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KEY CONCEPTS IN INTERNATIONAL BUSINESS

jonathan sutherland
and diane canwell

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Palgrave Key Concepts
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Jonathan Sutherland and Diane Canwell

palgrave
macmillan

First published 2004 by
PALGRAVE MACMILLAN
Houndmills, Basingstoke, Hampshire RG21 6XS and
175 Fifth Avenue, New York, N.Y. 10010
Companies and representatives throughout the world

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ISBN 978-1-4039-1534-4 ISBN 978-0-230-20466-9 (eBook)
DOI 10.1007/978-0-230-20466-9

This book is printed on paper suitable for recycling and made from fully managed and sustained forest sources.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data
Sutherland, Jonathan.
Key concepts in international business / Jonathan Sutherland and Diane Canwell.
p. cm. – (Palgrave key concepts)
Includes bibliographical references and index.
ISBN 978-1-4039-1534-4 (pbk.)
1. International business enterprises—Dictionaries. 2. International trade—Dictionaries. 3. International finance—Dictionaries. I. Title: International business. II. Canwell, Diane. III. Title. IV. Series.

HD2755.5.S88 2004
338.8'8'03–dc22 2003070293

10 9 8 7 6 5 4 3 2 1
13 12 11 10 09 08 07 06 05 04

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Introduction

The term 'international business' reflects the fact that international trade and, indeed, the establishment of businesses, are no longer restricted by national boundaries. There have been revolutionary changes in information technology, communication and transport which have brought businesses into a radically new and challenging environment. Increasingly, international business is ruled by interdependencies and strategies, and decision making must be taken with regard to a more global perspective.

Multinational, trans-national, multi-domestic or international business organizations are as concerned with the international environment in which they operate as they are with their home country's local environment. Tens of thousands of businesses routinely carry out international operations. These international operations, through diversification, access to cheaper supplies and access to new markets, have radically increased their opportunities. At the same time businesses face increasing and radically different risks, ranging from the economic and the political, to exchange rate and financial risks. All of these new opportunities and challenges require a radical rethink of how the business operates, where it operates, what it produces and who it employs. International businesses, although primarily interested in the exporting of their products and services to overseas markets, are also interested in securing products, services and raw materials from overseas nations.

The growth of international business has brought new terms and understandings, or in many cases misunderstandings, in the relationships between multinational organizations, their activities and the new nations with whom they deal. The term 'globalization' is one such misunderstood concept. Certainly the vast sum of foreign investments pouring into growing, or less developed, nations has been a significant factor over the last 50 years.

Whilst international businesses seek to find markets across the world, countries themselves have begun the slow process of forging new agreements and understandings between one another. Countries seek to cement their trade relationships, not only with traditional or close neighbours, but with countries literally located on the other side of the world. International business and international trade has undoubtedly affected and been affected by the growing number of economic and political unions around the world, ranging from the European Union, NAFTA, and various African, Asian and Latin American intergovernmental treaties and unions.

The globalization of business requires a precise understanding of the culture, consumers, rules, regulations and policies of an increasing number of overseas nations.

The structure of the glossary

Every attempt has been made to include all of the key concepts in this discipline, taking into account currently used terminology, and jargon common throughout international business and trade around the world. There are notable differences in legislation and procedure when we compare different trading policies and standards in the United Kingdom, Europe, the United States, Japan, and the rest of the world. Increasingly in Europe, for example, there is a harmonization process in train which is gradually seeking to standardize regulations and procedures. Equally, organizations such as the World Trade Organization and the International Monetary Fund are seeking to harmonize and equalize regulations and procedures.

Each of the key concepts has been placed alphabetically in order to ensure that the reader can quickly find the term or entry of immediate interest. It is normally the case that a brief description of the term is presented, followed by a more expansive explanation.

The majority of the key concepts have the following in common:

- They may have a reference within the text to another key concept identified by a word or phrase that is in **bold type** – this should enable readers to investigate a directly implicated key concept should they require clarification of the definition at that point.
- They may have a series of related key concepts, which are featured at the end of the definition – this allows readers to continue their research and investigate subsidiary or allied key concepts.
- They may feature book or journal references – a vital feature for the reader to undertake follow-up research for more expansive explanations, often written by the originator or by a leading writer in that particular field of study.
- They may include website references – it is notoriously difficult to ensure that websites are still running at the time of going to print, let alone several months beyond that time, but in the majority of cases long-established websites or governmental websites, that are unlikely to be closed or to have a major address change, have been selected.

Glossary terms – a guide

Whilst the majority of the key concepts have an international flavour, readers are cautioned to ensure that they have accessed the legislation, in particular, which refers to their native country or to the country in which they are working.

It is also often the case that there are terms which have no currency in a particular country as they may be allied to specific legislation of another country; therefore readers are cautioned to check whether the description does include a specific reference to such law, and not to assume in all cases that the key concept is a generic one that can be applied universally to international business and trade.

In all cases, references to other books, journals and websites are based on the latest available information. It was not always possible to ensure that the key text or printed reference is in print, but the majority of well-stocked college or university libraries should have access to the original materials. In the majority of cases, when generic business books have been referenced, these are, in the view of the writers, the best and most available additional reading texts.

Aa

Absolute advantage

Absolute advantage is considered to be one of the simplest measures of economic performance. The assumption is that a country, or a business, can produce more of a particular product, using the same effort and resources, than other producers, giving that country or business an absolute advantage over the competitors.

In terms of international trade and business, 'absolute advantage' often refers to business or country specialization and is used to describe the maximization of benefits. True cases of absolute advantage are rare, but the more commonly used term to describe the advantage a business or a country has, in production terms, over its competitors is **comparative advantage**. Both absolute and comparative advantage fluctuate over periods of time.

Absorption

'Absorption' is a term used to describe the total investment and consumption of all households, businesses and government bodies, in terms of both domestic and imported products and services. Absorption can be compared with the actual production levels in a given country; when absorption is greater than production, the excess shows up on the country's **current account** as a deficit.

Acceptance

In international business terms, 'acceptance' has three different, but related meanings. Acceptance can apply to a **bill of exchange** that a **drawee** has accepted and is now unconditionally obliged to pay when it reaches maturity. The draft is presented for acceptance; the drawee becomes the acceptor and the date and place of payment are written on the draft.

'Acceptance' also refers to the drawee receiving a draft, thus entering into the obligation; or, more generally, an agreement to purchase goods or services under specific terms at a stated price.

Accession

'Accession' refers to the process of a country becoming a member of an international grouping or accepting an international agreement. The term has most commonly been used in relation to the **General Agreement on Tariffs and Trade (GATT)** or in relation to a country joining the European Community. In both cases the accession process involves a series of negotiations which aim to identify the obligations of the non-member country and what it must undertake or accept before it becomes a member of the international agreement. It is only when the accession process has been completed that the country will enjoy the full membership benefits.

Marcou, Gerard, *Regionalisation for Development and Accession to the European Union.* Budapest: Central European University Press, 2003.

Accounting

Accounting, in its more general sense, involves the communication of a business's financial position to its providers of capital and, for tax purposes, to governments. It is also used to evaluate performance, control expenditure and make forecasts and plans.

In the field of international business, however, accounting is a far more complex discipline as businesses will need to adapt their accounting procedures to fall in line with the local demands in each environment in which they operate. There are a number of national differences in both accounting and auditing standards. While markets have become increasingly globalized over the past few decades, there may be a distinct lack of comparability between the accounting demands in each area in which a business operates. It can therefore be difficult for businesses to show why financial information appears to be different when based on the accounting practices of the various countries in which it has an interest.

Attempts have begun in order to institute a form of accounting standard harmonization, notably from the International Accounting Standards Committee (IASC). To date, their attempts have been rather limited. A multinational business, with subsidiaries in foreign countries, would be required to keep its accounting records and prepare financial statements in the currency of the country in which it is located. It is only when consolidated accounts of the multinational are compiled that the subsidiaries' financial statements have to be translated into the home country's currency. This, in itself, is a difficult task as exchange rates fluctuate and assets which are valued in a foreign currency also have to be translated into the home currency, but usually at the exchange rate in operation when assets were purchased. This leads to difficulties in making a multinational's balance sheet balance.

Inevitably there are distortions in both budgets and performance data when the results are translated into another currency. Increasingly, multinational businesses are seeking ways in which they can streamline this process and make the assumptions required more transparent.

Madura, Jeff, *International Financial Management*. Mason, OH: South Western College Publishing, 2002.

Acquisition

The most common use of the term 'acquisition' is in describing the process of one business purchasing another business, or indeed individuals purchasing an existing business.

'Acquisition' can also refer to the process of obtaining a loan or another form of finance, or to the purchase of a property by a business.

In international business terms, all acquisitions are subject to local, regional (EU) and national laws and regulations in respect of how other businesses are acquired or shares are purchased. In many cases businesses which are acquired by another company continue to operate as independent organizations, maintaining their original name, personnel and **organizational structure.**

Weston, J. Fred and Weaver, Samuel C., *Mergers and Acquisitions*. New York: McGraw-Hill, 2001.

Ad valorem tariff

An ad valorem tariff is a tax, charge or duty which is applied to products or services as a percentage of their value. *Ad valorem*, literally, means 'according to value'.

Administrative protection order

An administrative protection order is most commonly connected with **anti-dumping** and **countervailing duty** investigations, when it is used to prevent proprietary data being released. It is also used to control the disclosure of information related to national security in cases where businesses are being investigated for violations.

Gray, Rob and Bebbington, Jan, *Accounting for the Environment*. London: Paul Chapman, 2001.

Administrative (judicial) trade policy

Administrative or judicial trade policy instruments are used to deal with contentious issues on a case-by-case basis. They are often used to make market access investigations, deal with international trade disputes and investigate **anti-dumping**. These administrative trade policies have been widely criticized as further fragmenting domestic trade policy in various countries, notably the United States and within the European Union.

De Bièvre, Dirk, *The WTO and Domestic Coalitions: Negotiated and Judicial Trade Policy in the European Union* (4th Annual Conference of the European Trade Study Group). Kiel: Institut für Weltwirtschaft (www.mpp-rdg.mpg.de/pdf_dat/etsg.pdf).

Advanced technology products

In the United States around 500 of the 22,000 commodity classification codes are deemed to be advanced technology. Many of these products are produced by businesses operating in the high technology field, such as bio-technology. The products are considered to be at the leading edge of technology in any given field. Businesses wishing to export these products must report to the US government in order to receive clearance.

Paashuis, V., *The Organisation of Integrated Product Development* (*Advanced Manufacturing*). Berlin and Heidelberg: Springer Verlag, 1998.

Advising bank

An advising bank handles letters of credit for a foreign bank and notifies the exporter that credit has been opened. The bank operates in the exporter's own country and informs the exporter of the conditions of the letter of credit, but without taking responsibility for the payment.

Advisory Committee on Export Policy (ACEP)

The ACEP is a US inter-agency dispute resolution body. The committee is chaired by a representative from the field of commerce and includes representatives for defence, energy, the state, arms control and disarmament, and intelligence.

Advisory Committee on Trade Policy and Negotiations (ACTPN)

The ACTPN is a US committee that consists of 45 individuals appointed by the President. They advise both the President and the government on trade policy and trade agreements. The members broadly represent the key economic sectors of the United States. The ACTPN is aided in the work by the Services Policy Advisory Committee (SPAC), the Investment Policy Advisory Committee (INPAC), the Inter-Governmental Policy Advisory Committee (AGPAC), the Industry Policy Advisory Committee (IPAC), the Agriculture Policy Advisory Committee (APAC), the Labor Policy Advisory Committee (LPAC) and the Defense Policy Advisory Committee (DPAC).

Affiliate

An affiliate, in international business terms, is a business which is wholly or partly owned by a business or an individual from another country. Officially an affiliate must be owned to the extent of at least 10 per cent by an overseas owner.

Agency for International Development (AID)

The AID was formed in 1961 and is used to deliver economic-assistance packages to developing countries on behalf of the US government. The AID has missions and representatives in many developing countries throughout the world.

www.usaid.gov

Air way bill (AWB)

Air way bills are a form of **bill of lading** applied to both domestic and international flights which are transporting products to a specific destination. These are non-negotiable instruments which serve as a receipt for the shipper. They indicate that the carriers have accepted the products and have obligated themselves to carry that consignment to a specified airport, under specified conditions.

See also **inland bill of lading, ocean bill of lading, through bill of lading.**

Alliance for Mutual Growth (AMG)

The AMG was established in1993 and is an alliance between the United States and **ASEAN**. The alliance seeks to connect commercial initiatives with US policy in the South-East Asian region of the world. It also seeks to promote long-term relationships with businesses and countries in that region.

www.aseansec.org

Alongside

Alongside is a form of delivery method in which products are literally delivered alongside a transport ship, or within reach of the transport ship, enabling them to be loaded onto that vessel. In practice this means that the products must be delivered either to the dock at which the vessel is at rest, or to a smaller transport vessel, which can come alongside the larger vessel for reloading.

Andean group

See **Andean Pact**.

Andean Pact

The Andean Pact was established in Cartegena in 1969 and is a group of Latin American countries which seek to promote economic integration and political cooperation amongst their membership. The Andean group is also referred to as the *Pacto Andino* or the *Corporación Andino de Fomento*. In other cases it is also called the *Acuerdo de Cartegana*.

The members of the group are encouraged to specialize and provide financial and technical assistance to one another. Current members include Bolivia, Colombia, Ecuador, Peru and Venezuela.

www.comunidadandina.org

Anticipatory counter-trade

Anticipatory counter-trade is advanced purchases of products and services from the country of a customer which is undertaken by a supplier. These purchases are made in expectation of future sales which are linked to **counter-trade** requirements. In essence these are proactive purchases which may, or may not, be eligible for counter-trade credit unless approved by the country's authorities.

Mirus, Rolf and Yeung, Bernard, *The Economics of Barter and Countertrade*. Cheltenham: Edward Elgar, 2001.

Anti-dumping

If a business exports products at a price lower than the price it normally charges in its home market, it is deemed to have been **dumping** those products into a foreign country. The **World Trade Organization (WTO)**, under the terms of Article VI of the **General Agreement on**

Tariffs and Trade (GATT), provides for the contracting parties to apply anti-dumping measures. Negotiations during the **Uruguay Round** (1986–94) revised the anti-dumping agreement and provided more detailed rules in relation to determining whether a product had been dumped. In essence, the anti-dumping agreement seeks to protect the domestic industry by preventing the dumping of products, and setting up dispute settlement panels that deal with anti-dumping actions taken by domestic authorities.

The panels seek to establish a clear relationship between the dumped imports and any injury to the domestic industry, taking into account any relevant economic factors. Increasingly, procedures are being established across the world to ensure that all interested parties are given the opportunity to present their own evidence.

Gupta, R. K., *Anti-dumping and Countervailing Measures: The Complete Reference*. New York: Sage Publications, 1996.

Anti-trust law

Anti-trust laws seek to encourage competition by attempting to curb a business which has a monopoly, and to limit unfair business practices. Anti-trust laws aim to prevent abuses of market power by large businesses, and in some cases the government will step in to prevent a merger or an **acquisition** which would create a monopoly.

Different countries have different views on what constitutes a monopoly and, indeed, what kind of business behaviour is considered to be an abuse of power. In the United States, for example, the monopoly policy is firmly built on the Sherman Anti-Trust Act (1890). It prohibits contracts or conspiracies which restrain trade. During the 1970s, the Act was used against IBM but it failed. In 1982 the Act was successfully used to break up the monopoly which AT&T had established in the telecoms industry.

One of the highest-profile cases was launched against Microsoft in 1998, and it was found guilty of anti-competitive behaviour. It was proposed that Microsoft be broken up; negotiations continue as to how this case will be resolved.

In the UK, successive governments seem to have followed the US trend in basing their anti-trust policies on situations which could ultimately harm consumers. Throughout the rest of Europe, however, particularly within the European Union, national governments have allowed selected businesses to become virtual monopolies in an attempt to create national companies capable of competing throughout the world. However, from the 1990s the European Commission, keen to promote competition within the European Union, has become increasingly active in anti-trust policy. It is possible that as the markets become more globalized, an anti-trust watchdog operating throughout the world will need to be established. Currently it seems that the **World Trade Organization** may ultimately take up this challenge.

Hylton, Keith N., *Anti-trust Law: Economic Theory and Common Law Evolution*. Cambridge: Cambridge University Press, 2002.

APEC

See **Asian Pacific Economic Cooperation (APEC)**.

Arab Cooperation Council (AAC)/Arab Maghreb Union (AMU)

These two organizations were created in 1989. The Arab Cooperation Council (ACC), with members including Egypt, Iraq, Jordan and North Yemen, seeks to promote economic cooperation and integration. Originally the ACC was intended to be a counterpart to the **Gulf Cooperation Council**.

The Arab Maghreb Union (AMU) has a similar purpose and its members include Algeria, Libya, Mauritania, Morocco and Tunisia. The union and the Gulf Cooperation Council seek ultimately to establish a common market.

Arab Maghreb Union (AMU)

See **Arab Cooperation Council (AAC)/Arab Maghreb Union (AMU)**.

A

Arab Monetary Fund (AMF)

The AMF was created in 1976 and began its operations the following year, with its headquarters in Abu Dhabi. It seeks to correct the deficits in the balance of payments in most of the member states and promote monetary and economic integration. The fund is active in trying to address payment imbalances, stabilizing exchange rates, eliminating trade restrictions and creating capital markets. Its members include Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, the United Arab Emirates and the Yemen.

See also **Arab Trade Financing Program (ATFP)**.
www.amf.org.ae/vEnglish

Arab Trade Financing Program (ATFP)

The ATFP was created in 1989 by the **Arab Monetary Fund** and is based in Abu Dhabi. The programme seeks to promote trade between Arab countries.

www.atfp.org.ae

Arbitrage

Arbitrage is the process of buying foreign currency, securities or commodities in one market and immediately selling them in another market. Profits are made as a result of the different rates of exchange or the different prices of securities or commodities in different markets. In other words, an asset will be purchased in one market and then the identical asset will be sold in another market at a higher price. An example would include the purchasing of Euros in London at a cheaper $ rate than is available elsewhere and then selling an identical amount of Euros in New York at a higher price.

Increasingly, however, arbitrage is becoming more difficult as a result of the **globalization** of the financial markets.

Graham, Mike (ed.), *The Arbitrage Handbook*. London: Fleet Street Publications, 2001.

ASEAN

ASEAN, or the Association of South East Asian Nations, was created in 1992, effectively establishing a free trade area known as the ASEAN Free Trade Area (AFTA). Member states agreed to cut their **tariff** rates within 15 years of the start date of January 1994. Manufactured goods in some 15 different sectors are subject to a tariff reduction of 5 per cent within 10 years.

Other fast-track sectors include pharmaceuticals, plastics, rubber, leather, copper and fertilizer.

See also **Association of South East Asian Nations (ASEAN)**.

www.aseansec.org

Asia-Pacific Economic Cooperation (APEC)

APEC was established in 1989 and is an informal group which allows the discussion, at ministerial level, of economic issues that affect the members. APEC consists of six **ASEAN** countries (Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand) in addition to

Australia, Canada, China, Japan, New Zealand, South Korea, Taiwan and the United States.

www.apecsec.org.sg

Association of South East Asian Nations (ASEAN)

ASEAN has grown rapidly in the past decade, largely on the basis of the establishment of the ASEAN free trade agreement, along with high growth rates, increased purchasing power and huge infrastructure projects. It has been estimated that, in the ASEAN region, by 2010 the countries will enjoy a **gross domestic product** of $1.1 trillion and that over $1 trillion will have been spent in new infrastructure projects. The ASEAN region will, by that time, have nearly 690 million consumers.

www.aseansec.org

Automated Broker Interface (ABI)

The ABI is part of the US government's **Automated Commercial System**. It permits the transmission of data related to products being imported into the United States. Information is passed between brokers, carriers, importers, port authorities and data processing businesses which operate as service centres.

www.customs.ustreas.gov

Automated Commercial System (ACS)

The ACS is a US part-public, part-private computerized data processing and telecommunication system. It links members of the import trade to customs houses and government agencies, allowing them to transfer data electronically, deal with customs queries and obtain information on duties, taxes and fees. The ACS is an integral part of the information system used to compile US foreign trade statistics. It began operations in 1984.

www.customs.ustreas.gov

Bb

Backward vertical FDI

Backward vertical foreign direct investment occurs when an overseas business makes a direct investment or input into the domestic operations of another country. A prime example of this would be an international oil company investing in overseas drilling operations for oil which would be used for domestic refining.

Herrmann, Heinz and Lipsey, Robert E. (eds), *Foreign Direct Investment in the Real and Financial Sector of Industrial Countries*. Berlin: Springer Verlag, 2003.

Balance of payments

The balance of payments is a statistical summary of international transactions, 'transactions' being defined as the transfer of ownership of something which has economic value measurable in monetary terms, from one country to another. These may, of course, include the transfer of tangible or visible products, services (which are considered intangible), income on investments, and financial claims or liabilities. A transaction is an exchange of one asset for another, and as far as international transactions are concerned they are recorded on the balance of payments accounts using double entry. Each transaction gives rise to two offsetting entries of equal value, resulting in the credit and debit entries always balancing. Transactions are valued at market prices and are recorded when the ownership changes.

The **International Monetary Fund** defines the balance of payments as a statistical statement which shows the transactions in goods and services and income between one economy and the rest of the world. It also goes on to include changes in ownership of an economy's monetary gold, claims on and liabilities to the rest of the world, and transactions which are not mutually offsetting. The US, for example, produces seven quarterly balances, as can be seen in Table 1.

In the US, merchandise is deemed to be visible trade, which is the export and import of physical goods. Invisible trade is the receipts and payments for various services and other intangible goods (including copyrights, dividends and interest payments).

Table 1 US balance of payments

Balance	**Description**
Balance on merchandised trade	The net transfer of merchandised exports and imports.
Balance on services	The net transfer of services, including travel, business and professional services. From 1990 this excludes investment income.
Balance on goods and services	The sum of the balance on merchandised trade and the balance on services.
Balance on investment income	Net transfer of income from both direct and portfolio investments.
Balance on goods, services and income	The net transfer of merchandise plus services and income on direct and portfolio investment (comparable to net exports of goods and services, which are included in **gross national product**).
Balance on unilateral transfers	The net value of gifts, government grants and other contributions
Balance on current account	This includes transactions in products, services, income and unilateral transfers.

Clearly, as any outstanding money needs to be paid, theoretically a country's accounts must balance; but in reality the balances are often fudged because balancing is never quite as neat as in the accounts of individual companies and there will inevitably be inconsistencies. In situations where a country cannot pay interest on foreign debts, the country will find it impossible to borrow more money in the international finance market. An example is the Russian government in 1988, which was not able to increase taxes because its economy was collapsing and there were few sources within Russia itself to lend the government money. Situations such as these are known as 'balance of payment crises'.

Miller, Norman C., *Balance of Payments and Exchange Rate Theories*. Cheltenham: Edward Elgar, 2002.

B

Balance of payments accounts

Balance of payments accounts are the records of international transfers undertaken during a particular time period. Normally the accounts are divided into several sub-accounts, the most important being the **current account** and the **capital account**.

The current account is a record of all international transfers, products and services and combines the transactions of the trade account and of the services account. The merchandise (product) trade account records the international transactions for goods only, such as cars, food and steel. The services account covers the international transactions for services such as transport, insurance and brokering. The capital account is a record of all international transactions related to assets, including bonds, treasury bills, stocks, currency, real estate and bank deposits.

Balance of trade

The balance of trade is simply the difference between a particular country's imports and exports over a given period of time. If imports exceed exports then the balance of trade is said to be in deficit. If the imports are less than the exports then the balance of trade is said to be in surplus. Ideally a country would wish to literally 'balance' its balance of trade. In other words, broadly its imports should be equal to its exports. Obviously it is also desirable to generate a surplus rather than a long-term deficit.

Caves, Richard E., Frankel, Jeffrey A. and Jones, Ronald W., *World Trade and Payments: An Introduction*. London: Addison Wesley, 2001.

Bank Advisory Committee

The Bank Advisory Committee is an informal, unstructured organization which consists of the leading bankers who represent the interests of a debtor country's banking industry. They aim to develop restructuring plans to propose to the government. The debtor country's government then proposes the plans to the foreign lending governments. In many respects the Bank Advisory Committee has replaced the **London Club**.

Bank for International Settlements (BIS)

The Bank for International Settlements (BIS) was formed in 1930 and has its headquarters in Basel, Switzerland. The organization seeks to promote cooperation between the **central banks**, specifically related to international financial settlements. Members include Australia, Austria, Belgium, Bulgaria, Canada, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, the Netherlands, Norway, Poland, Portugal, Romania, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.

www.bis.org

Banker's draft

A banker's draft is regarded as cash and is payable on demand and drawn by, or on behalf of, a bank itself. A banker's draft cannot be returned unpaid.

Barriers to entry

'Barriers to entry' is a term used to describe the way in which a business, or group of businesses, seek to keep competition out of markets in which they are currently operating. There are four main ways in which this is achieved:

- A business may have control over a specific resource, such as oil, or may have an exclusive licence to operate, such as a broadcast agreement.
- A large business which has significant **economies of scale** will have a competitive advantage because it can produce products and services at lower costs than those of its smaller rivals.
- A business may protect its market by investing considerable sums in advertising and marketing, making it very difficult for competitors to make any impression in the marketplace.
- Large and powerful businesses can make a competitor's venture into their market far more risky by raising the exit costs. In this respect they may have established a specific way of hiring employees, perhaps on long-term contracts, which has become the industry norm. It is therefore expensive for a newcomer to the market to try and then fail, as dispensing with staff would become prohibitively expensive.

Barter

Barter is one of the oldest forms of trade, where there is no financial transfer involved in the transaction. At its simplest, barter is the exchange of a package of either products or services for products and services of an equivalent value. Barters are still much used in international trade and may involve the exchange of products and services over a period of time, with both parties undertaking to make the transfer within a year.

Mirus, Rolf and Yeung, Bernard (eds), *The Economics of Barter and Countertrade*. Cheltenham: Edward Elgar, 2001.

Basel convention

The Basel convention came about in the late 1980s as a result of the dramatic rises in the costs of dealing with hazardous waste. There had been a trend for the developed nations to ship hazardous waste into developing countries and eastern Europe. The convention began to set up a framework for controlling the movements of hazardous waste. In 1999 the convention set up guidelines for minimizing hazardous waste generation:

- It actively promotes the use of cleaner technologies and production methods.
- It urges a reduction in the movement of hazardous waste.
- It seeks to prevent and monitor illegal hazardous waste movement.
- It funds the setting up of regional centres for training.

At its core the Basel convention seeks to establish environmentally sound management (ESM), which aims to protect health and the environment by minimizing waste production wherever possible. It is therefore concerned with the whole of a product's life cycle and its storage, transportation, reuse, recycling and final disposal, if necessary.

Countries which adhere to the Basel convention undertake to institute appropriate measures to implement and enforce the provisions of the convention. Each country is required to provide annual information on the generation and movement of hazardous wastes.

www.basel.int

Benelux Economic Union

'Benelux' is an acronym for 'Belgium, Netherlands and Luxembourg'. The Benelux Economic Union was established in the 1940s and fully established in the late 1950s. It was designed to promote the free movement of capital, products, services and workers throughout the Benelux region. The three countries were founding members of what is now the **European Union**, which has adopted many of the Benelux reforms. The Benelux Economic Union's ultimate goal of merging both the fiscal and monetary systems of the three countries was fulfilled in 2002 when the **Euro** replaced their own currencies.

Best information available (BIA)

Under the terms of the **General Agreement on Tariffs and Trade (GATT)**, when a business is cited as a respondent in an **anti-dumping** or a **countervailing duties** case and it either declines to provide information, or does not provide adequate information, the investigators may resort to the 'best information available' principle. This uses a collection of information, which may be provided by the petitioner or other sources, and determinations of the best information available are made on a case-by-case basis.

Big emerging markets (BEM)

The concept of big emerging markets represents a fundamental shift in both business and economic development. It has been brought about by the following:

- a shift from government-regulated markets to free markets based on private ownership and competition;
- the large-scale collapse of Communism in eastern Europe and the post-Communist transformation of up to 40 per cent of the world's population;
- the success of the East Asian nations.

This has brought about significant worldwide trends towards privatization and openness in many countries which at one time were bureaucratic and closed economies. It has also triggered regional and global integration based on competitive markets. The most significant BEMs can be found in central and eastern Europe, including Russia and the Caucasus, and in central and eastern Asia, notably China, Vietnam, India and Indonesia, as well as Latin America, including Mexico, Chile, Argentina and Brazil.

The United States Department of Commerce defines many of these countries as BEMs and specifically cites China, Taiwan, South Korea, India, Malaysia, the Philippines, Singapore, Thailand, Indonesia, Vietnam, Brazil, Argentina, Mexico, South Africa, Turkey and Poland.

US exports by 2000 to BEMs had reached $161 billion, virtually equal to the exports to the European Union and Japan combined. BEMs' **gross domestic product** is broadly equivalent to 25% of that of the industrialized world. This is expected to have reached 50% by 2010. BEMs are also expected to account for some 27% of the world's imports by 2010. The potential for growth is enormous; there are little more than 60,000 private cars in China and with the government expending huge sums on the road network infrastructure, this market is expected to explode in the coming years.

The BEMs do not necessarily have many of the characteristics of traditional trading partners. Many of the following are considered to be causes of concern for businesses wishing to trade with them:

- Generally their political stability is less predictable as changes occur faster, leading to increased risk. Some indeed still have authoritarian regimes.
- There is little or no regional or local government. At the very least it is under-developed.
- Economic stability is lower, exacerbated by incoherent economic policy.
- The physical infrastructure is under-developed.
- Education is also under-developed.
- With the occurrence of corruption, the enforcement of contracts is often more complex.

Despite the apparent drawbacks in dealing with the BEMs, many businesses cannot fail to be attracted by the potential profits and have adopted the corporate strategies outlined in Table 2.

Table 2 Strategies for dealing with BEMs

Strategy	**Description**
Quick buck	Essentially these are hit-and-run approaches to business, identifying a business opportunity on a one-off basis, avoiding the opportunity for longer-term cooperation, whilst simultaneously avoiding the risk of longer-term exposure.
Enclave	These are longer-term strategies in which the business builds an operation consisting of independent local supply networks.
Learning for earning	This involves the sacrificing of short-term profits in order to develop a better understanding of the market. The primary purpose is to build business confidence and stable relationships with partners in the emerging markets in order to produce higher profits in the longer term.
Integrative national treatment	This strategy approaches the market as if it were as sophisticated and developed as markets in which the business already operates. In other words, the business tries to treat the market in a similar way to the way in which it deals with its own domestic market. This is a long-term strategy which has not worked to any great degree to date.

Garten, Jeffrey E., *The Big Ten: The Big Emerging Markets and How They Will Change Our Lives*. New York: Basic Books, 1997.

Bilateral clearing agreement

Bilateral clearing agreements are reciprocal trade arrangements between governments. Both countries undertake to achieve a specified value of trade turnover over a given number of years. The value of this trade is expressed in terms of a major currency, such as the US Dollar or the Swiss Franc. Exporters in each of the countries are paid by specified local banks in the domestic currency.

Bilateral investment treaty

A bilateral investment treaty, specifically referring to the United States, ensures US investments abroad in **most favoured nation treatment** situations. It prohibits the imposition of performance requirements and allows the US investors to bring their own management into a foreign country without regard to nationality issues. The treaty ensures the right to make investment-related transfers and guarantees that any expropriation only takes place under international law. The treaty also guarantees access to impartial and binding international arbitration in cases of disputes.

Bill of exchange

A bill of exchange is a signed and written order by one business, which instructs a second business to pay a third business a specified amount of money.

See also **draft bill of exchange**.

Bill of lading (BOL)

A bill of lading is a contract issued to a transportation company (a shipper), listing the goods shipped, acknowledging their receipt and promising delivery to the person or business named. Bills of lading are also known as manifests or waybills.

In essence there are two different types of bill of lading: a non-negotiable, straight bill of lading, or a negotiable (shipper's order) bill of lading, which can be bought, sold or traded while the goods are actually in transit. In both cases, however, the customer will be required to produce an original or copy of the bill of lading to prove ownership before taking possession of the goods.

Bools, Michael, *The Bill of Lading – A Document of Title*. London: LLP Professional Publishing, 1997.

Bill of materials (BOM)

A bill of materials (BOM) aims to list all of the parts, components and individual items which were used to create or manufacture a specific product. In essence, a bill of materials is rather like a list of parts, but it goes one stage further than this as the components, parts and other items are listed as they were added to the product. In other words, a careful examination of a BOM indicates how a product was assembled. Some organizations refer to a BOM as a 'formula' or 'recipe'. Careful examination of the BOM should indicate to the organization the precise ordering of production units and processes within the premises. Assuming that most products are constructed or assembled in this manner, a BOM should help the organization to identify the most common route along which the product passes, on the shop floor.

Bi-national commission

'Bi-national commission' refers to the United States and Mexico Commission, which was set up to provide a forum and closer economic and commercial ties between the two countries.

Blocked currency

A blocked currency is a currency which cannot be freely transferred into convertible currencies and expatriated. The term is usually used to describe foreign-owned funds or other earnings in countries whose government exchange regulations prevent the money from being expatriated.

Bond

Bonds are debt instruments which can be bought and sold on the market. A bond pays a specific amount of interest on a regular basis and the issuer of the bond undertakes to repay the debt at a specific time, in full. Treasury bonds can be purchased via the Treasury Department in the US, but the majority of bonds are purchased through a brokerage company, who charge a fee for the transaction.

Bonded warehouse

A bonded warehouse is a building, or collection of buildings, which have been designated and authorized by a country's customs authorities in order to store goods which require a duty payment before they are released.

Boundaryless organization

'Boundaryless organization' is a term often applied to businesses which operate in several different countries throughout the world. Such organizations seek to eliminate any inefficient boundaries between their organizational levels and the operations of their workers. It has become increasingly important for businesses to be able to respond more meaningfully to the requirements of their customers, no matter where they are. This means that the business's functions and operations need to be fluid and efficient in order for information and connections to be made wherever required. This more flexible approach should mean that the business can enjoy greater growth.

Bretton Woods

The term 'Bretton Woods' refers to an international conference which was held at Bretton Woods, New Hampshire, in 1944. Arising out of this meeting the structure of the **international monetary system** was established and this led directly to the setting up of the **International Monetary Fund** and the **World Bank**. It was agreed at the meeting that exchange rates between members of the International Monetary Fund would be linked to the $US with a maximum variation of 1%. It was further agreed that the rates could only be adjusted in excess of this if a particular country's **balance of payments** had reached **disequilibrium**.

The arrangement hit a particularly difficult time in 1971 when US President Richard Nixon was forced to devalue the dollar as a result of economic difficulties at home and the escalating costs of prosecuting the war in Vietnam. By 1973 the fixed exchange rate system had been scrapped and all of the main currencies and their rates were set by market forces.

James, Harold, *International Monetary Cooperation since Bretton Woods*. New York: Oxford University Press, 1996.

British Overseas Trade Board

The British Overseas Trade Board is an integral part of the UK's Department of Trade and Industry (DTI). It advises the government on international trade issues, specifically the promotion of exports, export policy and financing. The board itself is made up of government representatives and individuals from industry. The export departments of the board work in cooperation with the Foreign and Commonwealth Office in order to provide British businesses with assistance in international trade through various overseas offices.

www.tradepartners.gov.uk

Build/Operate Transfer (BOT)

BOT is a means by which debt and equity financing can be obtained for major overseas **turnkey** projects, such as the building of dams, electricity generating stations or even nuclear power plants. The normal understanding is that a foreign business will construct the facility and then operate it as a going concern, for profit, for a contracted number of years. At the end of this period the facility is transferred to local ownership. The revenues which are accrued from the running of the facility help to service the debt and generate the capital repayment for the original constructor.

Business Council for International Understanding (BCIU)

The BCIU was originally established by US President Eisenhower as an independent business association which sought to foster greater understanding between US businesses and visiting diplomats and heads of state. In more recent years the BCIU has broadened out from providing secondments to the association, for US ambassadors and senior diplomatic staff, and has now begun sponsoring discussions with foreign heads of government, ministers of finance and other foreign officials.

Business Information Service for the Newly Independent States (BISNIS)

The BISNIS was established in 1992 in the United States in order to provide a one-stop-shop facility for US businesses wishing to trade in the Independent States of the former Soviet Union. The BISNIS provides information on trade regulations and legislation, market data, commercial opportunities, financing, contacts and investments, in Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

www.bisnis.doc.gov