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Murray Weidenbaum\*

## How Companies Overcome Barriers to Overseas Business

*The choice to a company among exporting, acquiring other firms, licensing products and services, and entering into strategic alliances with other business firms is often strongly influenced by governmental policies and practices. In turn, companies' responses to such influences have increasing feedback effects on governmental activities as public-sector decision-makers are being forced to understand that they now have to become internationally competitive in the economic policies they devise.*

**T**echnological progress makes possible – and economically feasible – a variety of business innovations which can overcome the obstacles to overseas trade and investment imposed by many governments. These barriers take many forms, ranging from tariffs and quotas on trade to restrictions on foreign ownership of domestic businesses. Nevertheless, the modern global enterprise increasingly learns how to overcome them, albeit at a price.

### Responding to Barriers to Trade

For a variety of political reasons – mainly to “protect” home industry owners, managers, and employees, but sometimes on ostensibly national security grounds – governments often erect barriers to international commerce. The most notable are tariffs, quotas, domestic content restrictions, and reciprocity rules. In a 1991 survey, 45 percent of US firms reported that trade barriers imposed by other countries presented the greatest impediment to selling abroad.

In a passive mode, exporters can absorb the added costs imposed by governments – to some extent. In the case of import quotas, companies frequently shift to higher priced items. This was the response of Korean and Taiwanese shoe producers in the late 1970s to numerical limits on the imports into the United States of shoes from those two countries.

When faced with such direct obstacles to international trade, businesses draw on a variety of possible alternatives to direct exporting. They set up new

manufacturing facilities (so-called greenfield operations) in the host nation. Or they buy up existing local firms. Other alternatives that are frequently relied upon to develop a position in the markets of other nations include subcontracting production or purchasing locally and developing products jointly with local firms.

Indirect barriers, such as inadequate patent protection laws, may also impede a firm's ability to market its products successfully in a foreign country. Marsh-McBirney reports that the company has been especially hurt by the weakness of patent protection overseas. In particular, company officials believe that its export business in Europe would double if its patented products were adequately protected there.

### Ways Around Investment Barriers

On other occasions, firms face sharp limits to foreign ownership of local enterprises. These may be formal investment barriers, or less formal but often equally powerful tax and regulatory advantages limited to local companies. In Indonesia, for example, no foreign company can buy a local firm or set up a new one (except in a very few designated areas). As a result, as elsewhere in the Asian rim, international enterprises most often enter into joint ventures with local firms or, in extreme cases, literally give away nominal majority ownership. For these reasons, in Asia and in Eastern Europe, joint ventures and other strategic alliances are the dominant modes used by foreign companies attempting to develop a presence in local markets.

In some circumstances, a host government may be willing to accept the construction, expansion or acquisition of a local branch by an American company on the condition

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that the firm meets a specified performance requirement or provides another concession. Before IBM was allowed to increase its operations in Mexico, the company agreed to set up a development center for semiconductors, to purchase high-technology components from Mexican companies, and to produce software for Latin America in Mexico.

In the case of defense production, many of the cross-border alliances may at their heart be involuntary on the part of the foreign partner. In large measure, producers of advanced weapon systems enter into agreements with foreign firms in order to gain (or avoid losing) governmental customers. During the 1970s and 1980s, European governments demanded a greater role in the development of the military aircraft they were buying from the United States. A counterpart was the Japanese desire to build up its aircraft manufacturing industry as exemplified in the controversial FSX fighter aircraft project involving a joint venture between a Japanese manufacturer and a major US aerospace firm.

These demands for production (and often technology) sharing intensified at a time when the United States government was eager to reduce the development costs of its weapon systems and wished to encourage standardization, especially in NATO weapons. In 1986, Congress reinforced this trend by enacting legislation that encouraged multinational cooperation in weapons development.

Another strategy adopted by foreign governments has been to demand a greater role in the production of aircraft they were purchasing from American companies. Faced with the prospect that several European governments might try to develop an indigenous military fighter to rival the F-16, the General Dynamics Corporation agreed to assign a major production role to domestic firms in prospective purchaser nations. This role included production of parts for aircraft sold to the US Air Force. Aided by such arrangements, and with the backing of leading Belgian and Dutch aircraft firms, General Dynamics won the contract over strong competition.

In the case of more standard manufactured goods, other ways around investment barriers include entering into agreements with local firms who will produce the item under licensing arrangements. In the case of services, franchising to a domestic enterprise serves a similar purpose.

#### Overcoming Other Governmental Obstacles

In other parts of the world, especially in the less developed nations, public sector deterrents to business take different forms. Governments on occasion restrict repatriation of earnings or foreign businesses fear future expropriation of their assets. In such circumstances, uncertainty as to future public sector policies constitutes a major obstacle to investments by foreign firms. Global enterprises still interested in doing business in those parts

Jill Rubery/Jill Earnshaw/Brendan Burchell

### New Forms and Patterns of Employment: The Role of Self-Employment in Britain

This research constitutes the UK contribution to an international socio-legal research project entitled „New forms and conditions of employment: the development of the legal and regulatory framework for the labour market“.

The report explores the relationship between the growth of self-employment and the changing patterns of industrial and social organisation, legal regulation and state policy, and hence examines the conditions which could explain its growth. The report recognises that self-employment in fact spans a variety of forms of autonomous working, from independent entrepreneur to the most dependent forms of own account workers such as home-workers, and therefore begins by assessing the extent to which the legal determination of employment status recognises such diversity and is able to accommodate it. After considering particular aspects of female self-employment, and questioning such notions as the existence of a natural tendency of ethnic groups to entrepreneurship, the report concludes by examining the relationship of self-employment to the growth of small firms and to government policy.

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of the world often set up affiliate or correspondent relationships with local firms. This minimizes risk and liability – and also profit potentials.

When other barriers have been imposed by governments in the more advanced economies, licensing arrangements can be made with domestic firms in exchange for market entry. These governmental obstacles include local political or industrial pressures, local distribution systems strongly favoring home-produced products, and heavy transportation costs. Enterprises in advanced economies can thus respond to attractive overseas markets without directly penetrating them. Some US workstation manufacturers have established licensing partnerships with Japanese firms desiring to enter the worldwide workstation market in return for access to the lucrative Japanese portion of the important computer market.

In many other instances – especially in the more developed nations – companies face high business taxes and onerous regulatory costs. In some cases, the barriers may be rather informal in nature. When these barriers to business occur in the home country, the enterprise can expand overseas. In more extreme cases, existing business operations are moved to a more favorable policy environment in another country.

Companies which have difficulty introducing products in the home country due to delayed approval or stricter governmental requirements can license their products to firms in other countries in an effort to introduce them to markets more quickly. The highly regulated pharmaceutical industry in the United States appears to be in this position.

It is helpful under these circumstances to do business in several countries. In that event, when faced with rising government burdens in one nation, a firm can shift its high value-added activities to other nations in which it operates, specifically those with lower taxes and less burdensome regulations. In the case of informal barriers – such as in nations whose traditions tend to favor established companies over newcomers – the response by foreign firms often is to market through local distributors. It should be emphasized that traditional business reasons are also involved in the choice among the available methods of penetrating foreign markets. Indeed, those business concerns – such as cost and transportation advantages – may often be the dominating influence.

### **The Feedback on Government Policy**

In the years ahead, the combined power of economic incentives and technological change will increasingly have feedback effects on the decisions of voters and

government officials as they develop new national (and regional) policies dealing with the global economy. In a basic sense, the mobility of enterprises – of their people, capital, and information – is reducing the power of government. Public-sector decision-makers increasingly are being forced to understand that they now have to become internationally competitive in the economic policies they devise. Governmental activities that impose costs without compensating benefits or that reduce wealth substantially in the process of redistributing income undermine the competitive positions of domestic enterprises. The result is either the loss of business to firms located in other nations or the movement of the domestic company's resources and operations to more hospitable locations.

Political scientists and economists have long understood that people vote with their feet. They leave localities, regions, and nations with limited opportunity in favor of those that offer a more attractive future. In this era of computers, telephones, and fax machines, enterprises are far more mobile than that; information – that key resource – can be transferred in a matter of seconds, or less. The fear of losing economic activity to other parts of the world can be expected to reshape future domestic political agendas in fundamental ways. Even if many of those public sector barriers remain, the private sector will increasingly learn how to overcome them or even just to live with them. Of course, there are costs involved when businesses respond to governmental barriers to international business. However, in a global economy, these barriers become far from absolute.

### **Conclusion**

The choice to a company among exporting, acquiring other firms, licensing products and services, and entering into strategic alliances with other business firms is often strongly influenced by governmental policies and practices. These public sector influences include actions by the nation in which the parent company is located as well as by the country in which the firm is trying to develop a new presence. The governmental actions range from the supportive, such as a tax incentive to invest in a specific region, to overt barriers, notably restrictions on imports and foreign investment.

The tension between business and government is not new. It is being exacerbated by the rapid rate of social, economic, and technological change. Fortunately, there is a third force that ultimately will carry the day – the citizen as consumer. Consumers vote every day of the week – in dollars, yen, Deutsche marks, pounds, francs, and lira. In spending their own money, consumers give far greater weight to price and quality than country of origin.