The Academic
International Journal of Multidisciplinary Research

An Online Peer Reviewed / Refereed Journal
Volume 2 | Special Issue 2 | May 2024
ISSN: 2583-973X (Online)
Website: www.theacademic.in

Ethical Issues in International Trade

Annusha Raut

III Year B.Com, St. Francis De Sales College

Johnson Pereira

Assistant Professor, St Francis de Sales College, Electronic City

johnsonpereira@sfscollege.in

ARTICLE DETAILS

Research Paper

Keywords :
International trade, ethical issues, environmental regulations

ABSTRACT

The globalisation of business and commerce has opened a wide arena for the various of players to enter and flourish. This paper discusses and analyses various aspects of ethical issues in international trade. Many of the ethical issues and dilemmas in international trade are rooted in the fact that political systems, law, economic development, and culture vary significantly from nation to nation. Consequently, what is considered a normal practice in one nation may be considered unethical in other nation. The most common ethical issues involve employment practices, human rights, environmental regulations, corruption, and the moral obligation of Multinational Corporations. The importance of ethics has been rising steadily along with the growth of international trade. One of the biggest problems facing any international business code of ethics is that standards for employment practices are not constant between nations participating in international trade. It also takes an additional risk along with the opportunities. The main risks include foreign exchange risk and political risk. Constant flexibility is required to adapt to changing patterns at local, regional and international levels.

Introduction

Background of the Study:

Business ethics, connotes the **form of applied ethics**, which studies ethical principles, morals and problems that take place in the business environment. It is nothing but the **integration of day to day morals and ethical norms to business** and applies to all types of business. Business ethics is a branch of applied ethics that deals with the relationship of what is good and right in business. This definition can be extended to cover global business ethics. It requires that business decisions should not be made exclusively from the narrow, economical perspective, but also the global social, political, technological and ecological concerns should be taken into account. This means that people who work in the business life should consider how their economical decisions affect other people, environment or the society on the whole, not only in the home country but also the host country.In other words, it means that the interests of all the relevant parties, or "stakeholders" should be acknowledged and weighed. Having defined the term theoretically, it should be made clear that a uniform set of standards of business ethics, applicable to the global community as a whole, is yet to be defined. All PEST factors that commonly business activities and performance must be considered as code of ethics in the interests of promoting a high standard of business conduct.

WHAT IS ETHICS?

Morf (1999: 265) believes: “Ethics is the moral principle that individuals inject into their decision making process and that helps temper the last outcome to conform to the norms of their society”. Ethics is the significant issue in the business both on the firm level and wider phases. Ethics stands for a practice as well as reflection on that practice. On the practice, it can be described as the conscious appeal to norms and values, to which, on reasonable grounds, we hold ourselves obliged as, reciprocally, we hold others obliged to the same norms and values (as per Brian Harvey). Ethics are the rules we play by. They are the standards of behaviour generally accepted by the society. If everyone could agree on what constitutes ethics, there would be no need to address this question or discuss the differing views of just what constitutes ethical behaviour. Unfortunately, people cannot always agree on what is ethical and what is not.

“Ethics is the discipline dealings with what is good and bad, or right and wrong or with moral duty and obligation”. (R.Wayne Mondy). As a reflection, ethics is the methodical and systematic elaboration of the norms and values, we appeal to in our daily activities.

Ethics in International Trade:

International Business Ethics usually talks on the moral philosophy or about a form professional ethics or applied ethics that examines ethical principles or ethical problems that arise in a business environment. The importance of international business ethics has been rising steadily along with the growth of international business. Technologies like the internet have made international business all the more viable, and many companies can only find the desirable growth and profit they seek by expanding into new markets. The business operations in the 21st century is ubiquitous and sweepingly global. Therefore, this immense scope of operations requires a deep understanding of culture, moral values and ethics in different parts of the world and markets. Additionally, the cultural, moral and ethical values could be alike in different countries; but, the implementation of these issues might vary. Therefore, the best course to adjust indigenous ethical and cultural standards is to adopt a contingency inclination on the cultural, morale, historical and individual basis rather than a universal point of view in order to influence ethical conduct positively (Tsalikis, Seaton, 2007; Tsalikis et al., 2008; Helin, Sandström, 2008). Organizations with universal ethical standards present a better performance, enjoy a positive image before the society and this would accommodate to establish stronger relations with the possible stakeholders in the long run (Aydın, 2003: 19-20; Burnaz et al., 2009; Rodriguez-Dominguez et al., 2009; Lamberton, Minor, 1995: 328; Certo, Certo, 2006: 50-56; McDaniel, Gitman, 2008: 45-50). The company becomes interested in the international environment when it engages in operations (sales, services, finances and payments, investments) with other countries. It needs to pay close attention to the specific of the cross-border operations that come with illicit or illegal temptations. It also needs to keep the intercultural dimension in mind: the product, the service or exported activity will be inserted in a different society, with its own customs, behaviours, codes and values.

Impact of Ethics on Global Business:

Understanding business ethics matters in making decisions while administering a company both on the national and international basis since an ethical application may not accommodate the same practice in every market with respect to legal, political, cultural, human relations and many other regards. Even the applications in finance, management, accounting and economics may differ so much. Therefore, understanding the insights of ethics resulting from culture, moral values, education and legal instances are of great importance to be successful in the global competition arena by international businesses. (Choi et al., 2010; Chan et al. 2010; Bailey, Spicer, 2007).

As Rudyard Kipling puts "Oh, east is east, and west is west and never twain shall meet", the cultural, moral and ethical differences along with political, economic, social and technological difference between the countries will influence the international trade.

With billions of USDs as investments in international businesses, a global firm with unethical practices not only hurt the employees and executives but impact the shareholders and stakeholders. Codes of ethics are official form of corporate fundamentals and measures to manage relations in organization on morale basis. Codes of ethics demonstrate the actual and future organizational and inter-organizational values and obligations for employees. Ethical codes are clear documents of businesses aimed at constituting morale employee behavior and bring about change by making exact statements for expected behavior. Therefore, an international business adopting contemporary codes of ethics would constitute profession relationships rested on honesty and morale manners, comply with government laws and regulations, stimulate social responsibility and enhance managerial process and corporate culture. International businesses, by deploying such core issues within the corporation, would fortify the position of the firm before the public and accommodate transparency, thereby ensure a competitive status even in the face of domestic firms (Rodriguez-Dominguez et al., 2009; Stohl et al., 2009; Helin, Standström, 2008; Godos-Diez et al., 2011).

The areas of business impacted by global perceptions of ethical, moral, and socially responsible behaviour include the following:

- Ethics and management
- Ethics and corruption
- Corporate social responsibility
- Inter organisational dynamics

Environmental Regulations in International Trade:

The relationship between trade and environment is a complex and highly debated issue. Addressing this relationship is fundamental in order to achieve sustainable development. There is ever growing inter-face between trade and environment. The Commission Communication on Trade and Environment, adopted in 1996, underlined that a mutually supportive relationship between trade and environment can occur but is in no way automatic.

ETHICAL ISSUES:

Among the eternal business issues we can find the ones related to ethics and behaviour. Every time we make a decision or accomplish an action, we wonder if our conscience is clean, if we behave proper.

"We are in the throes of a giant ethical leap that is essentially embracing all of human kind." (Donahue, 1996, p.484)

In the international business arena, ***ethical problems*** also arise out mere international business transactions**. Fair trade movement, transfer pricing, bioprospecting and biopiracy are examples of transactions that fall within the ambit of international business ethics**. Similarly issues like child labour and cultural imperialism are controversial enough to call upon the attention of international business ethics.

In 1990's many businesses from the developing countries expanded their operations and became multinational. The transactions between businesses and the governments increased as a result, which gave rise to many practical issues. Culture and its relativity was one factor more prominent than the others. Other ethical issues in the context of international business are generally dealt with the laws of the land; although all of them fall within the ambit of international business ethics.

Globalisation diminished the barriers between countries on the globe and also called for universalization of values for trade to occur smoothly. Universal values were perceived to control the behaviour in the commercial space. This lead to ethical issues in the international business perspective, those that were unknown till date.

Other theoretical issues arise from the diversity of business ethical traditions in various countries across the globe. In addition, comparisons made on the basis of corruption rankings of a certain state or on the basis of gross domestic product of a certain economy also lead to ethical issues in the international arena.

The following is the list of few companies with their ethical issues:

- Nestle – irresponsible marketing of baby milk in developing countries.
- Coco Cola- long history of worker's rights violations at its bottling plants (Columbia)
- ASDA WalMart- monumentally failed to embed CSR into its operations and supply chains around the globe.
- CenturyLink- negative customer service and poor relation with its employees.
- Monsanto- producing harmful chemicals products, weed killer causing cancer in 100 of consumers.

- Comcast- forced to pay a $2.3million fine in 2016 over allegations that it charged customers for unauthorized services and equipment..

Objective of The Study

- To build up the attention for global (Cultural & Legal) issues and integrity of ethics
- To build up independent thinking and capability for representing information

Review of Literature

- Grossman and Krueger (1992); Lucas and others (1992); Antweiler and others (2001); and Eskeland and Harrison (2003) have made significant contributions on this issue. The role of international trade in determining the environmental damage has been addressed by specialists using input-output techniques Wright (1974;) Hann (2002); Hayami and Nakamura, (2002); Lange and Hassan (2002); and Wadeskog,(2002). Unfortunately very little work has been done in India. Recently, preliminary attempts have been made by Mukhopadhyay (2004), Mukhopadhyay and Chakraborty (2004), Dietzenbacher and Mukhopadhyay (2004) and Jha and Rabindran (2004).

- A number of researchers (see e.g. Bartlett, 1986, Ghoshal and Bartlett, 1990, Hedlund, 1986, Ghoshal and Nohria, 1989, Gupta and Govindarajan, 199 1, Nohria and Ghoshal, 1994, Prahalad and Doz, 1987, Rosenzweig and Nohria, 1994) have pointed to the fatt that units within multinational firms are not identical. According to Ghoshal and Nohria (1989, p. 323) the MNC is the quintessential case of the dispersed firm with different national subsidiaries often embedded in very heterogeneous environmental conditions (Robock, Simmons and Zwick, 1977). Thus, MNC units are located in different cultural milieus (Hofstede, 1980) and people with different nationalities, belonging to the same term. have to cape with each other. When people from different cultures work together, misunderstandings are likely to occur (Adler, 1986). Problems due to Gultural differentes are thus of special interest in such firms in which complexity, differentiation and variation in relations between the subsidiaries and HQ are characteristic features (Van Maanen and Laurent, 1993). As Hofstede (1983, p. 75) points out, cultural differences do matter, and cultural differences may become one of the most crucial problems especially for managements in multinational, multicultural firms

Research Methodology

Data Collection:

- Due to time constraint we were able to collect only the secondary data

Secondary Data:

- **S**econdary data is collected from various publications: websites, journal, research papers.

Findings

Descriptive analysis on issues faced by MNC's:

Cultural Issues:

Doing business across national boundaries requires more than just exporting a concept that is successful in the United States. Cultural differences can be challenging, leading to misunderstandings between employees and management as well as between the company and its customers and partners. By enhancing cross-cultural training and adapting to local needs, multinational companies can succeed in bridging cultures.

During the last decades, the search for cultural integration in business community, has become more and more homogeneous. Differences in culture is a main factor causing friction between parties in MNC's as ***cultural differences may lead to a communication gap.*** Although there are cultural differences between units belonging to the same firm (in case of MNC's), these differences need not necessarily be a handicap.

A number of researchers have found that Companies operating in international environment choose a model of their organizational culture and a degree of national culture's influence on strategies and decision rules of the firm.

Workplace Values:

One problem encountered by multinational companies is differences in workplace values. Geert Hofstede, a researcher and published author on workplace culture, has identified ***six*** ***dimensions of national culture that affect employee values.***

- The first of these is **power distance,** which deals with how society views inequalities among people. Some societies accept without question the concept of a hierarchy, while others demand justification for unequal power, Hofstede says. This means that executives of multinational companies need to ***adjust their leadership style based upon the power distance view of the host***

country's national culture, for example, by adopting a collegial style in countries that reject hierarchies.

- Another of Hofstede's dimensions is the ***degree to which a society believe***s that individuals are expected to ***care*** for ***themselves*** and their ***immediate families*** vs. those societies in which an extended family or group will care ***for all its members.***

- A third dimension is **competitiveness vs. cooperation.** Understanding these dimensions helps determine compensation structures; for example, if collectivism and cooperation are strong cultural attributes, companies will reward employees as a team based on team performance.

- Hofstede's other dimensions are the degree to which societies feel uncomfortable with **uncertainty,** how much priority is given to **tradition vs. education and innovation,** and whether societies are **restrained or indulgent** in meeting needs and wants. Companies that require workers to be creative and take risks to invent cutting-edge products might need to find a way to link innovation with the country's traditions to gain worker buy-in.

Communication Styles:

Multinational companies also are challenged by different communication styles that ***affect developing strong relationships*** with partners or clients.

For example, Western communication style is straightforward and direct, but people in India and China are more accustomed to a less aggressive approach. In these cultures, patience is required to build the relationship outside of the board room. Because of the need to build these connections, business deals might take five times longer to complete in China than in the United States, reports Business Insider.

Concept of Time:

A third challenge is that cultures tend to view time differently. Monochronic cultures, such as the United States and Germany, ***value punctuality and keeping to schedules,*** (reports Iowa State University's Center for Excellence in Learning and Teaching.) In **polychronic** cultures, such as the Middle East or Latin America, ***maintaining relationships and socializing*** is more important than the schedule.

Tips

Differences in concepts of time can pose challenges for multinational companies; one example is in how meetings are run. An American executive trying to stick to a strictly timed agenda **might be seen as brusque** in Peru.

Legal Issues:

Multinational companies (MNCs) are responsible to host countries for their actions there. If they have a presence in the U.S. -- as most multinationals do -- they are also responsible under U.S. law for their actions even if they were conducted abroad. Further complicating matters, ***MNCs are also subject to international law***. A clear policy of best practices and a corporate support structure are required for the sake of clarity and compliance.

Competing Laws:

MNCs have a responsibility to obey the laws of each host country, international laws and those of countries with a record of legal intervention in areas such as human rights. Fulfilling this responsibility can be tricky because laws in one country are often incompatible with those in another. That difficulty has increased as international non-governmental organizations (NGOs) have begun pursuing legal remedies in one country for alleged violations elsewhere.

Areas of Concern:

Some legal issues, such as *human rights and employment practices*, have been particularly troublesome. For example, U.S. financial company *JPMorgan Chase* was accused of corruption by the Department of Justice for hiring the sons and daughters of prominent Chinese government officials. The circumstances, as reported in The New York Times, suggested that company executives in China may have wandered into the problem naively, believing they were engaging in a common hiring practice in China. U.S. investigators then began probing similar practices by five more Wall Street firms doing business in China.

Problem Awareness:

A guidance paper from Pinsent Masons, a U.K. law firm with an extensive international practice, suggests that MNCs should address potential problem areas sooner rather than later. Legal departments can conduct preventive research to identify which areas may cause trouble, promote corporate awareness of those problems and suggest solutions before legal issues arise and the courts intervene.

Policy Information:

Best practices can also arise from an awareness of a company's culture and of what kinds of policies have worked in the past. They may also arise from position papers, in-service education programs or the wisdom of senior legal staff with experience abroad. Countries and NGOs can also help MNCs by informing them of best legal practice in specific countries from an international perspective. The International Law Office, for example, distributes its "Code of Best Practice for Corporate Governance" for Nigeria to global counsel.

CONCLUSION

Managing the ethical climate of an organization is not easy given the myriad influences, both internal and external, on the firm. Corporate ethics programs will not completely eliminate unethical conduct, nor will they resolve all of the perplexing conflicts of ethical values that arise in various social and economic arenas today. Nevertheless, managers' efforts to strengthen the ethical climate in their organizations will have real benefits for employees, for the performance of the firms, and for society at large. By legitimizing the discussion of ethical considerations in business, by standing up for ethical values despite short-term costs, by giving serious consideration to problems of conflicting values, managers and executives can contribute to strengthening their organizations and to building public trust in business.

REFERENCES

- HOFSTEDE, G. Culture´s consequences: Comparing Values, Behaviors, Institutions and Organizations Across Nations. 2nd ed., Thousand Oaks CA: Sage Publications, 2001. ISBN 0803973241.

- Hofstede, G., Hofstede G. J., Minkov, M. Cultures and Organizations: Software of the Mind: Intercultural Cooperation and Its Imporatence for Survival. 3rd ed., New York: McGrawHill, 2010. ISBN 0071439595

- SCHNEIDER, S.C., BARSOUX, J.-L. Managing Across Cultures. 2nd ed., New York: Financial Times Prentice Hall, 2003. ISBN 027364663X

- ADLER, N.J. A Typology of Management Studies Involving Culture. Journal of International Business Studies, vol. 14, pp. 29-47, 1983
- https://en.wikipedia.org/wiki/International_trade_law