as the climate and geography. Britain, for instance, because of its geographical location and its climate, cannot produce bananas; instead it uses its own resources more efficiently in the production of other commodities, and import bananas from other countries such as Columbia.

Another reason could be that many countries are obliged to import some goods and services from other countries where such products are in plentiful supply, such products could be for instance oil, and it is worth reminding that the nature has not divided resources equally between nations,(Dymsza,W. 1992) and thus no one country is large enough or sufficiently well endowed with all resources to be indepent from the rest of the world.(Christofer, M. 2002)

Countries differ in their endowment of factor supplies such as land, labour, capital and energy resources and technology, these differences are important because economic analysis explains that a nation will generally specialize and produce for the domestic and foreign markets that require factors that it has in plentiful supply, most of the world trade today consists of manufactured goods rather than raw materials or natural resources. Some countries may concentrate resources on the production of commodities they can produce relatively most efficiently, by doing this, they buy from other countries other products they have relinquished in order to concentrate their effort on the production of commodities for which their comparative efficiency is greatest. This can be summed up in the contest of specialization and comparative advantage, and countries acquire this because of natural reasons, or it may result from the skill of labour force or by high degree of industrialization or technology , and this can be seen as a reason for world trading .(Farmer, R. 1996)

Countries also differ in their language and culture, social customs and religion, laws and value systems and political and economic ideologies, these differences can markedly affect trade between nations as there are different attitudes regarding products which may have favorable or unfavorable impacts on the sales of these products in world market.

However, as international trade deals with the movement of goods and services across national boards it is considered narrower than international business and only one activity among too many activities of international business in its broader sense which include in addition to exporting or importing all management processes such as production, marketing, control ,etc.

Investing abroad, however, is regarded generally as an alternative to exporting from firm's home base. A firm may take its first step in investing abroad perhaps because its exports are confronted with foreign trade barriers , thus in order to maintain its foreign markets, the firm may see investing abroad as the best alternative. Another reason for investing abroad could be that a firm may see its presence in a foreign country as a producer may lead to an effective adaptation of its products to conditions of local demands, other consideration may be that multiple production facilities and control of distribution or raw materials allow savings in cost in the final products sold to consumers. The growing awarness of possible lower production costs, , possible lower raw material acquisition costs and possible market expansion, because of a heterogeneous distribution of minerals, and because of favorable climate and topography, led firms to branch out to international scale. However, despite many political conflicts in the world today. International trade presist, because of the need of countries to cooperate economically, since this plays an important role in world welfare and the well being of nations. Good economic relations between countries may help to ease and create facilities for business to take place. Some countries have integrated into economic bloc such as the EU or the COMECON, to ease business and ease the movement of goods and services between them.

These could be few among too many reasons that explain why international business and thus international trade, takes place and why firms go international or multinational. However, as noted before, that international business activity includes all business activities rather than trade, the scope of its activities can be seen through the following:

1- **Exporting** : as many firms involve in international business by simply exporting their products to foreign customers, this involvement usually requires only an exporting department to handle the foreign selling and shipping, and then deeper foreign involvement way follow if the exporting phase is seen to be successful.

2- **Licensing** : this is another method of international involvement, where the parent company may rent a license that give a foreign firm the right to use the processes, techniques of the parent company in the manufacture or sale of a product.

3- **Joint and mixed ventures**: this is another popular type of international business. In this type a company combines efforts with another company to establish business enterprise that is owned jointly by the parties. A joint venture generally involves two or more private companies, and mixed venture involves the host government as one of the parties to the agreement.

4- **Wholly owned subsidiary**: is a separate company abroad owned entirely by the parent company, through its equity investment in its subsidiary, the parent firms establishes and control the subsidiary's activities.

5- **The multinational enterprise**: this has a worldwide approach to foreign markets, with an integrated global philosophy encompassing both domestic and overseas operations.

These different activities may be passed through one at a time , evolving to the next higher stage as the company's foreign sales are successful and expands overtime , however, it is possible that a company may move directly from exporting to establishing a wholly owned subsidizing abroad , and this happens if its policy calls for control of oversees operations and funds were available for equity investment abroad and there is no restriction on the part of the host country for establishing wholly owned foreign subsidiaries.(Alice Landon, 2004)

However, international business in its broad sense focuses on unique problems that arise when business firm crosses national boundaries, whether through the movement of goods, services, capital investment, money flows or personnel and all management activities including decision making. All this needs an understanding of international environment and governments policies and actions on international business.

A firm operating internationally requires a level of expertise and sophistication in environmental analysis and it must fit into the national identity in a tolerable fashion wherever it does business and it must not permit itself to be seen as disturbing national interests , since the fear that foreign firms may one day dominate the host country's economic and become a threat to domestic ones, exist among some nations and create a considerable concern among governments which may take severe decisions against this possible dominance .(Vernon, R. 1992)

Nevertheless, international trade has grown rapidly , and this rapid growth is seen as a significant world events since the creation of world trade organization, as it helped to expand international business operations with their influence on pattern of political , economic and social development throughout the world, at the same time this has confronted international managers with new management problems in their dealing with new elements of risk, of conflicts , of environment and of influencing social and economic change , these elements are different from those in domestic trade, and can be briefed in the following: (Bruce, E. Moon, 2000)

1- **International risk elements**: business activities may obviously face many elements of risk in crossing national boundaries and operating on an international level in different countries with different economic and political systems, such elements could be financial, political, regulatory and tax risk, they emerge because of the existence of different currencies , monetary standards and national goal and because of the variety of legal and governmental systems under which the international firm operates, Each country has a different set of patent laws, antitrust codes, taxation schemas and so on , which may add a delicate frosting of complexity to international business activities.

The financial risk elements: involves balance of payment considerations, varying exchange rates differential exchange rates...etc, these are not the same in all countries. Balance of payment in Algeria, for instance, differ from the one of Britain, the two countries also have different currencies and different exchange rates as well as different rate of inflation, Countries also differ in their political systems, and the governments intervention in business differ from one country to another, these differences have a great affect on business activities .Each country has its own laws and regulatory which require the businessman to act subject to them. In the tax field, international business is subject to tax elements, incurred in moving finds across national boundaries, furthermore, uncertainty as to the implication of tax laws frequently creates a risk of double taxation.

Keeping abreast of the details of all the legal and governmental systems in which a diverse firm operates is a difficult task; however the international economy provides essential tools for understanding the risks arising from the elements discussed above. International risk elements should be analyzed for underlying causal forms to help finding reasonable and acceptable application to ease international business activities and trade throughout the world.

2- Multinational conflict elements:

Apart from international risk elements, multinational conflicts are inescapable. Such conflicts arise partly because of different national identities of owners, employers, customers and suppliers, and partly because of divergences between national interests and goals of international firm. Some of these conflicts many occur within the international firm and others many involve the firms relationships to the external environment.

The troublesome area of external conflicts may concern profit maximization decisions, and the transfer of funds, types of production and employment from one country to another, these may at times run contrary to the national policies of one or all countries involved, and this obviously create arguments and conflicts between the international firm and the host countries.(Richard, D. 1998)

These conflicts and many others which confront business activities abroad, require thinking that relates a multiplicity of interests to avoid acting in opposite directions. The international mangers are required to have necessary training and knowledge to identify each conflicting interest viewpoint; this at least may help to avoid conflicts and to plot better strategy in complex situations.

3- Multiplicity of environment:

As a firm crosses its national boundaries its environmental framework changes progressively in countless respects, new rules as defined by law, customs, culture, new values, new contradiction, interaction , and balances among external forces , and new opportunities as well uncertainties arise.

The wider the company's international scope, the greater become the environmental diversities surrounding it .The multiplicity of environment in international business creates a wide range of operational problems that requires new tools, concepts, analytical methods and types of information...etc.

To make rational choices among the alternatives available to it, in different countries with different environments, a company has to be able to identify, understand and anticipate the negative and positive forces of the international diversity.

One of the environmental variables relates to business activity open to the international firm and the form of business organization that must be used, as in most countries some public utilities, such as communication and transportation are restricted only to public sector or run by state owned companies,(Richard, N. 1998) and business activities in natural resources such as oil and mining are also restricted by many nations to domestic firms, in some situation however, they are open to international firm in the form of joint or mixed venture.

Another variable involves the diversity of the institutional setting is trade unions. These may be organized on different philosophical foundation and play different roles from country to another. In Algeria for instance, the biggest trade union represents most of the workforce, it is actually a part of government body and never oppose the government policy; this is not the case in Britain, where there are many trade unions, each represents certain category of workforce, they are entirely independent from the government, and they may oppose its policy if they see it against employees interests.

The pattern of economic planning is another variable and varies greatly from country to another and this has an influence on business activities

Another variable involves cultural differences among countries and their affect on business management, and it is important to know how cultural differences influence the behavior of customers, suppliers and employers, this aspect of international business involves the full range of communication problems arising out of different languages, customs and values.

The world environment today is divided, countries differ from one another politically and economically and these differences have a great affect on business activities and require businessman to be aware of them and take them into consideration when crossing national boundaries and establishing business abroad.

4- International business and national development:

International business is seen as a major change agent, and as a means of transferring technology and a key force in the economic and social development of a nation.

Seeing international business as a means of national development, host countries, particularly the developing ones, may raise opportunities and create facilities for foreign firms to establish business there, provided that they are not considered to be as a threat to domestic firms, and they can contribute in the national development by exploiting its resources, transferring technology, recruting local labour force...etc.

International business as a change agent requires concepts that provide an understanding of what can and cannot be achieved, and the potential contribution that it can make to national development, and this it is subjected to the law and it must not act in a way that the host countries see it as threat to their sovereignty, but in a way that it can be seen as a real contributor to the development.

Perhaps one concept of this contribution is the role of international business in encouraging indigenous entrepreneurship, as the international firm may create new entrepreneurial opportunities external to the firm for local suppliers. This may also attract much of the entrepreneurial potential in the host country and this inhibits possibilities for development of other national enterprise.

Another concept could be seen through the company training programs which can contribute to the development of self discipline and to help local employees acquire necessary skills to become productive on their jobs, the firm will obviously profit by offering such prigramm in all basic crafts as well as in technical and office skills, and it can also profit by making substantial contributions to local governments to provide facilities for advancing the general level of education.

Developing countries need both foreign knowledge and experience in the techniques of business operations and foreign contacts to acquire and develop world market for their products, and thus, they raise opportunities for international firms to become a prime factor in stimulating and shaping the economic development of these countries. This does not mean , however, that the economic development is left entirely to foreign firms, as the nationalistic spirit and the political desire to prevent foreigners from maintaining complete control are extremely intense, hence unless host countries see international firms as a real contributor to the well-being and the national development, they do not hesitate to take matters in their own hand through legislation requiring a certain percentage of the payroll and the upper positions to be in local hands , or in some matters nationalization is often the alternative .

These four aspects of international business are initially important, and being aware of them could play a vital role in the success of international business and trade over the world.

International V domestic trade

Generally, international trade as a field of study and practice involves activities that cross national boards; it differs from the domestic one because it involves operating within different sovereigneties, under widely disparate economic conditions, with people living within different value systems and institutions. These differences generate different legal, monetary and political systems, etc. This require that international firm needs to have considerable familiarity with international means of payments and involves new elements of risk, of conflicts, of environment, etc. and considering new organizational relationships, acquiring new skills and adopting new accounting and control procedures different from these required in domestic level which is mainly concerned with business activities within the national borders.

Another important distinction between domestic and international trade lies in the environment framework and organizational and behavioral responses that flow from it, countries differ in their environment , in their political and economic system , they differ also in language , culture, customs, and religion, etc, all these differences are not familiar to a domestic trade operating only in one environment.

The differences are also centered on the areas of currency, interest rates, inflation, taxation systems, government restrictions and economic barriers, a buyer of foreign goods, for instance, must pay in a currency different from that which he is accustomed to using in his own country, also, when commodities cross national borders they became subject to a different set of laws, such as tax and licenses, etc. A businessman operating abroad has to contend with differences in customs, institution, culture and language, etc, but a business in his own country faces a single pattern of short term and long term interest rates, only one rate of inflation and a single tax system. However, in the light of these differences, although still a lot can be said, one can see that in many respects international trade is very different from trade in the domestic environment. (Robert, C. Feensta, 2004)

Can we state then , that international trade has emerged because, a domestic trade in certain country has grown to the point that it has to go abroad , in other words, can we say that international trade is an extension of a domestic one.

It has been said that international trade is but an extension of domestic trade. As business firms gradually evolved into international scale, their early motivations for establishing foreign production facilities were as responses to specific opportunities rather than the implementation of comprehensive global strategy .It might be that a firm went international as a market seeker expanding its production and sales into new markets, or as a raw materials seeker looking for lower costs of production, and this is the key element for explaining and predicting international business patterns is the role of the enterprise and its evolution from a predominantly domestic firm to one with a global orientation.

In an extension of domestic trade, the principles that one can learn in any of the functional areas of domestic operations are unaltered, but as one begins to operate internationally, those should be altered to correspond with different environmental variables, the assessment of these variables is not an easy task and managers should bear the fact the foreign reaction to business practice is not the same as at home. Managing a multinational firm is not just like managing a domestic firm on a bigger scale.

Conclusion:

All the forgoing in the previous pages are not enough to give a reasonable and a more detailed discussion about the statement, however, they may give some clues and ideas concerning the relationship between domestic and international trade.

In as much as there is a concern and although they differ in many respects and operate in different environments. International trade does not come about to establish itself by passing the domestic trade, and thus it cannot go international from its birth. Whenever a domestic trade is successful and growing rapidly, and saw opportunities for profit abroad, it may take its first steps to cross the national boundaries, towards the attainment of that profit and going international, bearing in mind that it will operate in different environment and face new elements of risks and conflicts.

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