International business and industrial management in Kazakhstan and the world

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Introduction

As President Nursultan Nazarbayev noted in his message “New Decade – new economic growth – new opportunities of Kazakhstan” on 29 January 2010, the country’s priorities for the following years are accelerated diversification and increasing competitiveness of national economies, as well as further development of international relations [1]. In order to enter the list of top 50 most competitive countries of the world, Kazakhstan devised a course of actions that will allow the complete modernization and diversification of economy, departure from the raw material orientation and production of highly competitive products with high added value. However, successful achievement of this goal requires sufficient knowledge, technology and resources. Thus Kazakhstan pursues the multidimensional foreign policy striving to build strong stable relationships with not only all of its neighbors, but with the rest of the world, including United States and West countries [2]. In particular the government program “Road to Europe” is implemented to achieve the new level of strategic partnership with the European countries [3]. Among these countries Germany as one of the most competitive world economies is of greatest interest for Kazakhstan. According to the President of Kazakhstan, starting from 1991, relationship between Kazakhstan and Germany was based on a solid foundation of economic cooperation, active political dialogue, the unity of the positions of countries on major issues of global and regional policy [4]. Today the relationships continue to prosper. Thus we consider it relevant to study the question of international business relationship between Kazakhstan and Germany, overview its pattern and understand what makes them prospering and mutually advantageous and whether they will continue to develop in future.

Contemporary trends in the field of international business

“Globalization” has become one of the key trends of the modern society that dramatically influences and changes political, economic, social, technological relationships across the world. The world is getting closer in terms of cross border trade and investment, by distance, time zones, languages and by national differences in government regulation, culture and business systems and toward a world in which national economies are merging into one huge interdependent global economic system. Thus, “globalization refers to the broadening set of interdependent relationships among people from different parts of a world that happens to be divided into nations. The term sometimes refers to the integration of world economies through the reduction of barriers to the movement of trade, capital, technology and people” [5, p. 48].

Globalization has been driven mostly by the significant technological innovations, increasing global competition, expanding cross-national cooperation and liberalization of cross-border trade. The arguments concerning positive and negative aspects of globalization’s impact on different economies capture the largest share of society today. However despite the opinions of the most respected anti-globalists, A.T. Kerney/ Foreign Policy Globalization Index shows the evident strive toward increasing globalization of all countries.

More than not globalization has defined the way people conduct business today. With the increased interconnectedness among countries and further establishment of international economic organizations such as International Monetary Fund (IMF), the World Bank, and the World trade Organization (WTO) local businesses got the chance to expand their operations, become international players and exploit the opportunities the global market provide. Thus the shift has occurred toward increasing role of international business practices in the contemporary economy.

МЕМЛЕКЕТТІК БАСҚАРУ және ҚЫЗМЕТ государственное управление и государственная служба

"International business refers to business activities that involve the transfer of resources, goods, services, knowledge, skills, or information across national boundaries" [6, p. 9]. Although international business is unconditionally more complex than domestic business due to the differences in environmental dynamics and operational nature, most of the companies consider the benefits to significantly overweight the risks resulting from international operations.

Researches provide different explanations as to why do firms expand internationally. While Daniels et al. outline the expanding sales, acquisition of resources and minimization of risks [5, p. 60] as the main drivers for the engagement in international business, Shenkar provides the different categorization. He highlights the market, economic and strategic motives that enables companies to go international. According to the author market motives could be offensive or defensive. Offensive motive serves to exploit market opportunities through trade or investment, defensive one is to protect and hold a firm's market or competitive position in the face of threats from domestic rivalry or changes in government policies. If the firm go internationally to increase their return through higher revenues or lower costs company is motivated by economic factor. Lastly, Shenkar outlined the number of strategic motives, such as capitalizing on distinct resources or capabilities, being the first-mover in the target foreign market, vertical integration and even following the company's major customers [6, p. 11–12]. Even though the benefits of international business are very tempting, the failure to operate the business outside domestic market effectively and efficiently could easily turn them into significant drawbacks and losses.

Although, the participants of the international business include both individuals, companies, company clusters, government bodies and international institutions, the dominant role belongs to the companies that facilitate the process of globalization through the international transaction activities, such as international trade and international investment. "International trade occurs when a company exports goods or services to buyers (importers) in another country. International investment occurs when the company invests resources in business activities outside its home country" [6, p. 9]. These companies involved in those activities are called multinational enterprises (MNE), multinational corporations (MNC) or transnational corporations (TNC). All three definitions are synonymous, thus could be used interchangeably and defined by Daniels et al. as "a company that has a worldwide approach to markets and production or one with operations in more than one country" [5, p. 64].

The number of multinational enterprises has been increasing dramatically over the last years. Most of these companies are powerful giants such as Royal Dutch Shell, Exxon Mobil, Wal-Mart from the leading western countries that successfully execute their influence over different countries while disseminating their operations across the world. In this context, it becomes clear that today no country could avoid the increasing influence of globalization and international business and be seen as an "economic island" [7, p. 84]. All this being said, the first priority of each separate nation today is to find its own position on the international business arena, while trying to overcome the challenges and successfully undertake opportunities that are being posed by the trend of globalization.

International trade

International trade is vital to a nation and its businesses because it boosts economic growth by providing a market for its products and access to needed resources. Companies can expand their markets, seek growth opportunities in other nations, and make their production and distributions systems more efficient. Furthermore trading with other countries also allows the company to spread risk because different nations may be at different stages of the business cycle or in different phases of development.

Generally international trade is the transaction of goods and services across borders of different countries. These transactions are collectively called import and export. «Export – domestically produced goods and services sold in other countries. Import – foreign goods and services purchased by domestic customers» [7, p. 92].

Throughout the history, the world society has observed the significant growth in the international trade volume. According to the International trade statistics 2009 presented by WTO in 2008, China surpassed Germany to become the world's largest exporter of manufactured goods, although not so far of total merchandise exports [8]. Between 2000 and 2008, China's exports of manufactured goods grew at an annual average rate of 25.2 per cent, twice that of Germany. While EU exports outside the European Union still remain at the top of the list, the gap with China has been constantly narrowing (from 67 per cent in 2000 to 15 per cent in 2008). On the import side, the hierarchy of the three major importers of manufactures – the United States, Germany and China – has not changed.

The differences in currencies, national policies and resources, exchange and trade controls between different countries make the discipline of international trade much more complex than that of domestic trade. For that reason a number of theories have been developed by researchers that will help to understand the concept of international trade more fully. As Kindle Berger said, "international trade is treated as a distinct subject because of tradition, because of urgent and important problems presented by international economic questions in the real world because it follows different laws from domestic trade and because it studies, illuminates and enriches our understanding of economics as a whole" [9, p. 232].

International trade theories are designed in order to help managers and government policymakers focus on these questions:

– What product should the country export and import?

– How much should the country trade?

– With whom should the country trade?

Tariffs and administrative barriers

Kazakhstan's 2008 average applied agricultural tariff rate was 12.5 percent and the average applied industrial tariff rate was 7.1 percent [10]. In 2006, Kazakhstan, Russia, and Belarus announced the formation of a trilateral customs union. The customs union remains under development and aims to bring about coordinated customs procedures and a high degree of uniformity in its members' external tariffs. The level of tariffs will determine whether they will support or hinder international trade between Kazakhstan and Germany. Meanwhile, the Law on Investments, enacted in January 2003, provides customs duty exemptions for imported equipment and spare parts, but only if Kazakhstan-produced stocks are unavailable or not up to international standards.

Administrative barriers in Kazakhstan are considered to be the major problem for international partners. Germany's exporters have consistently identified the requirement to obtain a «transaction passport» (providing information on, inter alia, the importer, contract details, local bank of importer/exporter, and a foreign partner) to clear goods through customs as a significant barrier to trade. The transaction passports are designed to stem capital outflows and money laundering by requiring importers to show documents that verify the pricing of import/export transactions. In July 2006, the National Bank of Kazakhstan (NBK) enacted new regulations that simplified – but retained – the transaction passport requirement. Principal changes included eliminating the trade distorting maximum financing term of 180 days for imported goods and transferring the authority to issue transaction passports from customs to the NBK and commercial banks. According to Kazakhstani regulations, the transaction passports contain concise information on trade partners and include a unique transaction code; specific payment information such as currency, means, and deadlines for payment; and complete contact information for contracting parties.

Although Kazakhstani officials are diligently addressing the problematic structure of Kazakhstan' customs control agencies, customs administration and procedural implementation remain a principal barrier to trade. Since August 2008, the Kazakhstani Customs Control Committee has been participating in a parliamentary working group, convened at the direct request of the Prime Minister, to develop a new Customs Code. Kazakhstan has also implemented amendments to the existing Customs Code that aims to bring Kazakhstan's legislation into compliance with WTO standards, and remove several identified barriers to trade [11]. First among these is an amendment to consolidate and streamline the functions of five separate entities that currently participate in border and customs control activities (i.e., Ministries of Transport and Communication, Health, and Agriculture; Customs; and Border Guard Service of the KNB.) An important objective is the consolidation of paperwork, thereby shortening the period of time for some imported goods to receive required licenses from 60 days to 10 days, and the creation of a single Operational Management Center designed to monitor internal cargo shipments. The second amendment is designed specifically to meet standards required for WTO accession and includes declaration rights for foreign citizens (bypassing the current legal requirement for the participation of domestic brokers), ex officio rights for customs agents, and standardized guidelines for the valuation of goods.

Trade barriers in services

Telecommunications. According to Kazakhstan's Laws on Telecommunications, foreign investors can have no more than 49 percent ownership in joint ventures operating inter-city and international telecommunication networks until 2008. Additionally, foreign investors need to gain permission from the Kazakhstani government to get involved in projects such as operating television and wireless broadcasting, planning and designing, construction of national and international trunk lines for communications, providing technical maintenance of telecommunication networks and lines as well as production and services of other projects in the telecommunication sector. The Kazakhstani government is entitled to refuse a foreign investor's application for such a license based on national security concerns. This arbitrary practice increases the difficulty of foreign investment in the telecommunications sector in Kazakhstan.

Construction. According to the Law on Architecture and Town Planning and Construction Activity of Kazakhstan, foreign investors can enter the construction sector in Kazakhstan in the form of joint ventures, with foreign ownership of no more than 49 percent /59/. However, if a foreign-funded local company with 100 percent foreign equity joins a construction joint venture as a principal, then foreign ownership can exceed 49 percent. In general, Kazakhstan's restriction on foreign ownership makes it difficult for foreign investment to enter the construction sector in Kazakhstan.

Banking. Kazakhstan still has restrictive regulations on the access of foreign-funded banks. In general, foreign banks' total capital share should be no more than 25 percent of the total capital of all banks in Kazakhstan. Additionally, Kazakhstan requires that at least one member of the regulatory commission of any foreign bank should be Kazakhstani citizen with a minimum of 3 years of banking experience, and that at least 70 percent of the employees should be Kazakhstani citizens.

Insurance. Kazakhstan requires that the total capital share of non-life insurance joint ventures in Kazakhstan should be no more than 25 percent of the total capital of the domestic non-life insurance market, and that the total capital share of life insurance joint ventures be no more than 50 percent of the total capital of the domestic life insurance market. This regulation practically forbids foreign latecomers from entering the Kazakhstani insurance sector.

Other barriers

There are other structural barriers to investment in Kazakhstan, including a weak system of business law, a lack of an effective judicial system for breach of contract resolution and an unwieldy government bureaucracy. Many companies serving the Kazakhstani market report significant logistical difficulties.

In addition, there is a burdensome tax monitoring system for all companies operating in Kazakhstan. Many companies report the need to maintain excessively large staffs in Kazakhstan to deal with the cumbersome tax system and frequent inspections. The actions of tax and various regulatory authorities, as well as actions to enforce environmental regulations, can be unpredictable. The government has, on occasion, initiated criminal cases against local employees of foreign firms. Kazakhstani authorities often require, as part of a foreign firm's contract with the government, that the firm contribute to social programs for local communities.

Widespread corruption at all levels of government is also seen as a significant barrier to trade and investment in Kazakhstan. According to the Corruption Perceptions Index (CPI) Kazakhstan ranks 120 among 180 countries [12]. Corruption reportedly affects nearly all aspects of doing business in Kazakhstan, including customs clearance, registration, employment of locals and foreigners, payment of taxes, and the judicial system.

Conclusion

Summarizing the analysis, we could conclude that international trade between Kazakhstan is hindered by both tariff and non-tariff trade barriers. These include tariffs, export controls, government procurement, administrative and technical barriers and corruption.

Under the process of globalization, activities related to the transfer of resources, goods, services, knowledge, skills, and information across national boundaries, called international business, becomes the integral part of each separate economy. Each country engages in international business relationships due to either market, economic or strategic goals. International business happens either in form of international trade (export-import) or international investment.

The number of international trade theories, starting from the mercantilist doctrine, was devised in order to define the reasons behind the international trade between countries. Although none of them provide the complete and accurate explanation of international trade, they collectively provide invaluable insights into why international trade occurs.

For instance, the differences in factor endowments, contemplated by Heckscher-Ohlin theorem, are considered to be the most general explanation of trade in labor-intensive products. However, extending factor endowments to include the skills of human resources and technology, allows applying Heckscher-Ohlin theorem to current exports and imports between developed and developing countries.

The theorem is further elaborated through the number of complementary theories that explain the need for intra-industry trade, underline the importance of economies of scale and examines the productivity, consumer tastes and availability of certain products as bases for international trade. The pattern of trade in innovative products is captured by technological gap model and product life-cycle model.

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