

Research Article

Taxation as an Enabler for International Business with Focus on Essence of Conducive Tax Policies

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Abstract

The present study aims at unveiling the deliberate tax policies which countries can employ with an aim of enhancing international business across the globe. The study used secondary data that was carefully vetted by subject matter experts and obtained from reliable journal databases. To find the pertinent research publications, search terms were utilized. An established set of inclusion and exclusion criteria was utilized to evaluate the articles for appropriateness. The research validates the significance of tax policies in facilitating international trade at global level. In particular, taxation impacts the degree of foreign direct investments, imports, and exports either positively or negatively depending on the prevailing tax policies. The study reveals that tailor-made tax incentives induce cross-border trade. In particular, synthesis of extant literature reveals the essence of the following tax policies in promoting international business: Tax reductions, tax holidays, tax regulations, and tax treaties. The study has therefore called upon local tax administrators to consider promoting international business through development and implementation of conducive tax policies. This paper is unique in that it contributes to the enhancement of international business through development and implementation of tailor-made tax policies. It makes a substantial contribution to pertinent knowledge for promoting cross-border trade through fair tax policies.

Keywords

International Trade, Taxation, Tax Policy

1. Introduction

International business entails transactions between or among nations [28]. The need for cross-border trade is induced by the fact that there is no nation that can exist, let alone operate and survive autonomously. Researchers allude that the requirement for trade across borders is impacted by the responsibilities associated with global and local specialization [28]. To this effect, considering regional specialization, it involves the allocation of work into different regions within a country for producing specific products. In the same line of thought, global specialization

is the process wherein numerous countries worldwide develop expertise in manufacturing different types of goods [28]. Research further reveals that international specialization is largely influenced by the same factors that give rise to regional specialization [18, 28]. To this effect, a nation that produces an excess of a particular good, more than its own requirement, will trade that good with other nations in exchange for their surplus output [28]. Studies have revealed that the growth and sustainability of the national income is fueled by international business which leads to

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Received: 8 November 2025; Accepted: 20 November 2025; Published: 17 December 2025



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the development of industrial capabilities and stabilizes the country's economy [20]. Cross border trade is therefore necessary because different countries have different capabilities and strengths in producing specific goods and services. Engaging in commerce with other nations is essential to compensate for what they are unable to produce [28]. This augers well with the theory of competitive advantage which argues that a country's industries or businesses derive their competitive advantage from competitive superiority in production variables and highlights the externality and static condition of comparative advantage [27]. Scientific investigators claim that a company's competitive edge is the attribute that distinguishes its goods and services from those of its rivals [27]. The two elements of advantages in competition are relative and differential advantages. An advantage in comparison is the capacity of a company to generate a good or service more profitably than their counterparts.

Having noted the benefits of business between and among economies, the need to effectively manage such transactions cannot be overemphasized for the betterment of individual economies as well as the world at large. To this effect, the need to have in place proper tools that can guide proper management of cross-border trade is of paramount importance. As such, utilizing widely accepted and tested tools is essential for fostering export-import relations cannot be overemphasized. Among the tools aimed at stabilizing international trade relations, as revealed through scientific investigations is the state tax policy which plays a crucial role [20]. To facilitate cross-border trade at all times, economies need to be proactive and vigilante in devising tax policies that are tailor-made to boost international business.

Tax policy, according to scholars, entails a tool that envelops the rules, directions, and strategies aimed at guiding proper tax administration [19]. According to the author, tax policy guides the administrators on who should be taxed, how much should be taxed, when should the tax be effected and what type of the tax is supposed to be administered [19]. Scientific investigators have indicated that such levies are administered to a person, corporate, deals and property demands [19]. Tax policy is therefore an instrument that a state can use to mete out taxes on appropriate transactions taking place both within and outside the country. It regulates the local as well as international market by giving guidelines on the types of levies available, regimes, and procedures to be followed to abide by the regulations. Notwithstanding the presence of studies investigating the connection between international business and taxation, a little is known about the specific tax policies that stimulate international trade at global level and this calls for an investigation.

Study Objective

The present study is therefore an attempt to unveil the tailor-made policies that are directly linked towards enhancing cross-border trade.

2. Literature Review

The effect of local tax policies on cross-border business transactions has been the focus of several studies to date [5, 10, 15, 16]. These studies show that taxes such as those that are administered on income, value addition (VAT), and import duties have an effect on both international commerce and economic growth. Consequently, researchers have so far suggested ongoing tax system adjustments as a means of encouraging global commerce.

Research has proved that tax policies have potential of improving global trade and economic growth by lowering uncertainty, raising labour productivity, easing trade tension, and safeguarding established groups by creating flexible fiscal and monetary frameworks that improve regulatory and supervisory transparency [29]. Research further alludes that if a tax policy's unique situation does not reduce the tax burden, it is inefficient [29]. This means that tax policies are supposed to be developed in such a way that they reduce burden to those that are liable while at the same time, encourage them to engage into business.

A more progressive tax system fosters the growth of global commerce, which strengthens the economy of the country [13]. Researchers go on to say that in order to promote voluntary compliance and allow for both an ideal and a fair tax system, proper tax policy should be simple and equitable [13]. To that effect, the authors suggest that equity, efficiency, and administrative capability should be the three pillars of better tax policy [13]. These characteristics increase the efficiency of tax policy in fostering prosperous global commerce and economic growth.

Using a dynamic panel model method, [18] looked at the factors that contribute to economic independence in East African countries. The years 2002 through 2018 were included in the study. The study's findings show that a country's overall financial development is influenced by its government's expenditures, revenue, amount of imports and exports, and administrations. As such, the study's practical consequences included the necessity for governments to make sure that tax and trade policies, at both local and international level, are aligned [18]. This entails that misalignment of tax policies with cross-border trade has far fetching consequences like prohibiting investors.

Some scholars have further revealed that tax policies are influenced by international commerce [15]. The scholars claim that when commerce with other countries drops, economies search for tax measures that might spur trade again. This implies that economies constantly work to improve commerce with other countries by developing tax laws that are appealing. As a result, tax authorities in an economy are tasked with keeping an eye on how international trade is progressing in relation to tax laws. This allows for the timely implementation of necessary adjustments when circumstances do not favour them in terms of promoting international trade. In conclusion, taxes and tax laws have an impact

on the kind and amount of international commerce. It is understood that taxes need to have the least possible influence.

3. Methodology

A review method, as guided by various scholars whose aim was guided by the desire to bring together evidence-based arguments regarding a subject matter, was used for this study [23]. Design, organization, analysis and presentation were some of the ways to guide access to literature relevant to this review. The retrieval of study materials was scientifically driven where Scopus was used as the main database as it is considered to be among the reliable scholarly databases [23]. Other journal databases reviewed included Elsevier, Emerald and Springer to complement the Scopus database. The reference list of the retrieved articles was also examined and some relevant articles were picked from there. Three key words were used for the search thread: “International trade”, “taxation”, “tax policy.” To ensure wider coverage, the words “international trade” were being substituted with “international business” and also “cross-border trade.” Prior to article retrieval, abstracts of articles were checked to ensure relevance. As such, studies that were not aligned to the overall purpose of the present study were being excluded right away. The present study included articles published in English only, full articles, peer-reviewed, related to the study objectives, and databases of authoritative articles as authenticated through various researchers [23]. On the other hand, articles published in languages other than English, abstracts, book chapters and monographs were excluded. The process of screening the papers to select the relevant ones was done through consensus by the authors.

4. Findings

Critical analysis of extant literature reveals that domestic tax policies can impact international businesses either positively or negatively. The key determining factor is on whether the tax policies are favorable for cross-border businesses or not. Below are the benefits of local tax policies with regard to business at global level:

4.1. Conducive Tax Policies Induce Cross-Border Businesses

The impact of levies and other associated fiscal policies on trade in Tanzania and other East African countries was examined by several authors [5]. Such studies have laid bare revelations to the effect that the governments of the two regional blocs ought to consider lowering the rates of corporate income tax and VAT in order to promote and attract more private investment. Additionally, it is suggested that they employ monetary policy to lower interest rates in an effort to draw in more

capital for their economy. These findings auger with the practical direction offered by several other investigators who pointed out the importance of governments in ensuring that tax policies are aligned with international trade [18].

An in-depth scientific study was launched to analyze how various factors affect the trade relationships between countries by reviewing existing literature [12]. The findings showed that trade restrictions, such as taxes, significantly influence the extent to which economies can benefit from international trade [12]. The study findings emphasized the importance of implementing effective tariff policies to promote cross-border transactions. According to the study, countries typically evaluate the fiscal policies of potential trading partners and other key factors before engaging in trade with them [12].

In a related development, some scholars investigated the connection between tax policies with regards to cross-border trade [24]. The findings confirmed that fiscal strategies such as taxes and levies directly influence global commerce [24]. This means that taxation has a direct bearing on commercial transactions at global level. Where taxes are conducive, global trade thrives and the opposite is true where taxes are prohibitive.

4.2. Conducive Tax Policies Enhance Foreign Direct Investment

Scholars define foreign direct investment (FDI) as an investor setting up shop in another nation [11]. With this submission in mind, some scholars [1] investigated the relationship between fiscal incentives and FDI inflows into the Ghanaian economy. The dependent variables included FDI inflows, trade liberalization, and corporation tax rate, while the independent variables included market size, exchange rate, and rate. Autoregressive distributed lag (ARDL), a boundaries test method, was applied to investigate co integration within the model. The results demonstrated that corporation tax rates had a significant positive short-term impact on the volume of FDI coming in and a significant long-term negative influence on FDI inflows into the Ghanaian economy. The delayed impact of taxes on FDI inflows is the reason for the positive short-run association that has been observed in the Ghanaian context.

The results of levy guiding principles FDI in 40 African countries were examined by other curious scientific investigators [4]. The findings showed that FDI inflow increased with a lower corporate tax regime [4]. The study also discovered a significant FDI inflow into African economies that provide tax holidays and exemptions. In a related development, some scientific investigators used the system generalized method of moments (GMM) to examine the relationship between FDI in African countries and country-level governance systems over the period of 2009–2015 [3]. According to the study, nations with strong moral standards draw in more investors. It was also discovered that strong corporate governance was neces-

sary for FDI inflows in a particular economy.

Another interesting investigation on how harmonization of taxes within a regional bloc impacts trade among nations was conducted by curious scholars [2]. The study findings reveal positive impact of harmonization of levies in trade in general, FDI in particular. When regional trade partners have tax regimes that have some commonalities, trade thrives. For investors to make decisions of investing in foreign economies, taxation remains one of the key factors that influence the decision. In cases where the investors feel that the taxes are exorbitant, they feel discouraged to proceed with their investment decisions and the opposite is true in scenarios where taxes are conducive for FDI.

4.3. Conducive Tax Policies Enhance Import-Export Transactions

Foreign investment undermines the widely held notion that import tariffs and export taxes are interchangeable [7]. In essence, remittances to foreigners open up a second financial channel between countries, decreasing the likelihood that two-good Lerner Symmetry will hold. The disparity in trade taxes implies that governments must specifically take the global ownership pattern into account when deciding on the goals and strategies for carrying out trade policies, which bring about important practical ramifications. The first step in this research was to formally identify the difference between import tariffs and export taxes [7].

In order to estimate the effects of China's rebate policy on scholars conducted a study which drew trade data from 329 Chinese cities [17]. The study found that the VAT rebate program had a significant impact on Chinese exports, with a 1% decrease in export VAT translating into a 7.2% increase in exports [17].

5. Discussion

According to various researchers, there are several advantages that result from cross border business transactions some of which are as follows: the best products are created and sold in a market where there is intense competition, and everyone on the earth benefits from efficient manufacturing techniques by obtaining higher-quality goods at lower prices, nations and consumers can be exposed to products and services that are not available in their native country, developed nations can efficiently utilize their resources such as labor, capital, and technology and by allowing countries to participate in the global economy, trade draws FDI [28]. The need for deliberate policies that can enhance cross-border businesses can therefore not be overemphasized. This calls for the need for relevant policies to guide proper administration of the international businesses. International trade impacted by taxes either positively or negatively depending on how the policies are being viewed by the tax payers. This means that lawmakers must exercise extreme caution when creating

and enforcing tax laws because doing so carelessly could have disastrous effects on international trade, which in turn affects a country's overall economic development. When creating tax policies, economies should take into account, among other things, what they can produce domestically at a lower cost and what they must import from other countries, what they want to discourage as a country due to health concerns, what they want to protect due to environmental demands, what they want to accomplish in order to demonstrate international cooperation through treaties, and how they want tax payers to comply with [6, 14, 21, 22, 25, 26].

Having synthesized relevant literature from various scholars across the globe through this study, factors to consider when developing tax policies that can enhance international business are: Tax reductions, tax holidays, tax regulations, and tax treaties [4, 8, 9, 13, 14].

6. Implications

Through the present study, both theoretical and practical connotations ensue. Theoretically, the study serves as an additional insight to the already available knowledge with regard to taxation and international business. To this effect, authors can utilise the findings as a reference material. Practically, the study is a toolkit to tax policy makers at local level when developing tax policies to consider the factors that have been highlighted with regards to international business. Through the findings of the present study, tax policy makers will be able to make informed decisions with regards to tailor-made policies to induce cross border transactions.

7. Limitations

There were only a few pertinent papers that were retrieved for the current study. Consequently, the review cannot be considered a comprehensive examination of the literature pertaining to international business and taxation. Despite our best efforts to review as many relevant studies as we could, it is still possible that some important studies were overlooked. This is especially true given that the majority of the papers were accessed through institutional and personal connections. Additionally, the synthesis may have omitted some relevant papers due to the arbitrary key words selection used throughout the process of searching for the relevant material databases.

8. Future Focus Areas

Subsequent scholars who might have interest to study on this area might consider obtaining study papers from a variety of primary databases to increase the coverage and reliability. Further, researchers may consider looking at the challenge of consensus in coming up with regional treaties with regards to taxation where each nation has its own interests.

Furthermore, a study where primary data can be collected and analyzed will be much better to justify the findings statistically. Such quantitative studies clear doubts with regards to usability and dependability of the findings.

9. Conclusion

Benefits of international trade to both national and international economic development are enormous. In the present era where the world is fast becoming a global village, the need for cross-border trade is of paramount importance so that each country should be able to do what they can do best at lower cost and import those that they cannot effectively produce. Local tax policies play a crucial role in international trade. The findings of the present paper affirms that taxation impacts the degree of FDI, imports, and exports either positively or negatively depending on the prevailing tax policies. The study reveals that deliberate tax incentives induce cross-border trade. In particular, synthesis of extant literature reveals the essence of the following tax policies in promoting international business: Tax reductions, tax holidays, tax regulations, and tax treaties. It is therefore incumbent upon tax policy makers to ensure developing tailor-made tax policies that can promote cross border business so that they should be able to enjoy the benefits that are associated with such kind of transactions.

Abbreviations

FDI Foreign Direct Investment
VAT Value Added Tax

Author Contributions

Haji Ameir Juma: Conceptualization, Formal Analysis, Funding acquisition, Investigation, Methodology, Project administration, Resources, Visualization, Writing – original draft

Yogendra Pratap Singh: Supervision, Validation, Writing – review & editing

Austin Milward Nyoni: Supervision, Validation, Writing – review & editing

Conflicts of Interest

The authors declare no conflicts of interest.

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