

INTERNATIONAL BUSINESS:
THE POCKET GUIDE

PABLO VALLEJO-MEJÍA
ANNE MARIE ZWERG-VILLEGAS



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INTRODUCTION

Economic liberalization, internationalization of markets, and globalization are three different processes that advance simultaneously threatening those who avoid adapting to them and offering incommensurable opportunities to those who do. This text is a primer for Colombian students who are just initiating their studies of International Business and is particularly focused for those who are interested in competitive international trade. While there are many valuable and highly recommended texts on the subject, *International Business: The Pocket Guide* is the one that unites the most crucial information from the Colombian perspective and in language appropriate for those for whom English is a foreign language.

Beginning with an overview of the internationalization of business, this text then takes the student through the first step in firm internationalization: the analysis of political, economic, legal, and cultural environments of the potential foreign markets. Once the firm has conducted market analysis and determined viability, of utmost importance will be the strengthening of the competitive elements in pursuit of competitive advantage rather than reliance on unsustainable comparative advantages. We then discuss the technicalities of penetrating international markets, focusing particularly on import and export procedures. Finally, the text concludes with a comprehensive glossary of need-to-know terms.

PART I.

THE INTERNATIONALIZATION OF BUSINESS

1. INTERNATIONALIZATION

When a product, good, or service crosses the borders of a country; it is internationalized. The economic opening is the abolition of the legal and commercial barriers that protected the national economic activity.¹ Therefore, the opening allows the internationalization of products (goods and services). There are three opening types:

1. Inward opening dismantles the protectionist barriers so international products are allowed to compete with local products.
2. Outward opening plans an aggressive penetration of international markets by means of information, communication, training and financing from entrepreneurs to conquer new markets.
3. Two-way opening allows the competition of foreign products along with industrial restructuring, professional and technical assistance, and commercial support for the exportable offer.

Finally, globalization has resulted in a myriad of ways in which goods and services are offered around the world by electronic means, Internet or satellite telephony, without borders or barriers, as if there were one “Global Village.”

A quote can be accepted and paid electronically, from and to any country linked to the World Trade Organization; that is to say more than 92% of the world trade, fulfilling the legal requirements in each country. Globalization is, then, an ultimate stage of internationalization at various levels. Coca Cola is the example of a globalized product; it is offered and demanded in almost all parts of the world. Everyone who surfs the Internet is part of the globalization.

¹ Spanish speakers will recognize this process as the *apertura* and will be pleased to know that this term is also recognized in the English language.



ARTIST: NILSSON-MAKI, KJELL. CATALOGUE REF: KNIN294.

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2. NEOLIBERALISM

Neoliberalism is the focus and conviction of liberating the forces of the market to achieve reality of prices in free competition.

Ronald I. McKinnon and Edward S. Shaw considered that the main structural defect in developing country economies was the financial restriction caused by poor monetary administration of excessive growth in money supply to the public and selective credit policies. Instead, interest rates should respond to the market forces: supply and demand.

The so-called school of “monetarists”, originated at the University of Chicago and directed by the renowned economist Milton Freedman, believe that macroeconomic aggregates, such as the inflationary gap, periods of low growth, recessions and even depressions, must be controlled solely by the supply of money.

Those “Chicago Boys”, as Dr. Freedman’s team was called, advised General Pinochet’s government in Chile, contrary to the structuralist school of the CEPAL, to boost neoliberalism in Latin America. Nevertheless, it is useful to return to the real origin in 1776, when the Scottish philosopher Adam Smith published the most famous economics book in history, “The Wealth of Nations”, influenced by the French physiocrats and the philoso-

pher David Hume. It was then that Economy as an academic discipline was born during a period of coincidence with the political freedom from monarchic tyranny, related with the emancipation of the state regulation towards a free market of prices.

Adam Smith proclaimed the principle of “the invisible hand” which means that while each individual pursues his own selfish well-being, an “invisible hand” of sorts unintentionally manipulates the aggregate of transactions in such a way that the best result is achieved for the good of the whole. As such, any state interference with free competition would inhibit this manipulation and result in harm. This is the concept we refer to today as “neoliberalism.”



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Neoliberals forget that Adam Smith professed the great efficiency resulting from specialization, division of labor, and commercial trade by means of:

"the cultivation of attitudes of honesty, fervor and frugality to liberate the impulse to the competitive benefit, as if it was guided by an invisible hand, to achieve the maximum well-being of all".

This postulate is contrary to the waste of “consumerism”, speculative gains, and superficial and virtual neoliberal indifference.

Later, Adam Smith recognized the limitations of his principle, which only works in a market of perfect competition. Economists define perfect competition as the case in which no player is sufficiently powerful to be able to affect the market price. All the goods and services are same quality, and nothing happens to the price when a player retires from the market or another enters. However, perfect competition does not exist.²

Hernando Gómez Buendía wrote his September 14, 1993 opinion column entitled “Neoliberalism”, in which he said that the principles of neoliberalism were privatization, efficiency and deregulation of the State. “The economist demonstrates that a perfect market is efficient; it achieves a determined effect, but he knows that the real market is imperfect.”

The neoliberal forgets this detail and believes that the real market is efficient. Reality shows that the neoliberalism causes a natural selection in which the strongest takes the weakest out of the market. The big fish eats the small one creating a “Social Darwinism” because the competition did not start on the basis of equality in opportunities and conditions.

A boxer whose weight exceeds the limit of his weight class cannot compete in the category in which he was originally meant to participate. To the international Olympic activity only attend those athletes previously selected, and prepared. However, in the marketplace, a different situation occurs: He who can, and only he, survives. Here, there are no agreed-upon competition categories, no weight classes. Neoliberals insist that one cannot learn to compete without taking part in the competition; but they forget the proportions, the categories that the market would not accept because they would restrict the consumer’s freedoms. While it is not logical to support a deliberately inefficient company, neither is it logical to subject small companies to direct confrontation without even warning of the need to perform market segmentation and innovation, or otherwise to disappear.

Man can not only face a lion in the circus, but also, tame it. To do so, he requires preparation and special implements; otherwise, the lion will devour him when feeling hungry. If a small company serves a local market and is not warned that the government has granted a superior rival access

² Generic products are closer to market perfection than branded products.

to that market, it is easy to foresee the result. Nonetheless, if it is informed and, quite important, is offered access to financial credit and technological assistance; it could innovate and differentiate its products and services in order to defend itself. David defeated Goliath because he prepared and armed himself; he was warned, trained to use the sling, practiced his shot, and was able to put a stone to the giant's forehead to knock him out.

Besides the problem of the lack of true market freedom being blocked by monopolies and oligopolies, inequalities in knowledge access opportunities (education, training, and popularization of norms, opportunities, and commercial agreements), and inequitable distribution of income; neoliberalism has a weak philosophical base because "it is loaded with individualism and materialism; it lacks true social conscience."³ Indeed, the poor are no longer exploited at work, they are ignored!

Exactly because neoliberalism is so hotly debated in political discussion, it is necessary to take a moment to look back at exactly what neoliberalism is: it is a model. Anyone who tries to argue either for or against neoliberalism by using the results a few representative countries is wrong. When we look at the effects of neoliberalism in certain countries, what we are really looking at is the *application* of the model. For example, many praise neoliberalism and point to the success of the Scandinavian countries that have applied that model. However, who is to say that those same Scandinavian countries would not have been successful under any other model? That in fact is the belief of many researchers: that the homogeneous culture of the predominantly middle class, educated population would lend itself to a positive application of almost any model.

Think of it this way: when a chef uses a recipe to prepare a gourmet meal, we cannot judge whether the recipe itself is good or bad. In fact, it is just a bunch of words written on the paper. If the chef prepares the recipe by using only freshest, highest quality ingredients and following detailed instructions, the *application* of the recipe will result in a delicious meal. If the chef uses rotten, poor quality ingredients and forgets to pay attention to the instructions, the meal will also turn out rotten.

This whole summary of concepts is very important because the manager should have clear awareness of competing in an imperfect market; and it is, in fact, from the market imperfections that he or she can derive

³ Juan Julio Wicht, S. J. "Educar para la Solidaridad Planetaria", Lima, January 10-14, 1999. Conference: "Reflexión Socio-económica sobre el Tema".

the competitive advantage needed to survive the avalanche of the rivalry, seek procurement opportunities, and define target markets in which the clientele will appreciate and increase consumption.

It is important to have in mind the rules of the game agreed upon in the World Trade Organization (WTO) where transitory and defensive mechanisms of protection are allowed by means of safeguards and compensatory rights. Also, from neoliberalism arose its counterpart, neo-protectionism, which establishes non tariff barriers such as quality norms; administrative obstacles at ports and border controls; and qualifications or certifications as to the political, economic, social, and environmental situation of the selling country or as to product origin.

When the manager has analyzed the environments of the country or region in which market wants to participate he should establish the plan to enter: the tactics or method that defines “the know-how”.



SOURCE: WWW.GIS.NET/~NTHORK/NEOLIBTITLE.GIF [NOVEMBER 20, 2007]