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A Primer on Basic Concepts in International Economics: Measuring and Classifying Countries and Evaluating Strategies Employed By Companies Engaged In the Global Market

Richard J. Hunter Jr.*
Professor of Legal Studies, Seton Hall University, New Jersey

Hector R. Lozada
Associate Professor of Marketing, Seton Hall University, New Jersey

John H. Shannon
Professor of Legal Studies, Seton Hall University, New Jersey

Abstract

Gaining an understanding of the basics of international economics plays an important part in developing an effective strategy for successfully penetrating the international or globalized market. In deciding upon an effective strategy for market penetration, a company may be constrained by the policies, laws, or other administrative or regulatory procedures which are in force in the host country. Economic considerations related to income, strategies for market penetration, development indicators, and debt will determine the readiness of countries to accept foreign investment and are critical pieces of the analysis that must be undertaken. In addition, in order to successfully compete in a globalized world, a company must navigate these delicate issues relating to sovereignty that will impact on the decision-making process.In reaching the decision to move outside national borders, a company must exercise sound judgment regarding opportunities and risks associated with the economy of the host nation in order to guaranty the success of a proposed international operation.These measurements, classifications, strategies, and development criteria important in the context of international business are often looked upon as secondary to judging financial or accounting realities. Yet, by taking into account these core definitional concepts in developing an investment strategy, businesses will assure success on a wide variety of fronts.

Keywords: Globalization; Sovereignty; Measures of growth; Classifications; Debt; Development.
JEL CLASSIFICATION: F61, F62

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1. Introduction

Gaining an understanding of the basics of international economics plays an important part in developing an effective strategy for successfully penetrating the international or globalized market. In reaching the decision to move outside national borders, a company must exercise sound judgment regarding opportunities and risks associated with the economy of the host nation in order to guaranty the success of a proposed international operation. Economic considerations related to income, strategies for market penetration, development indicators, and debt will determine the readiness of countries to accept foreign investment and are critical pieces of the analysis that must be undertaken. This paper deals with the international economic aspects of decision-making in a globalized economic environment.

2. Globalization

It is certainly true that business transactions take place in an increasingly global economy. The term ***globalization*** reflects a core belief that the world is becoming more homogeneous and that distinctions between national markets are not only becoming less relevant, but for some products or services, distinctions based on traditional geopolitical concepts such as "sovereignty" (Nagan and Haddad, 2012) or "statehood" will actually disappear.

Kenichi Ohmae, the Japanese management *guru*, coined the phrase "borderless world" (Ohmae, 1999;2004) to describe the globalization phenomenon. Much of our understanding about globalization and its relationship to international business comes from the writings and research of Professor Ohmae.

According to Professor Ohmae, the process of globalization progresses in five steps:

1. Exporting, using the distribution system of a business found in the host country;
2. Exporting, setting up a distribution system in the host country;
3. Manufacturing and distributing products in the host country—but maintaining a company's ties with its "home" country, perhaps by acting as or identifying as a *subsidiary* corporation or entity of the *parent* company;

*Corresponding Author

4. Insiderization, becoming like any other manufacturing concern located in the host country—acquiring the identity of a national company or entity; and finally,
5. A fully globalized company—operating in many host countries simultaneously—where it may be difficult to ascertain the country to which a fully globalized company is attached.

According to *Forbes*, at the end of 2013, the United States was the most represented country on the list of the "top 1,000 international companies" with 551 companies. As might be expected, the banking industry dominates the list with 307 companies, followed by oil and gas companies with 126 listings.

In comparison with the 2013 List, the 2017 rankings (in **bold**), included:

Rank	Company	Country	Sales ($billion)	Profits ($billion)	Assets ($billion)	Market Value ($billion)
1 (1)	ICBC	China	134.8	37.8	2,813.5	237.3
2 (2)	China Construction Bank	China	113.1	30.6	2,241	202
3 (4)	JPMorgan Chase	US	108.2	21.3	2,359.1	191.4
4 (14)	General Electric	US	147.4	13.6	685.3	243.7
5 (13)	Exxon Mobil	US	420.7	44.9	333.8	400.4
6 (NR)	HSBC Holdings	UK	104.9	14.3	2,684.1	201.3
7 (20)	Royal Dutch Shell	Netherlands	467.2	26.6	360.3	213.1
8 (6)	Agricultural Bank of China	China	103	23	2,142.2	150.8
9 (3)	Berkshire Hathaway	US	162.5	14.8	427.5	252.8
9 (NR)	Petro China	China	308.9	18.3	347.8	261.2
11 (8)	Bank of China	China	98.1	22.1	2,033.8	131.7
12 (5)	Wells Fargo	US	91.2	18.9	1,423	201.3
13 (NR)	Chevron	US	222.6	26.2	233	232.5
14 (28)	Volkswagen Group	Germany	254	28.6	408.2	94.4
15 (9)	Apple	US	164.7	41.7	196.1	416.6
15 (17)	Wal-Mart Stores	US	469.2	17	203.1	242.5
17 (NR)	Gazprom	Russia	144	40.6	339.3	111.4
18 (NR)	BP	UK	370.9	11.6	301	130.4
19 (12)	Citigroup	US	90.7	7.5	1,864.7	143.6
20 (NR)	Petro bras	Brazil	144.1	11	331.6	120.7

(Forbes, 2017)

3. Forms of International Business

There are any number of strategies that have been employed by companies seeking to penetrate the international market. Choosing the "right" entry strategy is the first strategic decision that the corporation will have to make. Among the most popular examples which impact the strategic choices of companies are the following:

An **international company** is a business that engages directly or indirectly in *any form* of international business activity such as exporting, importing, or production. Many American companies would be classified as international companies today under this broad definition. In fact, according to the International Trade Commission (Department of Commerce) (2015), "More than 304,000 U.S. companies exported goods in 2013, down slightly from 2012 but up 10 percent since 2009. Nearly 98 percent (297,343) of these companies were small- or medium-sized with fewer than 500 employees."

A **multinational company** (MNC) is a business that has *direct investments* (in the form of marketing/sales or more usually, manufacturing subsidiaries) abroad in one or several nations, called host countries, in a process termed

Foreign Direct Investment or FDI. Blomstrom and Kokko (2016) note that "foreign direct investment may promote economic development by helping to improve productivity growth and exports in the multinationals' host countries." FDI is generally calculated at the 10% level of investment in any particular company (Piana, 2005).

A **joint venture** is a separate company that is created and *jointly owned by two ore more independent entities* (joint venture partners) in order to achieve a common business objective. Joint ventures are popular because they reduce risk, involve opportunities to penetrate markets that would not be possible without significant local ownership or access (often, in *emerging markets*, the joint venture partner will be the government, thus potentially significantly reducing political risk), and help gain access to the partner's distribution or marketing network.

For example, the Chinese market was originally penetrated through joint venture activities, with the Chinese government itself as the joint venture partner (Chang, 1983; Nippa *et al.*, 2007). *International franchising* is often considered as a sub-set of joint venture activities and is a direct form of business penetration into the economy of a host country (Harrigan, 1988; Lozada *et al.*, 2005).

A **strategic alliance** (generally, (Lei and Slocum, 1991; Sharon and Zandberg, 2017) occurs where two or more entities *cooperate* but do not form a separate entity or company to achieve the strategic goals of each. A strategic alliance is normally a less formal arrangement than a joint venture and is organized for a limited or specific purpose.

According to Czaja (2017), "a common reason for entering into a strategic alliance is to obtain the advantage of another company's innovations without having to invest in new research and development." The author cites the successful strategic alliances of Starbuck with Barnes and Noble; United Airlines and Kraft foods; Apple's partnerships with Sony, Motorola, Phillips, and ATT; Hewlett Packard and Disney; and Eli Lilly's numerous alliances with companies in Belgium (Galapagos), Canada (BioMS), and Japan (Kyowa Hakko) where Lilly will have an *exclusive license* to develop and sell the products worldwide (with the exception of Japan, where the companies will share rights) (Czaja, 2017).

4. Forces Spurring Globalization

What has propelled the movement toward seeking international business opportunities? There are several forces that may be identified as those most responsible for the move towards globalization and which must be accounted for in the decision to penetrate a foreign market. Evaluating how these forces have impacted a potential host country will be especially important in evaluating the business environment of the host country. In general terms, the globalization phenomenon has resulted in:

- *Lowering of trade and investment barriers,* originally through a post-World War II trading regime called the GATT (Reitz, 1996), accomplished through various negotiations, termed *Trade Rounds,"* which as noted by Kennedy (1998), significantly opened international markets for "goods, services and capital."
- Development of Intellectual Property Rights (IPRs) through a comprehensive international treaty called *TRIPS* (Helfer, 2004; Hunter, 2006; Yu, 2016);
- The creation of the World Trade Organization (WTO) in 1995;
- The *development of information technology*, especially in e-commerce, finance, banking, and medical technology; and
- Innovation and improvements in *transportation and communications.*

A careful analysis of these and other trends or factors that may be in play in a host country would be necessary before a decision relating to investment may be made. Some of these factors may be reflected in the *"Ease of Doing Business"(World Bank, 2017)* that will be most helpful in navigating the suitability of a host country or a specific investment opportunity.

5. How Does Globalization Relate to Economic and Political Sovereignty?

Skeptics and opponents of globalization (Mondal, 2014) would argue that globalization interferes with the ability of a nation to make economic decisions in their own best economic and political interests. (Mondal, 2004) noted that globalization skeptics have argued that globalization represents a "threat to social cohesion due to an increase in individualism and competition. People become greedy and sometimes dishonest." On a macro level, many claim that globalization is an attack upon principles of sovereignty (Nagan and Haddad, 2012). In fact, although subject to severe criticism as an "archaic and inept juridical process" (Engle, 2008), national sovereignty has often been raised as a justification for actions in both the economic and political spheres that might be disincentives to attracting foreign investment. (See Appendix I for a delineation of the traditional aspects of sovereignty under international law).

In deciding upon an effective strategy for market penetration, a company may be constrained by the policies, laws, or other administrative or regulatory procedures which are in force in the host country. Yet, in order to successfully compete in a globalized world, a company must navigate these delicate issues relating to sovereignty that will impact on the decision-making process. For example, a host nation may have adopted a "currency blocking" mechanism (American Home Products Corporation v. United States, 1979) , or may insist on a variant of the "golden share" (Gaydarska, 2009; Van, 2010), or may engage in one or more activities that impinge on property ownership- for example, confiscation, nationalization, or expropriation (Hunter, 2007). Such policies would pose significant impediments to the potential success of an international business operation.

6. Measuring the Economic Performance of Nations: Measures of Growth and Development

There are various standard methods used by economists to evaluate the economic performance, status, growth, or well-being of a nation. These measures will be helpful in deciding whether a nation is a suitable location for investment; in determining the nature of any such investment (for example, "Greenfield" vs. "Brownfield") (Loayza *et al.*, 2016) and whether a host nation will be a suitable place to produce and perhaps consume the goods or services produced. The standard measurements include:

- **Gross National Product (GNP)**: GNP is the value of all goods and services produced by a country during a one-year period (both *domestic and international activities* are counted). [The World Bank and other international institutions have adopted the term **GNI**, **Gross National Income,** as a substitute for GNP.] Uncounted transactions may include unpaid household work; volunteer work; illegal activities (the so-called "underground or unofficial economy) (Kaufman and Kaliberda, 1996); unreported cash transactions; and barter transactions— also known by the term *counter trade* (Mirus and Yeung, 1986; Stole and Ellingsen, 1996).
- **Gross Domestic Product (GDP)**: GDP is the value of all goods and services produced by the *domestic economy* during a one-year period.
- **GNP/GNI per capita**: GNP (GNI) divided by population. For the 2017 Fiscal Year, World Bank member nations and all other economic populations of more than 30,000 (for a total of 218) were classified according to a formula developed into *High Income* ($12,476 or more- 79 nations), *Upper Middle Income* ($4,036 to 12,475- 56 nations), *Lower Middle Income* ($1,026 to 4,035- 52 nations), and *Low Income* ($1,025 and less- 31 nations).

Many international organizations such as the World Bank and International Monetary Fund base their activities, programs, lending, and the decision whether or not to fund specific developmental projects on the basis of the income level of applicant nations. In addition, *contributions* by member states to such organizations as the United Nations, the International Monetary Fund, or the World Bank are determined on the basis of national income. The successful completion of these funded projects (for example, highways, ports, airfields) would be important in deciding if there is sufficient infrastructure necessary to effect development or expansion plans.

- **Purchasing Power Parity (PPP)**: PPP measures the value of goods and services that can be purchased with one unit of a country's currency. PPP measures the *relative ability* of two countries' currencies (for example, the U.S. dollar and the Chinese Yuan) to buy the same "basket" of goods in these same two countries and is often utilized to evaluate the long-term foreign exhange rate in development countries" (Basso *et al.*, 2017). It may be argued that PPP may be a more accurate method of analyzing whether there is sufficient "buying power" in a country to purchase the goods or services of an investor if a business intends to engage in the sale of any of its products or services, in addition to their manufacture or sourcing (Alba and Donghyun, 2003).

A more technical definition of PPP is as follows:

"A method of measuring the relative purchasing power of different countries' currencies over the same types of goods and services. Because goods and services may cost more in one country than in another, PPP allows us to make more accurate comparisons of standards of living across countries. PPP estimates use price comparisons of comparable items but since not all items can be matched exactly across countries and time, the estimates are not always "robust"" (Yale, 2017).

As an adjunct to PPP analysis, in 1986, the *Economist* magazine conceived of quite novel way of measurement—the "*Big Mac Index*"—which is based on evaluating and comparing the cost of a single product, the "Big Mac" (considered to be a world-wide, standard product) in the local currency. Although subject to severe criticism by Haidar (2011) as a "misleading measure of currency valuation for economies whose markets are structurally different from the benchmark currency countries," the Big Mac Index attempts to measure the value of a country's currency in terms of being *over or undervalued* against the U.S. dollar. The Index relates to a more practical decision whether or not to invest in a country based on income levels in terms of its citizens' ability to purchase goods. As noted by Clements *et al.* (2010), despite certain biases, "While not perfect, at a cost of less than $10 per year, the index seems to provide good value for money."

The Index may also serve as an indication of the cost of living in a potential host nation (Chen, 2003), which may be a significant factor in deciding if a company will be able to employ its "national" employees in conducting a foreign business operation in a host country (Hunter and Lozada, 2015).

- **The Human Development Index (HDI)** is a comparative measure of life_expectancy, literacy, education, and standard of living for countries worldwide. It is a standard means of measuring overall well-being, especially child welfare (Ravallion, 2010). The HDI measures the extent to which an individual government has been able to satisfy its citizen's needs and the extent to which these needs are addressed adequately across the entire population.

The HDI has been used to indicate whether a country is classified as developed, developing, or undeveloped and also to measure the impact of economic policies on quality of life (ul Haq, 1995). The index was developed in 1990 by Pakistani economist Mahbub ul Haq and has been used since 1993 by the United Nations Development Program in its annual Human Development Report.

The HDI measures the average achievements in a country in three basic dimensions of human development that would certainly impact the international business environment:

- A long and healthy life, as measured by life expectancy at birth;
- Knowledge, as measured by the adult literacy rate (with two-thirds weight) and the combined primary, secondary, and tertiary gross enrollment ration (weighted at one-third);
- A decent standard of living, as measured by the log of GDP per capita and PPP in U.S. dollars.

Similar to the Big Mac Index, the Human Development Index may provide a valuable source point for employees who are concerned with issues relating to their "quality of life," especially where a company practices "ethnocentric staffing" (Brock *et al.*, 2008; Hunter and Lozada, 2015), "filling key positions with parent country transferees" (Banai, 1992). However, as Banai (1992) noted, as early as the early 1990's, "there has been a tendency among American MNCs to assign more host country nationals (HCNs) to key positions in their subsidiaries and affiliates in foreign countries," perhaps minimizing the impact of the HDI on many international businesses.

6.1. Indebtedness

The amount of foreign indebtedness (sovereign debt) may impact on its ability to serve as a partner with a potential investor. The existence of high levels of debt may negatively impact on the ability to allocate sufficient revenues to support needed domestic infrastructure improvements without "crowding out" of required critical domestic spending. The *World Bank* classifies member countries (208) and all other economies with populations of more than 30,000 according to indebtedness, using the value of debt service to GNP or the present value of debt service to exports.

According to this classification in 2016 (International Monetary Fund, 2017b), there were *severely indebted* (39 nations), *moderately indebted* (43 nations), and *less indebted* (60 nations). 62 nations had not been classified according to this index. Severely indebted countries are also known by the acronym *HIPCS, or Heavily Indebted Poor Countries*, and are the object of many efforts to relieve or restructure debt both on a national (Wozny, 2017) and international level.

The Irish singer Bono and the late John Paul II, supported by U.S. President George W. Bush, were especially active in efforts to reduce the indebtedness of the HIPCs through either debt reduction, debt rescheduling, or outright debt forgiveness (Hunter, 2006).

Despite the criticism raised by Kanbur *et al.* (1996) that "upfront debt reduction can create moral hazard problems and may weaken the incentives for maintaining sound policy," the HIPC program was initiated by the International Monetary Fund and the World Bank in 1996, following extensive lobbying by non-governmental organizations (NGOs) and other bodies. The HIPC program has provided significant debt relief and low-interest loans to cancel or reduce external debt repayments to sustainable levels. To be considered for the initiative, countries must face an unsustainable debt burden which cannot be managed by traditional financial means. Debt relief is conditional on debtor nation meeting a range of economic management and performance targets.

The "*List of Countries That Have Qualified for, are Eligible or Potentially Eligible and May Wish to Receive HIPC Initiative Assistance (as of October 2017)*" (International Monetary Fund, 2017a) include:

Post-Completion-Point Countries (36)		
Afghanistan	Ethiopia	Mauritania
Benin	The Gambia	Mozambique
Bolivia	Ghana	Nicaragua
Burkina Faso	Guinea	Niger
Burundi	Guinea-Bissau	Rwanda
Cameroon	Guyana	São Tomé & Príncipe
Central African Republic	Haiti	Senegal
Chad	Honduras	Sierra Leone
Comoros	Liberia	Tanzania
Republic of Congo	Madagascar	Togo
Democratic Republic of Congo	Malawi	Uganda
Côte d'Ivoire	Mali	Zambia
Pre-Decision-Point Countries (3)		
Eritrea	Somalia	Sudan

There are many other measures of growth and development that have a direct impact on the business environment. These include the *Human Poverty Index* (HPI), the *Gender Related Development Index* (GDI) (which captures inequalities between men and women), and the *Gender Empowerment Measure* (GEM) (measuring whether women can take part fully in economic and political life in a nation) (Ferretti and Mariani, 2017). In 2000, the United Nations also adopted a series of core objectives in the fight to eradicate extreme poverty in a program termed the "*Millennium Development Goals*" which include:

1. Eradicating extreme poverty and hunger;
2. Achieving universal primary education;
3. Reducing child mortality;
4. Improving in maternal health;
5. Combating HIV/AIDS, malaria, and other diseases;
6. Ensuring environmental sustainability (Hunter *et al.*, 2009; Thomas, 2002); and
7. Developing a global partnership for development (Darrow, 2012).

Along with the HDI, the Millennium Development Goals (Devarajan *et al.*, 2002) seek to draw a sharp focus on issues that investors may find critical in deciding whether a host country will provide a suitable environment for their

employees or expatriates (Brock *et al.*, 2008); will support adequate infrastructure services (Leipziger *et al.*, 2003); or will provide an acceptable level of protection for the nationals of the host country, taking into account the unique cultural, political, and social aspects present in the host country.

7. Classifying Countries

Understanding the economic classification of a nation will often be helpful in determining whether a country should be targeted for investment. For example, placing a manufacturing operation in a highly developed country may be problematic in terms of the cost of labor. But, as China has shown, exploitation of low labor costs may provide a nation with a nearly insurmountable comparative advantage—at least in the short run (Maddison, 2009).

The most traditional classification of countries (Bhala, 2008) in terms of *their economic development* is as follows:

Developed Countries: *Developed countries* are those that are highly industrialized and highly efficient; possess the latest technological advances in their manufacturing sector; and whose people enjoy a high quality of life, measured in education and health care. The United Nations notes that most developed countries support aid programs for poorer nations. This category generally includes the following: Australia, Canada, New Zealand, the United States, all "Western European" nations (sometimes called the "*Euroland*" region or the European Union (EU), many of which have adopted the *Euro* as their national unit of currency). Thirty-five of these "developed nations" belong to the OECD—the *Organization for Economic Cooperation and Development (OECD org, 2017)*.

Newly Industrialized Countries (NICs): *NICs* are located primarily in Asia (the Asian "tigers"—Hong Kong, South Korea, Singapore and Taiwan) and also comprise most nations in Latin America. NICs have recently increased their *national industrial production* and their *exports derived from industrial operations and manufacturing* and are the frequent objects of foreign direct investment. The category of NICs also includes South Africa, Brazil, China, India, Malaysia, Mexico, Thailand, Argentina, Chile, Indonesia, and the Philippines. More recently, the NICs also include the Czech Republic, Hungary, Poland, Slovenia, Russia. and Slovakia (*so-called "transition economies*"), as well as Turkey and Vietnam. In some publications (for example, *The Economist*), the last group of nations is termed as "*emerging markets*"—nations right on the cusp of full industrialization (Li *et al.*, 2017). Of this group, Russia is perhaps the most difficult to classify.

Developing Countries: *Developing countries* are characterized by poor infrastructure and produce the lowest incomes (Singh and Jun, 1995). They are often referred to as "less developed countries" or LDCs. [Unfortunately, in the 1950s-1970s, these nations were frequently derisively called "*third world*" nations.] LDCs include most of the countries of Africa, the Middle East, many of the states of the former Soviet Union, and several nations in Asia.

Developing nations frequency exhibit pone or more of the following characteristics:

1. Large agrarian population;
2. Densely populated cities;
3. Plentiful supply of unskilled labor;
4. Lack of core regard for environmental concerns;
5. Existence of organized crime;
6. Inadequate sanitation and water systems;
7. Overpopulation;
8. Hyperinflation;
9. Currency repatriation difficulties;
10. Lack of foreign exchange and foreign investment;
11. Threats of nationalization and expropriation to property;
12. Inconsistency and non-enforcement of tax policies (Ring, 2016); and
13. Official corruption and cronyism.

Some of these attributes are decidedly negative and may serve as "a bridge too far" for foreign investors. Others, for example, the existence of a supply of unskilled labor, may be seen as positive if funding of training programs for workers is an element of the business plan of an investor or is an ongoing program supported by a host country. Developing countries often will provide fertile soil for investment because while the risks and negatives may be high, the rewards of a successful operation will be high as well (Markovskaya and Anoshkina, 2016; Singh and Jun, 1995). In terms of attractiveness to foreign direct investment, these characteristics must be evaluated in relation to perceived successful operations. Studies of successful FDI operations—most especially those that occurred after 1989—indicate that the following characteristics were present: few restrictions on FDI were imposed in terms of targeted investments; "national treatment" was offered to FDI, regardless of the country of origin; and a sound "company law," commercial code, and tax code were created conducive to foreign investment (Hunter *et al.*, 2003; Kolodko and Nuti, 1997).

Transition Economies: *Transition economies* are those which have decided to essentially change their basic form of economic organization from the "central planning" or monocentric model to another form. In terms of the major transition economies created by the collapse of communism following 1989 (Hunter *et al.*, 2009), more than a quarter century has passed within which we may judge the economic performance of transition economies (Havrylyshyn, 2016; Markovskaya and Anoshkina, 2016; Popov, 2007). In sum, transition economies undertook the following activities that had a direct impact on the business environment (Hunter and Ryan, 1998):

- *Macroeconomic stabilization* to reduce budget deficits and create and expand credit;

- *Liberalization of economic activity* to reflect non-state interventions into supply and demand in order to reduce the influence of the *command-and-control economy*, and the elimination of most state subsidies that were not based on sound business—but rather political—considerations.;
- *Legalization of private enterprises and the creation of individual property rights;*
- *Multi-tract privatization* of state-owned enterprises (SOEs) (Estrin *et al.*, 2009; Nurgozhayeva, 2017);
- *Removal of trade and investment barriers;*
- *Creation of fully convertible currencies* (abolishing the "black market" economy and curtailing the unofficial "*dollarization*" of the economy);
- *Development of an adequate social welfare system* ("social safety net") (Milanovic, 1995; Mitra and Yemtsov, 2006) in order to ease the negative aspects of the transition process (including reforms in the pension system, funding worker training programs and unemployment insurance, and undertaking reforms in education and the medical/health care systems); and, in many cases,
- Gaining the assistance of the World Bank, the IMF, and the London and Paris Clubs in debt reduction initiatives (Von and Goldman, 2013).

Transition economies all struggled to answer a fundamental question: "*How to create capitalism in a nation where there is neither capital nor capitalists?*"(Hunter and Ryan, 1998) and faced many unique challenges including a lack of management and entrepreneurial expertise and experience; a shortage of capital; cultural differences which create problems for companies engaged in "market penetration" strategies, especially in international franchising; environmental degradation prevalent in the former system; and, perhaps most importantly, a lack of hope for "brightening prospects" which had taken the form of a massive "brain drain" of significant portions of its citizens (Beine *et al.*, 2001).

There were two general strategies employed in the transition process. As noted by Simon (2004), after Russia abandoned its initial policy of "shock therapy and forced pace privatization of state-owned enterprises [which] caused high political and social costs to Russia's fragile democracy," Russia adopted the "gradualist or gradual approach" (the *Gaidar Plan)*—which was based on a philosophy of "glasnost" (opening) and "perestroika" (restructuring) initiated by President Gorbachev. China adopted a similar strategy in the 1980s and 1990s as it has moved to the creation of a "Socialist-Market Economy" (Goncalvas, 2006) or a "Socialist Economy with Chinese Characteristics" (China Daily, 2017; White, 2017). A second strategy involved what is known as the "big bang" or "shock therapy" as practiced in Poland under Minister of Finance Balcerowicz (1995), and conducted under the guidance of U.S. economist Sachs (1993). In some cases, countries have employed a mixed or intermediary strategy in pursuing economic transition.

The choice of economic strategies relating to transition economies has also involved a decision relating to which of the two systems—the *political system or the economic system*—would be the focus of transition efforts first. Many nations, including South Korea, Mexico, China, and initially the Soviet Union, decided to change their economic systems first and *only then* open up their internal political processes to some form of democracy. China has been very successful in implementing economic reform, but much less willing to change (democratize) its political system, which is still under the tight control of the Chinese Communist Party.

An understanding of the nature of economic and political choices and strategies undertaken in a host nation would be critical in evaluating the potential success of any decision-making process.

8. Concluding Comments

Why are these measurements, classifications, strategies, and development criteria important in the context of international business? Understanding the basic elements of international economics is often looked upon as secondary to judging financial or accounting realities. Yet, by taking into account these core definitional concepts in developing an investment strategy, businesses will assure success on a wide variety of fronts.

Appendix I

There are severally generally accepted criteria of sovereignty. In order to be considered as a sovereign nation, a nation must exhibit:

- Independence of political and economic institutions;
- An effective governmental structure, generally employing one of the two major governmental models, one including *separate executive, legislative and judicial branches*, and a second, termed the *parliamentary system;*
- A defined physical territory;
- The capacity to enter into and conduct foreign relations;
- A population.

(Von Glahn, 1999).

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