

International business
environment of
countries hg operates
economics essay



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To identify and gain an understanding of the environment for international business in Germany, several factors will be reviewed. A country's geography, culture, population demographics as well as political and economic structure can all play a role in either contributing to or working against the existence of a climate favourable to international business. By examining issues such as Germany's participation in area economic integration, its attitude toward foreign direct investment and its participation

Germany's Geography

Germany is one of the most densely populated countries in the world, with almost 83 million people inhabiting 357, 022 square kilometres of land. The country consists of 16 federal states and 32 kingdoms, principalities and small towns. The countryside is quite diverse with five major landscape types, including sandy beaches along the North and Baltic Seas, hills and lakes in the North German Plain, numerous islands, fertile lands, lowland bays, and mountain ranges in the Alps. The Bavarian plateau in the southwest averages 1, 600 feet above sea level, while its highest point, the Zugspitze

Mountains, reaches 9, 721 feet. Germany's major rivers are the Danube, the Elbe, the Oder, the Weser, and the Rhine.

Natural resources present include iron ore, coal, potash, timber, lignite, uranium, copper, natural gas, salt and nickel.

Germany's Population Demographics

The estimated 2006 population of Germany is 82, 422, 299 with a population growth rate of -0. 02%

Balance of Trade

Germany continues to be a very export focused, as noted below in its current account balance. Germany exports account for more than one-third of national output. Although production costs within Germany are very high it continues to be a top exporter of goods. German export sales are concentrated in motor vehicles, machinery, chemicals, and heavy electrical equipment. France is Germany's second-largest trading partner, with the U. S. being the second largest. Trade with the U. S. totalled \$89. 1 billion in 2002; U. S. exports to Germany totalled \$26. 6 billion while U. S. imports from Germany totalled more than \$62. 5 billion.

Foreign Debt Obligations

Germany's focus on being a lead exporter lends it to continue to carry a positive trade/debt ratio compared to that of competing countries such as the U. S. Estimates based on 2005 data show that the U. S. continues to run a current account deficit compared to that of Germany. Germany continues to run a positive current account balance; this has been one of the factors supporting the increase of the euro compared to that of the dollar.

World Trade Organization Involvement

Germany was one of the inaugural members of the World Trade Organization founded in January of 1995. Today it remains committed to promoting multilateral trade and in 2000 began a series of contributions to the WTO's

technical assistance and training activities. Germany's most recent donation of EUR 1.7m in 2006 makes it the second biggest voluntary contributor to the WTO.

Currency of Germany

Germany is the world's third-largest economy and the largest in Europe, but has recently been one of the slowest growing economies in the European Union for a number of reasons including: the continued integration of the eastern German economy, inflexible labour practices which continue to increase unemployment rates to 11.7%, taxation and high social insurance cost. The bureaucracy associated with labour practices have led German employers to consider investing in overseas operations or automating production rather than to create jobs in domestic facilities.

Historically Germany's main currency was the Deutschmark, but in 1999 the European Monetary Union introduced the euro as a common currency to be used within its member's financial institution and by January 2002, the euro became the sole currency for all member countries. As of the November 30, 2006 the euro was trading at 1.3167 compared to that of the U. S. dollars, this is an increase over the 2005 average of .8041. (Yahoo Finance) Due to the creation of the euro it is difficult to determine Germany's overall impact on this increase of the euro compared to that of the dollar, however, the Gross Domestic Product (GDP) information illustrates Germany's dramatic impact on the increase.

Although Germany has experienced a high level of unemployment in recent years, 11.7% in 2005, it continues to hold a major labour force of

approximately 43 million; Analysing the above data shows that although the growth rate has been low in recent years Germany has experienced a relatively stable economy with the potential to increase its performance.

Conclusion

Although Germany has experienced recent slow economic growth and the cost of producing goods is higher than other foreign countries, Germany offers an environment that strongly supports international business, evidence of this includes the presence of a highly skilled and productive worker force and its prime location in the heart of Europe. Investing in Germany appears to be a sound business decision; various incentive packages can offset real costs as well as provide tax incentives in future years. To help structure a successful integration with German consumers, companies should ensure that they have a high quality innovative product. Culturally, German consumers do not focus on the cost of a product but are extremely focused on the quality of a product. Promising sectors to consider for international business opportunities in Germany include computer software, management consulting services, drug and pharmaceuticals, and telecommunication equipment.

United Kingdom

Major Elements and Dimensions of Culture in the United Kingdom

The United Kingdom is rich in cultural heritage. The country is a tourist destination known for its landscape, art galleries, architecture, parks, palaces and museums. Although the sites are remarkable, the culture is

distinctive. In the United Kingdom, their culture is considered a reflection of their diversity.

Languages

The official language of the United Kingdom is English which is said to be spoken by 95% of the population. Although the United States speaks English as well, they are very different. The dialects are not only different between the United Kingdom and the United States; they are also very different between the regions in the United Kingdom. The American English and the British English are the reference forms of English that recognized in the rest of the world.

Economic value

The United Kingdom is the third largest trading and financial center in Europe. Over the past few years, the United Kingdom has been focused on growth of the economy and reduction within the social welfare system. The government of the United Kingdom has been researching possible ways to stimulate the economy; however, they are currently facing economic slowdown, high unemployment, declining home prices and increased consumer debt. The rate changes in the United Kingdom are driven by the rate moves of the Bank of England; this is similar to the moves that are driven in the United States by the Federal Reserve (“The economy of,” 2010).

When doing business with the United Kingdom, it is first necessary to determine whether you have established a “presence” with your business activities. If your business with the United Kingdom is simply exporting <https://assignbuster.com/international-business-environment-of-countries-hg-operates-economics-essay/>

goods, then there is no a “ presence” established. If there is a permanent base in the United Kingdom, then the a business has a “ permanent establishment” that will require consideration which will possibly be taxable in the United Kingdom, if business is conducted from that base with regularity (Bryan Cave, 2009).

If a “ permanent establishment” is created there are additional considerations the United States based company must consider.

The United Kingdom has a tax system has gone through many changes. It is based on an income system, much like that of the United States. When a business has been “ permanently established” in the United Kingdom they are subject to taxation in the same way that the local businesses are. The tax systems measures the rates based on cash flow, instead of profits as it has been in the past. According to a study of King and Fullerton the corporate tax rate for the United Kingdom has changed consistently since the war. They have continued to experiment with the rates with legislative approval. In addition to the corporate taxes, they also have social security tax and capital gains tax.

Banking

It is important to understand that to conduct business in the United Kingdom will be required to establish a local bank account. Due to increased issues surrounding corruption and money laundering, the United Kingdom establishes the Money Laundering Regulations. As a result of this program, the banks in the United Kingdom have undertaken a process for due diligence, which is required as part of this law
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Imports and exports

Since the beginning of 2011, UK's monthly trade deficit has hit record levels of more than £4 billion per month. The monthly deficit in the UK for 2011 is also exceeding the previous record level of £3.5 billion per month reached in 2007.

Total value of exports: US\$405.6 billion.

Primary exports – commodities: manufactured goods, fuels, chemicals; food, beverages, tobacco.

Primary exports partners: US (14.71 percent), Germany (11.06 percent), France (8 percent), Netherlands (7.79 percent), Ireland (6.89 percent), Belgium (4.65 percent), Spain (4 percent)

Total value of imports: US\$546.5 billion

Primary imports – commodities: manufactured goods, machinery, fuels; foodstuffs

Conclusion

Scanning the business environment is an activity that needs to be conducted on a continual basis by all international businesses. The reasons are diverse when dealing with countries risks. When global companies enter into the international arena, consistent efforts must be made to understand the ever-changing business climate in each country that they are involved in. Thus company objectives and policies must be aligned accordingly to meet these

changes. In dealing with country risk, strategic usage of joint ventures and partnerships may be used to minimize the risk involved.

P2 Describe how the following mechanisms regulate international trade:

the work of the WTO in international trade;

Quotas and Tariffs;

The legislation on product safety and reliability.

WTO

The WTO as an Organization was created on January 1, 1995, as a result of the Uruguay Round Negotiations. Currently consisting of 140 members worldwide, it is based with headquarters in Geneva, Switzerland and has a secretary staff of over five hundred. The organization of the WTO consists of a head Ministerial Conference, with branches of a General Council, Trade Review Body, and Dispute Settlement Body. Below these branches lie several councils and committees to deal with many different trade issues. One branch consists of a committee with the name Trade and the Environment, which concerns itself with issues relating to trade and the environment. Overseeing the organization of the WTO is the director-general, currently Michael Moore. The basis for all WTO decisions lies in its multilateral trading system, where a large amount of agreements that are negotiated and signed by members must finally be ratified in each country's individual Senate. While the individual agreements are signed and ratified by each country's government, the primary purpose of the legislation is to

assist the country's producers, exporters, and importers. The overall goal of the WTO is to make trade freer, resulting in, claims the WTO, a promotion of peace worldwide, an increase in income and a stimulation of economic growth. As part of its preamble, the WTO claims an interest in the environment, and thus created the Committee on Trade and the Environment to make decisions when environmental issues are involved. The preamble itself states it will promote trade " while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment." The organization, in the past few years, however, has encouraged a lower tariff universally, thereby encouraging producers to look towards less developed countries as prime places for cheap labour and low regulations, especially low regulations relating to the environment. These less developed countries, or LDCs, are known universally for having very cheap, productive labour, and are not even close to having the environmental protection efforts seen in the United States and Europe. So these countries are encouraged to make waste of the land and save profits. Yet the WTO maintains that freer trade will benefit all, and their concern for the environment is shown in the existence of a council concerned with only environmental matters.

The tariffs

The discussion of tariffs covers both tariffs on quantities within quotas and those outside. Traditionally, the tariff reductions that resulted from trade negotiations came from bilateral product-by-product bargaining, or they were based on formulas that applied over a broad range of products, or combinations of the two. How the reductions will be handled in the present <https://assignbuster.com/international-business-environment-of-countries-hg-operates-economics-essay/>

negotiations is still undecided. Some countries – such as Canada and the US – are advocating that in addition, “sectoral liberalization” should be negotiated. In some sectors, in past negotiations these have sometimes meant “zero-for-zero” deals. It would include negotiating the complete elimination of tariffs (and possibly other measures such as export subsidies or subsidized export credits) by at least the key WTO members in specific sectors such as oilseeds, and barley and malt. Some countries – for example Japan – have said they do not support this.

One country, the US, has gone so far as to argue that because so many agricultural tariffs are high, the negotiations to reduce tariffs should start with “applied rates” (the tariffs governments actually charge on agricultural imports) and not the generally higher “bound rates” (the legally binding ceilings committed in the WTO as a result of previous negotiations). This has proved quite controversial because it would break a tradition of basing negotiations on bound rates. A number of countries have also countered that they should be given credit for unilaterally applying tariffs that are more liberal than the negotiated bound rates, instead of being forced to make even deeper cuts than countries that kept to their higher bound rates. Some countries that recently joined the WTO also feel that they accepted low tariffs in order to become members and therefore should not have to reduce them much further.

A number of developing countries also complain that they face difficulty if they try to increase their incomes by processing the agricultural raw materials that they produce. This is because the countries they see as potential export markets impose higher duties on processed imports than on <https://assignbuster.com/international-business-environment-of-countries-hg-operates-economics-essay/>

the raw materials – known as tariff escalation – in order to protect their own processing industries.

Some countries see tariffs and other import barriers as necessary in order to protect domestic production and maintain food security. For this reason, some countries are linking lower import barriers with disciplines on other countries' export restraints and export taxes – if producing countries do not restrict their exports, then importing countries can feel more secure about being able to obtain food from them. Some developing countries say they need flexibility in deciding the level of import duties they charge to protect their farmers against competition from imports whose prices are low because of export subsidies.

The tariff quotas

Quota administration is a technical subject, but it has a real impact on trade – on whether a product exported from one country can gain access to the market of another country at the lower, within-quota tariff.

Methods used for giving exporters access to quotas include first-come, first-served allocations, import licensing according to historical shares and other criteria, administering through state trading enterprise, bilateral agreements, and auctioning. The terms can also specify time periods for using the quotas, for example periods of time for applying for licences, or for delivering the products to the importing countries. Exporters are sometimes concerned that their ability to take advantage of tariff quotas can be handicapped because of the way the quotas are administered. Sometimes they also complain that

the licensing timetables put them at a disadvantage when production is seasonal and the products have to be transported over long distances.

Each method has advantages and disadvantages, and many WTO members acknowledge that it can be difficult to say conclusively whether one method is better than another. Several countries want the negotiations to deal with tariff quotas: to replace them with low tariffs, to increase their size, to sort out what they consider to be restricting and non-transparent allocation methods, or to clarify which methods are legal or illegal under WTO rules in order to provide legal certainty.

Who has tariff quotas?

43 WTO members currently have a combined total of 1, 425 tariff quotas in their commitments. The numbers in brackets show how many quotas each country has.

Australia (2)

Barbados (36)

Brazil (2)

Bulgaria (73)

Canada (21)

Chile (1)

China (10)

Chinese Taipei (10)

Colombia (67)

Costa Rica (27)

Croatia (9)

Czech Rep (24)

Dominican Rep (8)

Ecuador (14)

El Salvador (11)

EU (87)

Guatemala (22)

Hungary (70)

Iceland (90)

Indonesia (2)

Israel (12)

Japan (20)

Korea (67)

Latvia (4)

Lithuania (4)

Malaysia (19)

Mexico (11)

Morocco (16)

New Zealand (3)

Nicaragua (9)

Norway (232)

Panama (19)

Philippines (14)

Poland (109)

Romania (12)

Slovak Republic (24)

Slovenia (20)

South Africa (53)

Switzerland (28)

Thailand (23)

Tunisia (13)

United States (54)

Venezuela (61)

P3 Describe how the environment and culture of another country affects HG's business operations. You are asked to present a PEST (L) analyse on both the Netherlands and China.

PEST Analyse The Kingdom of the Netherlands

General Facts

Full name: The Kingdom of the Netherlands

Population: 16. 6 million

Capital: Amsterdam; seat of government: the Hague

Dependencies: Aruba, Netherlands Antilles

Location: Western Europe, bordering the North Sea, between Belgium and Germany

Area: 41, 864 sq km (16, 164 sq miles)

Major language: Dutch

Major religion: Christianity

Export commodities: Machinery and equipment, chemicals, fuels, foodstuffs

GDP per Capita: \$ 47, 042

Political Risk Factors

Political Structure Analysis

The Netherlands is a constitutional monarchy (since 1815) and a parliamentary democracy (since 1848). Dutch monarch has no real political power: from the representative side – head of state (Queen Beatrix), from the executive side – person uniting the divided parliamentary politics.

Thus, the Netherlands is usually governed by an alliance of different political parties. Prime minister comes from the party, which won the most seats in the elections, and forms the new government. These days Dutch government is in uncertain situation due to its collapse in mid-February 2010. Whichever government alliance comes to power after the June 2010 election will continue to focus on managing the after-effects of the political and financial crisis.

Limits of press freedom

Dutch constitution guarantee freedom of the press, as is free speech. Moreover, journalists don't present flagrant news in the light of tabloid sensationalism. But government limits press freedom establishing rules especially regarding country's secret service. Every day there is paper's confrontation with the government. Journalists have to make out where are secret information and not. And government needs to clarify " free speech" statement.

Key Internal Political Risks

Political unrest in the light of financial crises. Decision-making of financial crises results is held up at least until the general election in June due to the collapse of the government in mid-February. The two main parties failed to agree on whether or not to withdraw troops from Afghanistan as planned in 2010 and it served the main reason for government breakup. Indeed, the future of a new road pricing suggestion ("the kilometre tax"), based on charging motorists for the distance and time driven, has become uncertain. This scheme has been hanging in the air since its initiator, Mr Eurlings, has announced his departure from the political scene and this question hasn't got its following consideration. The "kilometre tax" question isn't a sole problem that previous government hasn't had time to solve them. New solutions of residual tasks will be founded when new government comes to the office.

Corruption and private property

Private property and contracts are secure. There is no difference between citizens and foreigners purchasing real property. Although intellectual property rights are generally protected, there is piracy of optical disc media as everywhere. Government needs to increase arrangements against these criminal organizations.

Corruption is on the minimal level.

So the Netherlands ranks 6th place among 180 countries in Transparency International's Corruption Perceptions Index (2009). The Organisation for Economic Co-operation and Development's Anti-Bribery Convention leads struggle against corruption by penal offense. However low-level law pressure <https://assignbuster.com/international-business-environment-of-countries-hg-operates-economics-essay/>

corruption doesn't have to allow government to relax its attention regarding corruption.

Key External Political Risks

The Netherlands Antilles as a part of the Netherlands

The Netherlands Antilles are part of the Kingdom of the Netherlands and acknowledge the Dutch monarch. In comparison with its "motherland", the Netherlands Antilles don't have very low political risk. In 2010, Curacao and St. Maarten (two largest islands whose production accounts more 70% of GDP) will achieve independence from the rest of the islands and the Netherlands Antilles probably will desist to exist because of financial insolvency (poor tax collection and high social spending contribute).

Economic Risk Factors

The Netherlands has one of the most advanced economies in the world, which is modern and diversified, with institutional strengths in the sphere of legal framework and impregnability of property rights.

Exports and imports account more than 60 % of nominal GDP. Strategic geographic position and a small size of its domestic market play a key role on the world arena and by attracting foreign investments. The Netherlands showed significant economic performance and GDP growth in the nineties. The economy's main focus is export commodities. Dutch trade mainly comprises chemical products, fossil fuels and agricultural products, machinery and transport equipment. Exports contributed 70 % of GDP in 2000 in comparison with 58.3 % of GDP in 1996. In 2001 the rate of GDP

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decreased sharply and the economy didn't see growth improvements at all in 2002-2003. Cyclical shock was caused by lower rates of export growth as part of the global economic slowdown. 2006 however, showed a promising 3% growth, which steadily accelerated to 3.5% in 2007. The economy still grew 2% in 2008, but due to global financial crisis the economic activity had been shrinking; exports and imports dropped rapidly in 2009, by 8.4% and 8.9% respectively.

The Public Sector

Fiscal policy in the Netherlands is designed to reduce taxes and to create a favorable climate for business investors. The Income Tax of 2001 represented significant tax cuts since the war. Total tax revenue was 37.5% of GDP (2005), which is below the EU average. In January 2007 Dutch government has deducted corporate tax to 25.5%. The following tax reform gave international companies a green light for FDI in the Dutch economy. Dividend tax has also been diminished from 25% to 15% and a patent box with a 10% tax rate on income from innovations was proposed. The Dutch tax system combines 30% tax break for top qualified foreign workers, wide tax treaty network and participation exemption.

The Monetary Sector

The Netherlands joined economic and monetary union on January 1st 1999. European Central Bank controls monetary policy and sets interest rates in euro zone. The Netherlands is a member of the euro zone. Inflation level between 2006 and 2008 has been relatively low, averaging 2% and is expected to stay low at about 1.5% in the coming years.

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Refinancing rate was raised by 25 basis points eight times to 4 % since December 2005. Due to recent financial turmoil intervention rates have risen very rapidly to 4.7 %. Since 2009 these rates remain unchanged and likely to continue to do so in 2010.

The External Sector

The Netherlands had strongly positive balance of payments in 2005 estimated at €31.5 billion, because more than two-thirds of GDP was derived from merchandise trade. Top leading export markets in 2007 were Germany with 28.2 % of the total export share, Belgium with 15.6%, the United Kingdom with 10.5 % and France with 9.8%. Germany topped the list as leading supplier to the Netherlands with 20.5 % share of imported goods. From these figures it becomes obvious, that Germany is the most important trading partner of the Netherlands.

According to EIU World Investment Prospects foreign investments increased particularly in 2007 on a worldwide basis. Inward foreign direct investments to the Netherlands have skyrocketed from US\$ 635 billion in 2007 to US\$ 796 billion in 2010. (see Appendix 4)

The Netherlands showed good results in co-operation with multinational companies from emerging industrial companies, like India, China and Korea.

The Labour Market

The Dutch labour market and welfare system is similar to the German model.

Policy making and industrial relations are key elements in dealing with most

issues. In recent years the labour market has become more flexible than in <https://assignbuster.com/international-business-environment-of-countries-hg-operates-economics-essay/>

Germany. Labour regulations are relatively strict in the Netherlands. The non-salary cost of employing a worker is high, and dismissing an employee is costly and unenviable process. The pension system is financed by pension funds, which invest pension contributions in shares and other assets. One unique characteristic of the Netherland's labour market is a large number among women, who work at part-time jobs. The 'one and a half earner model' has become very popular in Holland, in which man has a full-time job and a woman works part-time. The current labour market is in a structurally better position.

Social Risk Factors

Social Spectrum of Netherlands

Introduction to Social Structure of Netherlands

The Netherlands is a country where native population is nearly 81%. Dutch society is tolerant to the homosexuality but undergo Islamic conflict. This country also is well-known for the most comprehensive system of social security in the EU. It is also one of the world's most densely populated nations. As in many European countries, there is the tendency of growing 65s population that lead to greater demands on the welfare system.

Facts of social structure of Netherlands:

Population: 16, 715, 999

Age structure: 0-14 years: 17. 4%; 15-64 years: 67. 7%; 65 years and over: 14. 9%

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Median age: total: 40. 4 years; male: 39. 6 years female: 41. 2 years

Population growth rate: 0. 412%

Net migration rate: 2. 46 migrant(s)/1, 000 population

HIV/AIDS: people living with HIV/AIDS: 18, 000

HIV/AIDS: deaths: fewer than 200

Ethnic groups: Dutch 80. 7%, EU 5%, Indonesian 2. 4%, Turkish 2. 2%, Surinamese 2%, Moroccan 2%, Netherlands Antilles & Aruba 0. 8%, other 4. 8%

Religions: Roman Catholic 30%, Dutch Reformed 11%, Calvinist 6%, other Protestant 3%, Muslim 5. 8%, other 2. 2%, none 42% (2006)

Key Social Risks

Over the past decade there is trend of the politicization of childhood which links with certain risks. In many countries, these risks are known as the “new social risks” (services for the elderly and disabled; services for families with children; active labour market policies). One of the reasons for it results from income and service gaps in post-industrial labour markets. This is one social risk of insufficient income security. Besides there has also been an increase in the female employment rate and virtually all adults are now expected to be involved in employment. (see Appendix 7) In addition, changes of labour markets and transformations of family and demography create challenges of social care (especially child care) when young families

lack access to affordable and quality child care and yet all adults in the family must enter the labour force.

Demographic changes

Around 68% of its population is aged between 15 and 65. A short term risk Netherlands faces is the very low birth rate. Declining working population and low rate of migrant inflow are present these days. In the Netherlands, the legality of guest workers – that arrived in the 1960s to work temporary for Dutch industries but never left the country afterwards – leads the country's current migrant labour situation and conflicts what link with it. The social care sector has some difficulties in immigration sphere. Government officials maintain that there is no demand for migrant labour in the social care sector, and hence there is wide field of activity for low-skilled labour.

Religious restrictions

Nearly a half (42%) of Netherlands citizens are atheists but Muslims are the main problem for the country . There is no evidence which suggests strict religious regulations in this country. In general, religious restrictions risk hence remains very low but government should continue improve situation regarding Islamic groups.

Technical Risk Factors

Superior logistics and technology infrastructure

The Netherlands is located in the center of Europe and provides a strategic location to run international businesses with global market leaders.

Rotterdam is one of the world's largest seaports and Schiphol Airport is considered as one of the busiest hubs in Europe.

The Netherlands is ranked as one of the most wired countries in the world, because of dynamic communications, e-commerce boom and outsourcing; but although the quality of transport and high speed Internet, cable communications network is fantabulous, the railway and road density thousand citizens is relatively low. Total government spending on rail, harbor, road and airport infrastructure improvements is one of top priorities and this plan is estimated to cost a total of €37 billion.

Highly qualified workforce

The Netherlands labour market predominantly consists of highly educated and competent workers. Dutch prof