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## THE FOREIGN TRADE ACTIVITY EFFECTIVE STRATEGY ENTERING INTO OVERSEAS MARKETS

*By this currently issued article the ways for foreign market intrude and promotion were analyzed as a main point. In focus, the mission and target of a separate management decision were considered. It was a chance for any separate enterprise to be involved into international trade activity. Within a way of decision making could be deeply concerned about foreign trade activity strategy at a beginning. For companies and individuals not fully acquainted with export operations (however familiar they are with business practices in general and domestic operations in particular), this article offers a basic introduction to the “tools of trade”: export terminology survey, equipment, procedures, administrative backup, and essential sources of information. Direct involvement in the overseas export or marketing process naturally requires a higher degree of commitment and attention. Three principal categories of market involvement are discussed in this article. The first, direct exporting selling, means setting up at least a limited export organization and establishing sales contacts with overseas agents and other interested parties. The second, indirect market entry, does not refer to the physical shipment of the product, but rather to the know how involved, as in the case of licensing and franchising. The third, corporate presence, means a corporate commitment and is not normally considered until substantial effort has first been expended on testing the market. The main reason for the present publication is new ways for successful foreign trade activity for all kinds of enterprises within its upgrading, first steps, either promotion their activity overseas. We could provide with up to date attitude to international trade development depended from the area or a location. In different countries attitude to a new comers in a local market is different. In the article be presented some organizational business structures which could be implemented within foreign trade expansion. All kind of proposed points can be a separate subject for discussion or practical implementation depended from the terms and conditions of the foreign market or special type of enterprise behaving within intruding into foreign market.*

**Keywords:** *strategy, export strategy, export strategy issue, foreign trade activity, export product, export destination, overseas trade, overseas activity, export decision, tools of international trade, direct export, direct export selling, representative agent, importer, overseas retailers, indirect market entry, licensing, franchising, contract manufacturing, joint venture, coventure, wholly owned subsidiaries and branches, alliances.*

**Statement of the problem.** Depending on human and financial resources, direct sales can accelerate your export sales volume in long run even though a well matched Export Management Company (EMC)/ Export Trading Company (ETC) may get faster initial results. An Export Management Company or EMC is an intermediary facilitating manufacturers export sales to foreign importers. To achieve its mission, an EMC operates as an export sales agent or exclusive distributor for non-competing manufacturers. Exporting through an EMC offers manufacturers competitive advantages over exporting in direct [1].

Such success, however, is very dependent on the attention level your firm can give to the project for an extended period of time. One of the most obvious advantages of selling directly and doing it yourself is that you begin to develop personal relationship overseas

from the beginning. Even if you decide to sell directly to certain overseas markets, you still have the option of using an export manager in other parts of the world and consultant to assist and help organize your timetable in the direct area. You have several options when considering direct sales channels a representative/agent; a distributor/importer; overseas retailers; central trade officers like China's; and general trading companies like Japan's. The terms representative or agent are used to describe a person or firm selling and taking orders without being directly responsible for the payment, no matter how great the responsibilities might otherwise be. A representative might handle one or several similar lines of merchandise and sell them by showing customers catalogues and samples that are prepared by the supplier or manufacturer. In most countries the representative will have the same role as in domestic business, and may well be carrying both

local lines and import lines. You will often find difference in the representative attitude on commissions if your goods or products is in competition with local sources. This has some merit because you will probably pay commissions based on FOB prices, but the retailer or end user has to add tariff, freight, and import costs to your FOB price, and therefore your FOB-based commission represents a substantially smaller percentage of the actual wholesale value.

A typical commission for a representative ranges from 3 percent to 15 percent or more, depending on the product and the size of typical order. This commission is usually included in the prices furnished to your representative and is payable to the representative at fixed intervals following shipment or payment. Because representatives do not buy for their own account, it is your responsibility to check the credit of the overseas firms and arrange payment terms with them after you have the order. The representative can be a great help in credit decision. However, you must always remember that the primary concern of salespeople the world over, is to make the sale. Depending on the product, size of average sale, representatives relationship to their customers, access to credit information, and the influence you allow them to have as to acceptable customers, some will agree to their commission on payment. A representative will definitely want a binding agreement from you as to territory, and term.

**Analysis of recent research and publishing.**

Providing analysis for recent research, publishing, and posts the points could be discussed as for legal advisors, term representative, and agent in favor or appointee. A distribution arrangement is excellent if your product and brand are well known, or are otherwise valuable enough for the importer to make this commitment and remain eager to fulfill it. Import distributors are sometimes known to take on lines that they then neglect, thinking that at least it keeps the product away from their competition. Distributors usually buy for their own account, sometimes maintaining inventories in the own warehouse but some only place orders against their customer's firm orders. The distributors must be investigated to be sure adequate facilities and personnel exist, especially if your product requires maintenance or spare parts. Exclusivity for a certain territory and certain period of time is normally a necessity. Sales to foreign stores are usually limited to consumer goods and may be sold at a lower price because no agent commission is involved. This can create competition for your own agent when you ultimately see the need for one. If possible, sell to the retailer at a price that will permit you to pay an agent in the future. While store owners want places the order for them, follows it up, and takes care of any claims. In the case of the few remaining controlled market economies, importing is sometimes governed by central trade or buying offices. Today, these are subject to the rapid changes taking place in such areas. Chief among these is China, by far the largest remaining controlled, or semi controlled economy. The other major fully controlled market economy as of early 1995–2020 is North Korea, but

thanks to the utter authoritarian domination of the country, the economy is small – one tenth the size of South Korea, are beginning to see it as a potential market. China's trade and buying offices, which are most often called Foreign Trade Corporation, tend to be divided into industry groups that may buy for the whole country or, increasingly, for smaller, regional, or provincial groups, as part of a reform agenda item in the name of less bureaucracy. Increasingly, factories and entrepreneurs within the capitalistic enterprise zones have been allowed to circumvent the oversight of the central offices, but even these zones remain subject to control through the banking system as a result of the necessity for approval of import letters of credit. In the case of central control, some of the Chinese trade organizations tend to do most of the negotiation and the final contracting, but an end user group, such as a factory unit, is likely to have trade office representatives involved as well. It often happens that time is spent negotiating with lower level officials only to find that the ministry involved is opposed. Sometimes the reverse is true, and the factory level turns out not to be interested, even though the assumption was that the sale was being accomplished at a much higher level. If at all possible, it is best to make sure everyone involved agrees and stays with the transaction and marketing effort headquarters out to the field or the reverse [2]. Japanese general trading companies, called "Sogo Shoshas" are indigenous to Japan and are force behind Japan's internal and external trade. There are major trading companies, including Mitsubishi, Marubeni, Mitsui, Fujiwara Chemical Co., and many smaller specialized trading (senmonshosha). Though seldom a channel for ongoing relationships, they are for single sales and can give newcomers some valuable experience in cracking the Japanese market and preparing for future dealing with Japan. Sales to Sogo Shoshas might almost be considered through domestic intermediaries if they were handled through one of their local offices. All nine major Japanese trading companies have offices in Europe and USA cities and around the world that you can visit. The problem is that, if it is interested the trading company will probably have to forward the sample to Japan to reach the specialist in charge. The trading companies also can be approached directly on one of your visits to Japan. They are definitely worth considering. With luck, you can have an excellent customer in Japan, but you risk wasting a great deal of your time while they are deciding. The Japan External Trade Organization (JETRO) can be very helpful to exporters who want to do their market research from their home base. JETRO has received a mandate in recent years to assist American and European exporters in view of Japan's shared concern about the trade deficit [3]. The major trading companies from the "four Tigers" of Southeast Asia, Korea, Taiwan, Singapore, and Hong Kong – also have offices in the Europe and USA, though to a lesser extent than do Japan's trading companies [4].

**Main investigated material issuing.** If direct export selling is impractical or undesirable, there are alternatives in the form of licensing, franchising, or contact

manufacturing. These alternatives enable you to profit from overseas markets without needing to get involved in direct export. These forms of market entry, however also require substantial diligence and attention even if somewhat less and personnel.

Licensing is considered an indirect entry because a version of your product is placed in the foreign market without your actually having to ship it there. Finding and working with a successful licensor, however, is not a passive exercise. On the contrary, it takes careful planning, supervision, and follow-through to produce a successful licensing program.

A license usually involves one or of the following:

- Technology and know-how;
- Design;
- Trademark, logo, name.

A license is a contract to provide all or part of the licensor's trademarks, patents, design, copyright, and know-how. This contract should clearly spell out what is being licensed and under what terms. The licensor receives compensation in the form of a royalty that may be fixed dollar sum, a percentage of sales results or, more often, a combination of the two. Under what circumstances licensing will be successful depends on factors such as the ease of obtaining accurate reports and enforcing future royalty payments. These, in turn, are governed by factors such as the future dependence of the licensee on continuing assistance, as in the case of a design license. Many of the big accounting or juridical firms have offices in various countries and can be called on to assist you by means of audits for enforcement purposes if your license agreement permits such examination.

A license commonly, calls for advance royalties against a percentage-based royalty. A typical agreement used for licensing apparel design and trademarks may be used. This agreement has been the basis for a fair understanding in many cases but can easily be drawn to be much more demanding. The general format may help you understand what is involved as you are giving the concept further consideration. Legal, and probably accounting, advice is important, and the assistance of an international trade consultant be considered. In the case of technology, the varieties are limitless, as are the complicating considerations. Therefore, an agreement must be customized to each situation. Licensing can be necessary as a means of entering some markets that otherwise could not be entered because of tariff and /or nontariff barriers. As with a domestic license, the success or failure of a foreign license depends to a large degree on the human equation and on the integrity of both parties entering into the agreement [5].

Before licensing negotiations are undertaken, the licensor should check on restriction or regulations that are imposed by the licensee's government, which often must approve a license agreement before it is valid. A majority of countries impose imputed income taxes on the licensor and require the withholding of income taxes from royalty payments before remittance to the licensor.

Some countries have limitation on the key components in the license agreement, especially as to the percentage of royalty. Others, including Japan and a number of countries in Latin America, have very specific rules as to what terms are acceptable in technology transfer agreements [6]. Have your attorney check whether this will come up in negotiations to make sure that the prospective licensee is starting a fact rather than using it as negotiating wedge.

Licensing should be regarded as an option that permits a company to enter a foreign market more quickly, but it usually does not produce the revenue that is potentially available from direct selling or successful overseas operations. On the other hand, licensing involves few financial risks if you have a well-drawn license. Many companies have found it very profitable.

One clear disadvantage is the possibility of losing control of your product and thereby creating a future competitor. Also, there is always the problem of getting you know-how back at the end of the license contract. A key element for keeping a license profitable and interesting to the licensee is the creation of new design and technology on a frequent basis. Be certain your agreement gives you adequate protection from the overseas licensee against having your own technology or design used to compete with you in territories where you are selling directly.

For all these reasons, it is important to negotiate a substantial disclosure fee to be paid up in front. Most international attorneys recommend that this fee be as much as 50 percent of the total consideration, because the licensor must part with its know-how or technology as the beginning of the agreement, and it is there for not equitable to permit all of the licensing income to depend on future royalties. Substantial advance payment ensures a vital interest on the part of the licensee.

A major plus from a well-drawn and harmonious license agreement is that many companies have found they can learn much from their licensees, including ways to improve the original product. There are many publishing on drafting and negotiating foreign licenses, franchises, and joint ventures. At least some can be found in any major sites and library.

Franchising, for instance, in the USA accounts for more than 35 percent of total U.S. retail sales, according to an article issued of Export Today [7]. This percentage was composed of more than 2500 franchisors operating over 542000 franchises with over 18500 new franchises opened in 2022. This rate of increase has slowed somewhat in recent years but is being replaced today by international expansion. The expansion is occurring in nearly every world region from Europe to Asia to Latin America. Franchisors have been very successful in Hungary, and China is hot. The U.S. Agency for International Development had a program to provide foreign investors in U.S. franchises loan guarantees to assist them in borrowing from local private lending sources.

Canada had been especially prosperous for franchisors because of its proximity. Japan, Europe, Australia, and the balance of Asia, respectively, follow Canada in franchise

development. In Asia, including Japan, it is reported that most franchisers hope to find a master license to handle all of the sublicensing, presumably to aid in overcoming the cultural and language barriers. In 2021 International Business reported that Brazil had become the third-ranking country, behind the United States and Japan, for goods sold through franchise outlets, with even faster growth expected during the remainder of the decade. There is also a great concentration of franchises in the United Kingdom, numbering more than 2500.

Contract manufacturing refers into a contract with a foreign manufacture to produce your product in a region to which you would otherwise have exported, and/or as a possible means of achieving an improved competitive stance in the U.S. domestic market at the same time. This indirect form of market entry can help you gain a market share through competitive prices, while maintaining full control of the product quality. It is an especially simple form of entry in those situation where the contractor is already manufacturing for your domestic market. A prime issue, however, might be how much know-how it is necessary to give the foreign firm to make contracting possible.

There are number of points concerning the disadvantages of a foreign contract manufacturing operation which are:

- Lack of direct quality control over the product line;
- Vulnerability to the risk of foreign work stoppage and access to products;
- The inherent risk in disclosing the company's valuable technology and know-how to a third party who may not protect it, or ultimately might itself use the technology to manufacture competing product.

In other situations, contract manufacturing can be the first step in setting subsidiary operations abroad, for while it is a method of indirect exporting, it does not address the crucial matter of establishing distribution and sales channels. This next step can be considered independently, which also brings into consideration the possibility of a subsidiary Foreign Sales Corporation (FSC), or as a joint or alliance with the contract manufacture selected on the contractor's marketing and distribution facilities, as is subsequently discussed in this publication [8].

Sometimes, the company interested in joint venture or subsidiaries was the exception and would have had legions of attorneys and specialists to advise it. While is still true to a degree, the increased level of involvement with a corporate presence on the part of many small companies is nothing short of astounding.

Joint venture and coventure are usually a partnership between local firm and a foreign counterpart in the host country, each with a common commercial objective.

Each partner in the venture makes a significant contribution to it in the form of varying proportion of money, technical skill, and local knowledge. There is not only expanding your knowledge and resources, but also spread the risk and establishing network through your foreign partner. Perhaps best of all, you may gain valuable insight into your new market and the tastes of its customers. There are other advantages to a corporate presence, such

as competitiveness, not only concerning your foreign competition, but also your domestic competition. There is also the possibility of using the host country's export enhancement or financing facilities, which you might find are sometimes more aggressive than their local equivalents.

Although normally subject to taxation in some way, various forms of income tax advantages or waivers are frequently offered by the host countries, together with other combinations of tax incentives covering tariffs, sales tax, and property tax. The greatest potential disadvantage in a joint venture is that, in many countries, the foreign partner cannot exceed a 49 percent interest in the venture. This appears to threaten your managerial control, but many companies have worked out arrangements whereby, even with that rule in effect, the strategic management control effectively continues to stay with the foreign partner. They claim that if the relationship is right, it need not be a major problem.

We recommend for the local companies always endeavor a significant management role in the joint venture company, even if it has only minority interest. This can be accomplishment by providing in the joint venture agreement and in the joint venture company's articles of incorporation for a qualified majority in specified major corporate decisions. Assume, that local company holds a 40% interest in the joint venture company and appoints two members of a five man. Board of Directors. Assume further that the joint venture agreement and articles of incorporation specify 66,2% of the shareholders or at least Board members must agree to 15 enumerated corporate action. Though a minority shareholders, your company effectively will retain a veto power or negative control over these enumerated company actions, such as borrowing money or making capital investments above a certain dollar limit, hiring staff, opening new branches, making bids, expanding sales into new territories. Your local company's interests will be fully protected.

Let's have a look to distinguishes between joint and coventures. In a joint venture, both parties make significant direct investment into the new venture. In a coventure the emphasis is on the partners cooperating in terms of production and marketing, using existing facilities or resources with less emphasis on new equity. The joint venture idea works very well for both small and midsize companies and often provides many operating advantages to enhance both profit and market share as well inside of the located business country and outside.

As with a joint venture, a subsidiary makes you "one of them", in terms of both benefits and regulations, including taxes. However, in the case of taxes, a distinction is sometimes made between branches and subsidiaries. Your subsidiary employees thoroughly understand the market for which they are constructing your product, and you will be accepted as part of the marketplace, just as in the case of joint venture. You will probably also enjoy similar access to the national export financing facilities as you would have under joint venture rules. Unlike the case of a joint venture, however, you company will enjoy sole control

of all decision concerning marketing and production. Its technologies, patents, trademarks, and know-how have maximum protection available under the host country's laws [9].

Concern to wholly owned subsidiaries, they located in countries offering labor saving, tax and capital incentives, and in some cases proximity to major markets. The following examples are illustrative: under a tax incentive program which continued for a long period in Ireland, all Irish manufacturing companies (foreign owned or otherwise) are subject to a flat 10 percent rate of tax. Under a previous incentive program, profits on the manufacture and export of products were totally exempt from Irish tax for a period of 15 years. Ireland further offers capital grants and financing incentives to investors. Because Ireland is within UE, the manufactured products have duty-free access to Western European market.

Singapore offers 5- to 10-years tax holidays for companies that are manufacturing approved "pioneer" products. The incentive program scheme is administered by the Economic Development Board, which, like the Irish Development Authority, is a flexible and highly responsible government body with offices in most of the major commercial cities in North America, Europe, and Asia. Mexico has had in place in various incarnations its "Maquiladora" program over the past 27 years. In Brazil, the Manaus Free Trade Zone had boasted 390 foreign companies with projected aggregate sales of 4,1 billion. However, options are available in the Caribbean. The Caribbean Basin Economic Recovery Act eliminates duties on all products entering the United States from many beneficiary countries in the Caribbean for a 12-year period. Fully-loaded labor rates estimated to be \$6/hour, versus U.S. rates of \$23-\$27 per hour. The government of Puerto Rico complements Section 936 by granting tax exemptions of up to 90 percent for income of approved enterprises for period of 10 to 25 years. Since Puerto Rico is within the U.S. customs zone, the company's Puerto Rican-made products further enjoy duty-free access to U.S. market [10].

There are disadvantages to being governed by the law and customs of the foreign host country. To determine the net advantages, you need competent legal and tax advice concerning the country under the country under consideration. A subsidiary may or may not enjoy favored treatment in terms of taxation, but unlike a branch, it will be taxed based on host country rules. No taxes would be due to the your local country until profits or dividends are repatriated. A corporate branch can be treated simply as an extension of the domestic operation. Exact details might vary and should be thoroughly reviewed by an accountant.

If the prime purpose of a subsidiary is to provide for warehousing and distribution, one cost-saving option, taken by some experienced companies. This vehicle can also assist by providing the logistics for internal market transportation from the warehouse.

As the European Union matures, fueling interest in a corporate presence there, and the trading blocks in Asia and Latin America develop, strategic alliances are more

and more being created, reported on, and studied. Some specialists describe alliances as a deliberately loose term used to acknowledge that, besides the formalized joint venture or subsidiary, there are alternative strategic alliances. Even though consummated by a written contract, an alliance does not "result in the creation of an independent business organization". Rather, it might represent a minority equity stake, distribution or trading agreement with features for mutual product development, cross-licensing or production, and technology sharing agreements. In other words, an alliance is much more than a simple buy-sell relationship involving mutuality that would include "tight operating linkage with cross-training, product development coordination, long term contracts based on quality-not just price and customer feedback mechanism". The result of the alliance is a mutual "vested interest in each other's growth" with strong high level management contact. Of course, this could also be achieved with a less entangling formal agreement.

When we say about good partner and a well-structured alliance we stipulate that first one has something unique and valuable to offer, shares your company's strategic objectives, can perform as promised, and provides market leadership. A well-structured alliance is one with clarity of purpose, shared operating style (or one that readily adaptable), similar financial goals, and good support from top management.

According the report made by International Business that alliances were of interest to almost 60 percent of the respondents, with the objective being to help them keep a competitive edge, but here and abroad. Many of the respondents represented small to midsize companies that saw alliance as a cost-conscious answer to alternative foreign investment approaches that require larger amounts of capital up front. In the same vein, today's rapid technological change rate sharply reduces the life cycle of so many products today that small and mid-sized companies don't have the luxury of slowly developing a foreign market anymore.

Also the regular Foreign Sales Corporations (FSC) need to be mentioned. FSC is a company incorporated offshore in a qualified foreign country or possession by an independent merchant or broker; by a grower, processor, extractor, or manufacturing patent or by shareholder consent must be made to become an FSC, and certain requirements of incorporation, management form, operations, and record keeping must be met. The most important of these requirements are as follows:

- Most incorporate and maintain an office in a possession of acceptable regions or in a foreign country that has an exchange of information agreement with the regions and is approved for the purpose by tax authority or other type similar organizations;
- Must have no more than 25 shareholders;
- Must not preferred stock (common stock only);
- Must maintain corporate books of account, including invoices or statements of accounts in the foreign country or possession. Duplicate copies of certain accounting and tax record must also be kept in the native country;

- Must maintain the same taxable year as that of the principle shareholder.

Foreign Management Requirements for “small FSC” must meet additional foreign presence tests in order to generate qualified income:

- All meetings of shareholders and directors must be held outside the native country;
- The principal bank account must be maintain in a qualified country or possession, though not necessary the same as that of incorporation, but rather where the office is located. It may be a minimal bank account in terms of balances carried;
- All dividends paid in cash, as well as officers and director’s salaries, must be disbursed from this principal foreign bank account.

In practice, many of the costs, which these rules could create, might be minimized or eliminated by means of proxies and the use of agents:

- Incorporate in qualifying jurisdiction;
- Maintain office in qualifying jurisdiction;
- No more than 25 shareholders;
- No preferred stock;
- Maintain books in foreign office;
- Maintain books in native country;
- Have one nonresident director;
- Make FSC election.

Foreign Management Requirements for FSC’s other than “small FSC’s”:

1. Shareholder and directors’ meetings held outside the local country.
2. Principal bank in qualifying jurisdiction.
3. Pay legal and accounting fees, directors’ and offices salaries and dividends out principal bank account.

Foreign presence for FSC’s other than ‘small FSCs’ also requires that certain economic activity on each transaction or group of transaction must be met, based on the following two test:

1. The sales activity test requires the FSC or its agents to participate outside the local country in at least one or more of these activities:

- Solicitation (other than advertising);
- Negotiation;
- Making the contact.

Communication with customers by the foreign office of the FSC in reference to the sale made will usually meet one or both tests for solicitation and negotiation. Many FSCs have their foreign offices send a standardized letter of solicitation to their regular customers. The test for making the contract can be easily met at minimal cost through standing instructions to accept offers or confirm acceptance by e-mail from outside the local country.

2. The foreign direct costs test requires that a certain portion of the direct costs actually incurred in connection with the sale in the following five activities are costs incurred by the FSC outside the local country:

- Advertising and sales promotion;
- Processing, orders and arranging delivery;
- Transportation (cost outside the local country);

- Billing and collection;
- Assumption of credit risk.

Besides the corporative and operational requirements of an FSC, certain restrictions apply to transaction to qualify for FSC benefits. Qualified transactions involve exportation for foreign use of export property meaning property manufactured, produced, grown, or extracted in the local country by an entity other than an FCS, with the exception of a few limited classes of property which do not qualify. No more than 50% of the export property’s fair market value may have been imported. A special election is avoidable when in the local country components are processed outside the local country and then imported for further its country manufacturing.

Such a qualified transaction might involve the sale, exchange, lease, or rental of export property, and commissions or revenues earned from the performance or service related to these activities. Engineering and architectural services related to foreign construction also qualify. The FSC might be involved in the transaction as a principal or a commission agent. All such qualified revenues are called foreign trading gross receipt (FTGR). If an FSC earns at least 50% of its gross income from exports as just described, it might also receive earning considered as FTGR from export management services (including such services as export market and prospect contacts) performed for unrelated FSCs and DISCs. Income earned by the FSC may be generated as a principle (buy/sell FSC) or as a commission agent (commission FSC). FSCs with a related supplier should use the commission structure. FSC with related supplier, or those functioning as a subsidiary of a trading company, must calculate their combined taxable income (CTI). CTI is the foreign sales or FTGR less related cost of goods and expenses incurred jointly by the FSC and its related supplier. In any case, the taxable income of both types of FSCs is determined by either:

- The arm’s-length method;
- One of the administrative pricing rules methods, consisting of the 23 percent of CTI method, or the 1.83 percent of sales method.

The arm’s-length method allows the FSC to earn an amount of income equal to the income that would have been earned by the FSC if it had conducted business with unrelated. It may therefore be closely scrutinized and challenged by the IRS. Usually, arm’s-length pricing does not allow the FSC to earn significant income from a related local country exporter (related supplier) unless the FSC is a fully operational sales company and actual costs are readily determinable.

Administrative pricing rules are used when the FSC is related to the to the supplier in an effort to determine the transfer costs, or costs of goods, of the sale, and, therefore, of the portion of export income the IRS agrees can be allocated to the FSC. Two administrative pricing rules methods include:

The 23% of income method. Under this method, 23% of the CTI of the FSC and related supplier will be considered the FSCs taxable income;

The 1.83% of sales method. Under this administrative method, the FSC is deemed to derive profit equal to 1.83% of the FTGR. However, the FSC's taxable income, calculated under this method, may not result in income more than twice the amount (46% of CTI) derived by using the 23% of income method. This rule is usually most advantageous for the low profit margin supplier.

If the taxable income of the FSC is determined under the arm's length method, 30% of the FSC income is exempt if the FSC is owned by corporate shareholders, and 32% is exempt if the FSC is otherwise owned. If taxable income is determined under the 1.83% of sales or 23% of CTI administrative methods, the exemption is 15/23 (approximately 65%) if the FSC is owned by corporate shareholders, and 16/23 (approximately 70%) if the FSC is owned by noncorporate shareholders.

When using administrative pricing rules, the remaining nonexempt income is taxed as any local corporate profit is taxed. If arm's-length pricing is used, the nonexempt portion is taxed as if earned by a foreign corporation, and thus may escape taxation entirely until it is distributed to shareholders.

The effect of the FSC tax exemption and the rules determining FSC income is to produce a tax savings of approximately 15 to 30 percent on the income related to the foreign sale of local goods for FSCs using the administrative pricing rules, and tax savings of approximately 30 percent or 32 percent of the profits earned by arm's-length FSC [12].

Because the FSC is presumably incorporated in a jurisdiction with little or no income tax levy, the FSC's income is a subject only to this diminished local income tax. Many of the countries have not conformed to the federal provisions and will subject the income of the FSC to full tax or allocate its income to its supplier. The local shareholder in an FSC gains a 100 percent FSC dividends received deduction whether the income was attributable to tax exempt or nontax exempt FSC income, and so is taxed only at the FSC level. Non corporate shareholders receive no such deduction of FSC distributions which is why an FSC is of much less interest to individuals or S corporations.

Summing up we need to make a point that whether an FSC is beneficial will depend on a comparison of the tax savings with the increased administrative cost associated with an FSC. Proper planning however, can greatly diminish the cost of establishing and operating an FSC and interested in a complete review of FSC management techniques, we suggest to take either as a rule or recommendation the American attitude for FSC Owner Manual [9].

As an alternative to the regular FSC, the small FSC is intended to permit the smaller exporter to gain FSC benefits while being exempt from the added cost and details of the foreign management or foreign economic process requirements. FSC tax benefits may apply to more than 5 million usd. in export sales, even though the firm's export sales may be higher. The exemption from these management and economic process requirements will save substantial

FSC related costs and detailed compliance, even though the initial incorporation and formation requirements still must be met. If the administrative pricing rules are used, the FSC, under contract with a related supplier, must meet the sales activity tests and foreign direct cost activities test, but in this case, those activities need not be performed outside of your local country. In other respects, the small FSC is treated the same as any other FSC in terms of requirements and taxation. Taxpayers can choose their most profitable sales to qualify for small FSC treatment.

Another alternative to a regular FSC of your own is a shared FSC, whereby exporters can take advantage of sharing the overhead costs of an FSC, thereby reducing any extra foreign costs and fixed overhead. Countries, regions, and cities are forming shared FSCs to help their business communities gain all possible incentives and advantages for export. Trade association, banks, shippers, and others can sponsor and promote shared FSCs.

While most exporters believe and FSC to be the better strategy, an interest Charge-Domestic International Sales Corporation (IC-DISC) is another alternative. The IC-DISC provides an opportunity for tax savings to smaller firms in lieu of forming an FSC or any other offshore corporation. The benefits, however, are limited to a tax deferral on a maximum of 10 million usd. of the firm's annual sales and involve tax deferral rather than partial exemption as in the case of FSC's. It closely resembles the former DISC and was primarily structured for smaller firms that had been DISC's under the old terms and conditions.

Before determining if an IC-DISC is best for you, consider the requirements for DISC eligibility. The most notable of those requirements is that 95 percent of the gross receipt must be qualified export assets, such as inventory, foreign receivables, and assets used to generate qualified export receipts. This is a major qualification for a firm that wants to conduct both import and export operations and would therefore be forced to have two corporations.

A key advantage of the IC-DISC is the favorable rate used for this interest charge, which is based on treasury bill rates, and is well below normal borrowing rates for small business. In effect, this rule permits borrowing from the treasury at very advantageous rates. The interest is paid at the time the tax would have been due. Under current law, interest paid by an individual shareholder may not be deductible. Therefore, to the extent that cash flow is a large factor, the IC-DISC may be useful, because the deferred tax less the interest charge from an IC-DISC – at least in the early years – will be roughly three times greater than the permanent tax saving of a small FSC. An exporter may not have an FSC and an IC-DISC at the same time. An IC-DISC that is owned proportionately by the shareholders of a company with a regular dividend policy, in contrast to the IC-DISC as a subsidiary of the parent, is a particularly good use of that vehicle.

**Conclusions.** Within the decision due to foreign trade activity an enterprise has to arrange an own Strategy by implementation all kinds of trade tools and methods for intruding into overseas markets. These methods have

to be coordinated with any special sphere of overseers' activity and regional locations. In case a company would pass a part of foreign trade activity to affiliated agent is necessary to evaluate an appropriate way of spreading the activity between IC-DISC, DISC, or FSC. This decision needs to evaluate a current situation in foreign market, regional locations, financial responsibility and taxations. Nevertheless the main decision depends from the enterprise and corporate management. In case the strategy foresees an implementation separated legal forms of business activity it has to be taken only by comparing the profits flow, expenses and taxes. That is why the enterprise strategy

will be depended for this type of decision. That also can be discussable.

### Conflict of interest

The author declares that he has no conflict of interest in relation to this research, whether financial, personal, authorship or otherwise, that could affect the research and its results presented in this paper.

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## ЗМІСТ ЕФЕКТИВНОЇ СТРАТЕГІЇ ЗОВНІШНЬОЕКОНОМІЧНОЇ ДІЯЛЬНОСТІ ПРИ ДОСТУПУ НА ІНОЗЕМНІ РИНКИ

*Основний предмет даної публікації стосується можливих шляхів проникнення зовнішньоекономічної діяльності на іноземні ринки та їх поширення. Розглядаються застосування та напрями окремих управлінських рішень. Для будь-якого підприємства є можливим прийняття рішення щодо зовнішньоекономічної діяльності. На етапі прийняття рішення слід уважно підійти до питання стратегії зовнішньоекономічної діяльності на початковому її етапі. Для компанії, або ж індивідуального підприємця (що мають усвідомлення щодо бізнесової діяльності в загальному та внутрішньому ринку зокрема) ця публікація пропонує погляд на основні «способи торгівлі», можливі способи експорту технологій, устаткування, товарів, адміністративних та управлінських здібностей та необхідних джерел інформації. Пряме залучення до експортної діяльності, або ж вивчення ринку зазвичай вимагає високого рівня уваги та занурення у вирішення необхідних питань. В даній публікації розглядаються основні питання щодо масштабів залучення до іноземного ринку. Перше, прямий експорт буде визначати хоча б започаткування певного плану обмежених організацій та встановлення необхідних контактів з закордонними агентами з продажу та іншими зацікавленими сторонами. Друге, прямий експорт може і не вимагати фізичного відвантаження товарів, скоріше, це можливий трансфер технологій та інновацій в межах процедури ліцензування та франчайзингу. Третє, корпоративна присутність вимагатиме корпоративну активність до моменту поширення такої діяльності щодо випробовування умов ринку. Основна мета даної публікації є розгляд можливих шляхів успішної зовнішньоекономічної діяльності підприємствами в умовах їх розвитку та поширення їх активності. Представлені певні особливості щодо розвитку зовнішньоекономічної діяльності в залежності від територіальних та географічних особливостей. В країнах світу до іноземних підприємств, що заходять на внутрішній ринок відношення різняться, тому в публікації будуть представлені організації, що можуть сприяти розвитку та поширенню зовнішньоекономічної діяльності. виробничий контракт, спільне підприємництво,*

**Ключові слова:** експорт, стратегія експорту, експортна стратегія, елементи експорту, зовнішньоторговельна активність, експортний продукт, експортний напрямок, засоби міжнародної торгівлі, прямий експорт, прямі експортні продажі, прямий експортний агент, імпорт, іноземний продавець, непрямий ринковий вхід, ліцензування, франчайзинг, ризикований бізнес, повністю контрольовані відділення, спільноти.