INTERNATIONAL INSTITUTE OF TECHNOLOGY & MANAGEMENT, MURTHAL SONEPAT

E-NOTES, Subject: International Business, Subject Code: BBA-310-B,

Course: BBA, Semester-6th

(Prepared By: Ms. Shweta, Assistant Professor, BBA)

International Business

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UNIT-1

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Topic covered: - Introduction, significance, nature and scope of international business, reason to go for international business, modes of global business, global business environment- social, cultural, economic, political and ecological factors.

Introduction

International Business conducts business transactions all over the world. These transactions include the transfer of goods, services, technology, managerial knowledge, and capital to other countries. International business involves exports and imports. An international business has many options for doing business, it includes,

1. Exporting goods and services.
2. Giving license to produce goods in the host country.
3. Starting a joint venture with a company.
4. Opening a branch for producing & distributing goods in the host country.
5. Providing managerial services to companies in the host country.

Significance/ Importance of international business:

1. **Earn foreign exchange**: International business exports its goods and services all over the world. This helps to earn valuable foreign exchange. This foreign exchange is used to pay for imports. Foreign exchange helps to make the business more profitable and to strengthen the economy of its country.
2. **Optimum utilization of resources**: International business makes optimum utilization of resources. This is because it produces goods on a very large scale for the international market. International business utilizes resources from all over the world. It uses the finance and technology of rich countries and the raw materials and labor of the poor countries.
3. **Achieve its objectives**: International business achieves its objectives easily and quickly. The main objective of an international business objective of an international business is to earn high profits. This objective is achieved easily. This it because it uses the best technology. It has the

best employees and managers. It produces high-quality goods. It sells these goods all over the world.

4. **To spread business risks**: International business spreads its business risk. This is because it does business all over the world. So, a loss in one country can be balanced by a profit in another country. The surplus goods in one country can be exported to another country. The surplus resources can also be transferred to other countries. All this helps to minimize the business risks.
5. **Improve organization's efficiency:** International business has very high organization efficiency. This is because without efficiency, they will not be able to face the competition in the international market. So, they use all the modern management techniques to improve their efficiency. They hire the most qualified and experienced employees and managers. These people are trained regularly. They are highly motivated with very high salaries and other benefits such as international transfers, promotions, etc. All this results in high organizational efficiency, i.e. low costs and high returns.
6. **Get benefits from Government**: International business brings a lot of foreign exchange for the country. Therefore, it gets many benefits, facilities and concessions from the government. It gets many financial and tax benefits from the government.
7. **Expand and diversify**: International business can expand and diversify its activities. This is because it earns very high profits. It also gets financial help from the government.
8. **Increase competitive capacity**: International business produces high-quality goods at low cost. It spends a lot of money on advertising all over the world. It uses superior technology, management techniques, marketing techniques, etc. All this makes it more competitive. So, it can fight competition from foreign companies.

Nature and characteristics or features of international business are:-

1. **Large scale operations**: In international business, all the operations are conducted on a very huge scale. Production and marketing activities are conducted on a large scale. It first sells its goods in the local market. Then the surplus goods are exported.

2. **Integration of economies**: International business integrates (combines) the economies of many countries. This is because it uses finance from one country, labor from another country, and infrastructure from another country. It designs the product in one country, produces its parts in many different countries and assembles the product in another country. It sells the product in many countries, i.e. in the international market.

3. **Dominated by developed countries and MNCs**: International business is dominated by developed countries and their multinational corporations (MNCs). At present, MNCs from USA, Europe and Japan dominate (fully control) foreign trade. This is because they have large financial and other resources. They also have the best technology and research and development (R & D). They have highly skilled employees and managers because they give very high salaries and other benefits. Therefore, they produce good quality goods and services at low prices. This helps them to capture and dominate the world market.

4. **Benefits to participating countries**: International business gives benefits to all participating countries. However, the developed (rich) countries get the maximum benefits. The developing (poor) countries also get benefits. They get foreign capital and technology. They get rapid industrial development. They get more employment opportunities. All this results in economic development of the developing countries. Therefore, developing countries open up their economies through liberal economic policies.

5. **Keen competition**: International business has to face keen (too much) competition in the world market. The competition is between unequal partners i.e. developed and developing countries. In this keen competition, developed countries and their MNCs are in a favourable position because they produce superior quality goods and services at very low prices. Developed countries also have many contacts in the world market. So, developing countries find it very difficult to face competition from developed countries.

6. **Special role of science and technology**: International business gives a lot of importance to science and technology. Science and Technology (S & T) help the business to have large-scale production. Developed countries use high technologies. Therefore, they dominate global

business. International business helps them to transfer such top high-end technologies to the developing countries.

7. **International restrictions**: International business faces many restrictions on the inflow and outflow of capital, technology and goods. Many governments do not allow international businesses to enter their countries. They have many trade blocks, tariff barriers, foreign exchange restrictions, etc. All this is harmful to international business.
8. **Sensitive nature**: The international business is very sensitive in nature. Any changes in the economic policies, technology, political environment, etc. have a huge impact on it. Therefore, international business must conduct marketing research to find out and study these changes. They must adjust their business activities and adapt accordingly to survive changes.

Scope of International Business

The term international business was not popular two decades earlier. The term international business has emerged from the term 'international marketing, which in turn emerged from the term 'international trade'.

- **International Trade to International Marketing: -** The producers used to export their products to the nearby countries and gradually extended the exports to far-off countries. Gradually, the companies extended the operations beyond trade.
- **International Marketing to International Business: -** The multinational companies which were producing the products in their home countries and marketing them in various foreign countries. Thus, the scope of international trade is expanded into international marketing and international marketing is expanded into international business.
- **Wide Scope:-**The scope of international business is much broader involving international marketing, international investments, management of foreign exchange, procuring international finance from IMF, IBRD, International Finance Corporation (IFC), International Development Association (IDA) etc., management of international human resources, management of cultural

diversity, management of international production and logistics, international strategic management and the like.

- **Inter-country Comparative Study: -** International business studies the business opportunities, threats, consumer's preferences and behavior, cultures of the societies, employees, and business environmental factors, manufacturing locations, management styles, inputs and human resource management practices in various countries. International business seeks to identify, classify and interpret these milarities and dissimilarities among the systems used to anticipate demand and market products. This system presents inter-country comparison and inter-continental comparison. Comparative analysis helps the management to evaluate the markets, finances, human resources, consumers etc. of various countries. It also helps the management to evaluate the market potentials of various countries.

Disadvantages of international marketing:

1. **Different culture**: It is not necessary that the company would find same culture in both home country and host country.
2. **War**: if in any case a war breaks in host country then the company will be at loss.
3. **Infrastructure**: infrastructure in the host country may not be that developed which might create barriers for the company.
4. **Government rules:** rules of the government n host country might not be very supporting.
5. **Marketing mix**: Company might have to develop a totally different marketing mix for its product in host country than in home country which will incur cost.

Difference between Domestic and International business

Basic	Domestic Business	International Business
Geographic Area	It is carried out within the national or geographic borders of the country	It is carried out across borders and national territories of a

		country
Restrictions	Tariffs and quotas are not present and very few local restrictions are imposed on a domestic business	Many restrictions are imposed while doing business internationally or entering a foreign market e.g. Tariff and non-tariff barriers, exchange controls, local taxes etc.
Culture	There is less difference in the market culture of local areas and regions within a country. The market culture is relatively uniform	The market culture widely varies among different nations and regions
Risk	Risk factor is less	Risk factor is high
Currency	A domestic business deals in a single currency	An international business deals in multiple currencies
Human Resource	A domestic business can succeed with human resource with minimum skill and knowledge employees are usually from the same country	Multilingual, multi-strategic and multicultural human resource is necessary for smooth operations of an international business global human resource practices are carried out in an international business
Promotion	Domestic marketing and advertising strategies are used	Marketing and advertising strategies vary from country to country due to language barriers
Pricing	Same price is charged for similar products	Price differentiation is carried

		out.
Investment	Less capital investment is involved.	Huge capital investment is involved.
Quality	Quality standards are low	Quality standards are very high. Global standards are set
Regulations	Only local regulations are applicable	International and host country regulations are applicable
Research	It is easy to conduct business research, demand analysis and customer survey	It is very difficult and costly. Reliability of information depends upon the individual country
Cost Advantage	Do not enjoy Cost advantage	Advantage of location economies and cheap resources are available
Environment	A domestic business is only affected by the variables in the domestic environment	Domestic, foreign and international environment factors affect an international business
Development	The level of development may be same throughout the domestic market	Each country may be at a different level of development

Reasons to go for international business

Traditionally many companies have stayed focused in their domestic markets and have refrained from competing globally. They know their domestic markets better and understand that they have to make fundamental changes in the way they work to be able to compete globally. But increasingly companies are choosing or are being forced to sell their products in markets other than their domestic markets. It has become imperative for most companies to compete in foreign markets.

- Domestic markets are saturated and there is pressure to raise sales and profits. Most companies have very ambitious sales and profit targets. If such figures have to be realized, companies have to move out of their domestic markets.
- Domestic markets are small. Companies which have ambitions to become big will have to look for bigger markets outside their boundaries.
- Domestic markets are growing slowly. Most companies are no longer content to grow incrementally. If such companies have to achieve high growth rates, they have to obtain some of their sales from international markets.
- In some industries like advertising, customers want their suppliers to have international presence so that suppliers can contribute in most of the markets where the buyer is operating. For instance, a multinational will choose an advertising agency which has a presence in all the markets where the multinational is selling its product. The customer does not want the hassle of hiring a separate advertising agency for each of its markets. This process will be replicated in more industries.
- A multinational company seeking materials and equipment’s would want its supplier to supply to all its international manufacturing locations. The supplier is forced to develop competencies and resources at many international locations to be able to serve the international manufacturing locations of its buyer.

- Some companies will have to move out of their domestic markets when their competitors have done so, if they want to maintain their market share. If the competitor is allowed to pursue its international growth alone, the competitor is likely to plough back some of the earnings from its international operations to the domestic market, making it difficult for the companies which refrained from pursuing international markets, to focus on the domestic market. In other cases, a domestic player would start operations in the home country of its global competitor, to divert the attention and resources of its competitor towards operations at home to safeguard its home market.
- Developed markets have high cost structures and companies may move their operations to regions and countries where costs of production are lower. Once a company starts operating in a geographical region, it becomes easier and profitable to market their products in that area.
- Countries and regions are at different stages of development, and their growth rates and potential are different. Companies do not like to concentrate all their efforts in limited regions and want to spread out their risk. Such companies will look for markets which are

likely to behave differently from their existing ones in terms of economic parameters like growth rate, size, affluence of customers, stage of market development, etc.

- A company would not like all its markets to be under recession or inflation simultaneously, and would not like all its markets to be in mature stage, or in growth stage. Having different type of markets will make revenues and profits more consistent. The investment requirements would also be more balanced.
- Even if a company decides to concentrate on its domestic market, it will not be allowed to pursue its goals unhindered. Multinational companies will enter its market and make a dent in its market share and profit. The company has no choice but to enter foreign markets to maintain its market share and growth
- Companies are realizing that it is no longer an option to stay put in one's domestic market. The ability to compete successfully in domestic markets will depend upon their ability to match the resources and competencies of multinational companies, with whom they have to compete in their domestic markets.

Mode of Global Business

Their careful analyses of various factors have to be done before entering a foreign market in order to choose to most profitable market. These factors are:-

A) Country Specific Factors :-

- Laws and Regulation of the Country
- Infrastructural Conditions
- Property rights and Legal framework
- Political Factors
- Cultural Factors

B) Industry Specific Factors:-

- Entry and Exit Barriers
- Industrial Complexity
- Uncertainty in Industrial environment
- Supply and Distribution pattern

C) Firm Specific Factors:-

- Resources of the firm
- Technological Risk
- Goals and Objectives of the Firm
- Experience of the Firm

D) Project Specific Factors:-

- Size of the Project
- Project Orientation
- Availability of raw material and labor required for project implementation
- Availability of suitable market for the project

Modes of entry in foreign market:-

1) **Exporting –** It is the process of selling goods and services produced in one country to other country. Exporting may be direct or indirect.

- Direct export – A company capitalizing on economies of scale in production concentrated in the home country, establishes a proper system for organizing export functions and procuring foreign sales.
- Indirect export- involves exporting through domestically based export intermediaries. The exporter has no control over his product in the foreign market.

Advantages –

- It helps in distribution of surplus
- It is less costly
- It is less risky
- It helps in fast market access
- Under direct export the exporter has control over selection of market

Disadvantages –

- High start-up cost in case of direct exports
- The exporter has little or no control over distribution of products
- Exporting through export intermediaries increase the cost of product

2) **Joint Venture –** It is a strategy used by companies to enter a foreign market by joining hands and sharing ownership and management with another company. It is used when two or more companies want to achieve some common objectives and expand international operations. The common objectives are –

   - Foreign market entry
   - Risk/reward sharing
   - Technology sharing
   - Joint product development
   - Conforming to government regulations
   - It is useful to meet shortage of financial resources, physical or managerial resources

Advantages –

- Technological competence

- Optimum use of resources
- Partners are able to learn from each other

Disadvantages –

- Conflicts over asymmetric investments
- It may be costly
- Cultural and political stability may pose a threat to successful operations
- Conflicts in management

3) **Outsourcing –** It is a cost effective strategy used by companies to reduce costs by transferring portions of work to outside suppliers rather than completing it internally. It includes both domestic and foreign contracting and also off shoring (relocating a business function to another country).

Advantages –

- Risk sharing
- Reduced costs
- Swiftness and expertise in operations
- Concentration on core process rather than supporting ones

Disadvantages -

- Hidden costs
- Lack of customer focus
- Risk of exposing confidential data

4) **Franchising –** It is a system in which semi-independent business owners (franchisees) pay fees and royalty to a parent company (franchiser) in return for the right to be identified by its trademark, to sell its product or services, and often to use its business format or system.

Advantages –

- It is less risky
- Advantage of expertise of franchiser
- Highly motivated employees

Disadvantages-

- Difficulty in keeping trade secrets
- Franchisee may become a future competitor
- A wrong franchisee may ruin company's name and goodwill.

5) **Turn Key Project –** It involves the delivery of operating industrial plant to the client without any active participation. A company pays a contractor to design and construct new facilities and train personnel to export its process and technology to another country. Turn key projects may be of various types –

- **BOD** – Build, Owned and Develop
- **BOLT** – Build, Owned, leased and Transferred
- **BOOT** – Build, Owned, Operate and Transfer

6) **Foreign Direct Investment –** It is a mode of entering foreign market through investment. Investment may be direct or indirectly through Financial Institutions. FDI influences the investment pattern of the economy and helps to increase overall development. The extent to which FDI is allowed in a country is subjected to the government regulations of that country. It can be done by purchasing shares of a company, property and assets.

Advantages –

- Modifications can be made at any point of time
- It is an easy mode of entry

Disadvantages:-

- The government policies may not be helpful
- The return on Investment may be low

7) **Mergers & Acquisitions –** A merger is a combination of two or more district entities into one, the desired effect being accumulation of assets and liabilities of distinct entities and several other benefits such as, economies of scale, tax benefits, fast growth, synergy and diversification etc. The merging entities cease to be in existence and merge into a single servicing entity.

Acquisition implies acquisition of controlling interest in a company by another company. It does not lead to dissolution of company whose shares are acquired. It may be a friendly or hostile acquisition or a bail out takeover.

8) **Licensing** – Licensing is a method in which a firm gives permission to a person to use its legally protected product or technology (trademarked or copyrighted) and to do business in a particular manner, for an agreed period of time and within an agreed territory. It is a very easy method to enter foreign market as less control and communication is involved. The financial risk is transferred to the licensee and there is better utilization of resources.

Advantages –

- Easy appointment
- Less investment is involved
- Low cost of labor

Disadvantages

- This method is time consuming
- Decline in product quality may harm the reputation of licensor

9) **Contract manufacturing –** When a foreign firm hires a local manufacturer to produce their product or a part of their product it is known as contract manufacturing. This method utilizes the

skills of a local manufacturer and helps in reducing cost of production. The marketing and selling of the product is the responsibility of the international firm.

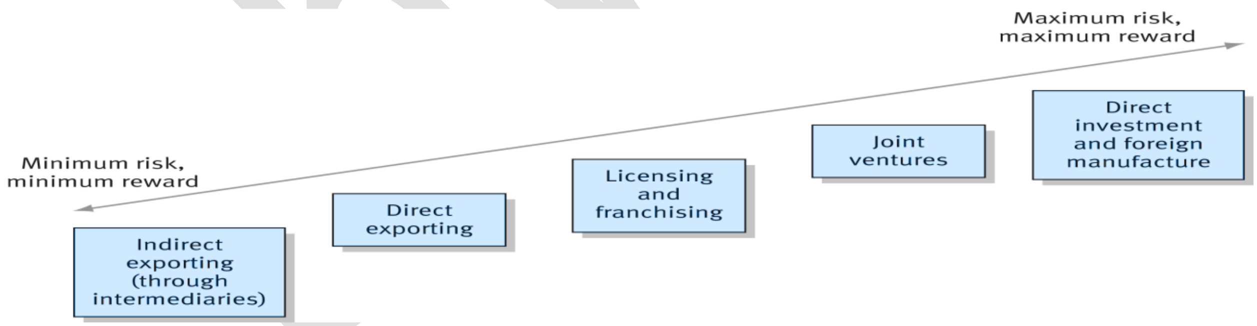
Advantages –

- Low cost of production
- Development of medium and small scale industries
- No dilution of control

Disadvantages –

- Difficulty in maintaining quality standards
- Local manufacturers in foreign market may lose business

10) **Strategic Alliance** – It is a voluntary formal agreement between two companies to pool their resources to achieve a common set of objectives while remaining independent entities. It is mainly used to expand the production capacity and increase market share for a product. Alliances help in developing new technologies and utilizing brand image and market knowledge of both the companies.



Global Business Environment

Environmental analysis is defined as "the process by which strategists monitor the economic, governmental/legal, market/competitive, supplier/technological, geographic, and social settings to determine opportunities and threats to their firms".

"Environmental diagnosis consists of managerial decisions made by analyzing the significance of the data (opportunities and threats) of the environmental analysis".

An analysis of the strengths, weaknesses, opportunities and threats (SWOT) is very much essential for the business policy formulation.

1. **Micro environment: -** The micro environment consists of the actors in the company's immediate environment affects the performance of the company. These include:-

   - **Suppliers**: - An important force in the microenvironment of a company is the supplier, i.e., those who supply the inputs like raw materials and components to the company. The importance of reliable source/sources of supply to the smooth functioning of the business is obvious.

     It is very risky to depend on a single because a strike, lock out or any other production problem with that supplier may seriously affect the company. Similarly, a change in the attitude or behavior of the supplier may also affect the company. Hence, multiple sources of supply often help reduce such risks.

   - **Marketing intermediaries: -** The immediate environment of a company may consist of a number of marketing intermediaries which are "firms that aid the company in promoting, selling and distributing its goods to final buyers".

     The marketing intermediaries include middlemen such as agents and merchants who "help the company find customers or close sales with them", physical distribution firms which "assist the company in stocking and moving goods form their origin to their destination" such as warehouses and transportation firms; marketing service agencies which "assist the company in targeting and promoting its products to the right markets" such as advertising agencies, marketing research firms, media firms and consulting firms; and financial intermediaries which finance marketing activities and insure business risks.

Marketing intermediaries are vital links between the company and the final consumers. A dislocation or disturbance of this link, or a wrong choice of the link, may cost the company very heavily.

- **Competitors**: - A firm's competitors include not only the other firms, which market the same or similar products, but also all those who compete for the discretionary income of the consumers.

  For example, the competition for a company's televisions may come not only from other T.V. manufacturers but also from two-wheelers, refrigerators, cooking ranges, stereo sets and so on and from firms offering savings and investment schemes like banks, Unit Trust of India, companies accepting public deposits or issuing shares or debentures etc.

  If the consumer decides to spend his discretionary income on recreation (or recreation cum education) he will still confronted with a number of alternatives choose from like T.V., stereo, two-in-one, three –in-one etc. The competition among such alternatives, which satisfy a particular category of desire, is called generic competition.

- **Customers**: - The major task of a business is to create and sustain customers. A business exists only because of its customers. Monitoring the customer sensitivity is, therefore, a prerequisite for the business success.

  A company may have different categories of consumers like individuals, households, industries and other commercial establishments, and government and other institutions. For example, the customers of a tyre company may include individual automobile owners, automobile manufacturers, and public sector Transport undertakings and other transport operators.

  The choice of the customer segments should be made by considering a number Of factors including the relative profitability, dependability, stability of demand, Growth prospects and the extent of competition.

- **Publics**: - A company may encounter certain publics in its environment. "A public is any group that has an actual or potential interest in or impact on an organization's ability to achieve its interests. Media publics, citizen's action publics and local publics are some examples.

2. **MACRO ENVIRONMENT:-**The macro environment consists of the larger societal forces that affect all the factors in the company's micro environment namely,

- **Economic Environment**: - Economic conditions, economic policies and the economic system are the important external factors that constitute the economic environment of a business.

a) *The economic conditions* of a country-for example, the nature of the economy, the stage of development of the economy, economic resources, and the level of income, the distribution of income and assets, etc- are among the very important determinants of business strategies.

In countries where investment and income are steadily and rapidly rising, business prospects are generally bright, and further investments are encouraged. There are a number of economists and businessmen who feel that the developed countries are no longer worthwhile propositions for investment because these economies have reached more or less saturation levels in certain respects.

b) *The economic policy* of the government, needless to say, has a very great impact on business. Some types or categories of business are favorably affected by government policy, some adversely affected, while it is neutral in respect of others.

For example, a restrictive import policy, or a policy of protecting the home industries, may greatly help the import-competing industries. Similarly, an industry that falls within the priority sector in terms of the government policy may get a number of incentives and other positive support from the government, whereas those industries which are regarded as inessential may have the odds against them.

c) *The monetary and fiscal policies*, by the incentives and disincentives they offer and by their neutrality, also affect the business in different ways.

The scope of international business depends, to a large extent, on the economic system. At one end, there are the free market economies or capitalist economies, and at the other end are the centrally planned economies or communist countries. In between these two are the mixed economies. Within the mixed economic system itself, there are wide variations. The freedom of private enterprise is the greatest in the free market economy.

- **Natural Environment**: - Geographical and ecological factors, such as natural resource endowments, weather and climatic conditions, topographical factors, location aspects in the global context, port facilities, etc., are all relevant to business.

  For example, industries with high material index tend to be located near the raw material sources. Climatic and weather conditions affect the location of certain industries like the cotton textile industry. In Hilly areas with a difficult terrain, jeeps may be in greater demand than cars.

- **Demographic**: - Demographic factors such as size of the population, population growth rate, age composition, life expectancy, family size, spatial dispersal, occupational status, employment pattern etc, affect the demand for goods and services.

  Markets with growing population and income are growth markets. A rapidly increasing population indicates a growing demand for many products. High population growth rate also indicates an enormous increase in labor supply.

- **Physical and Technological Environment: -** Physical Factors, such as geographical factors, weather and climatic conditions may call for modifications in the product, etc., to suit the environment because these environmental factors are uncontrollable.

Business prospects depend also on the availability of certain physical facilities. The sale of television sets, for example, is limited by the extent of the coverage of the telecasting. Similarly, the demand for refrigerators and other electrical appliances is affected by the extent of electrification and the reliability of power supply. The demand for LPG gas stoves is affected by the rate of growth of gas connections.

- **Political Environment: -** Political and government environment has close relationship with the economic system and economic policy. For example, the communist countries had a centrally planned economic system. In most countries, apart from those laws that control investment and related matters, there are a number of laws that regulate the conduct of the business. These laws cover such matters as standards of products, packaging, promotion etc.

Political Risks of Global Business

a) **Confiscation: -** The most severe political risk is confiscation, which is seizing of company's assets without payment.

b) **Expropriation: -** Which requires reimbursement, for the government seized investment.

c) **Domestication: -** Which occurs when host country takes steps to transfer foreign investments to national control and ownership through series of government decrees? A change in the government's attitudes, policies, economic plans and philosophies toward the role of foreign investment is the reason behind the decision to confiscate, expropriate or domesticate existing foreign assets.

d) **Assessing Political Vulnerability:-**Some products are more politically vulnerable than others, in that they receive more government attention. This special attention may result in positive or negative actions towards the company.

Unfortunately there are no absolute guidelines for marketer's to follow whether the product will receive government attention or not.

e) **Politically Sensitive Products: -** There are some generalizations that help to identify the tendency for products to be politically sensitive. Products that have an effect upon the environment exchange rates, national and economic security, and the welfare of the people are more apt to be politically sensitive. For products judged non essential the risk would be greater, but for those thought to be making an important contribution, encouragement and special considerations could be available.

f) **Forecasting Political Risks:-**A number of firms are employing systematic methods of measuring political risk. Political risk assessment can:

- Help managers decide if risk insurance is needed
- Devise and intelligence network and an early warning system
- Help managers develop a contingency plan
- Build a database of past political events for use by corporate management interpret the data gathered and getting forewarnings about political and economic situations

Instruments used by government for trade control Trade Restrictions / Trade Barriers

– Dumping

– Subsidies

– Countervailing Duties

– Tariffs

– Quotas

- VERs - Voluntary Export Restraints

- **Socio-Cultural Environment: -** Culture consists of specific learned norms based on attitudes, values, and beliefs, all of which exist in every society. Culture cannot easily be isolated from such factors as economic and political conditions.

  The socio-cultural fabric is an important environmental factor that should be analysed while formulating business strategies. The cost of ignoring the customs, traditions, taboos, tastes and preferences, etc., of people could be very high.

  The buying and consumption habits of the people, their language, beliefs and values, customs and traditions, tastes and preferences, education are all factors that affect business. For Example, Nestle, a Swiss multinational company, today brews more than forty varieties of instant coffee to satisfy different national tastes.

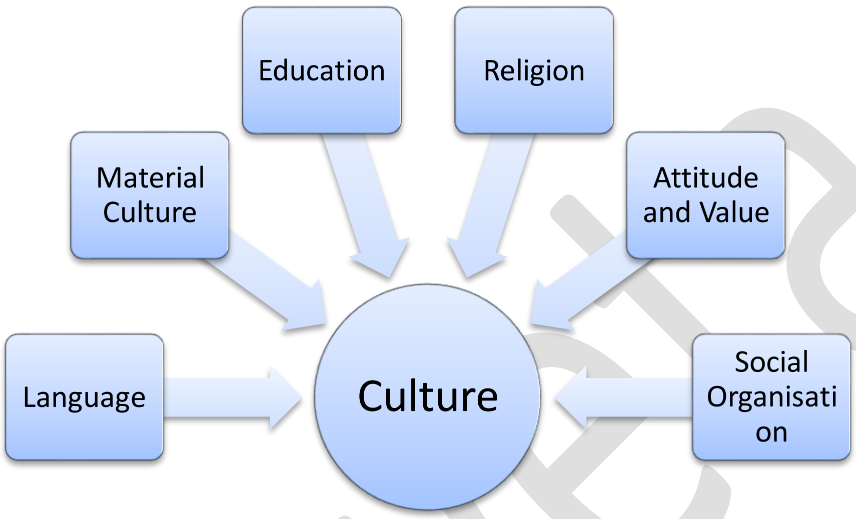
  The two most important foreign markets for Indian shrimp are the U.S and Japan. The product attributes for the success of the product in these two markets differ. In the U.S. market, correct weight and bacteriological factors are more important rather than eye appeal, colour, uniformity of size and arrangement of the shrimp which are very important in Japan. Similarly, the mode of consumption of tuna, another seafood export from India, differs between the U.S. and European countries.

  A very interesting example is that of the Vicks Vaporub, the popular pain balm, which is used as a mosquito repellant in some of the tropical areas. The differences in languages sometimes pose a serious problem. In some languages, Pepsi-Cola's slogan "come alive" translates as "come out of the grave".

  The values and beliefs associated with colour vary significantly between different cultures. Blue, considered feminine and warm in Holland, and is regarded as masculine and cold in Sweden. Green is a favorite colour in the Muslim world; but in Malaysia, it is associated with illness. White indicates death and mourning in China and Korea; but in some countries, it expresses happiness and is the colour of the wedding dress of the bride.

Red is a popular colour in the communist countries; but many African countries have a national distaste for red colour.

Elements of Culture



Behavioral Practices Affecting Business

- **Group Affiliation: - A person's affiliations are reflecting class or status.**
  - Role of Competence
  - Gender Based Groups
  - Age-Based Groups
  - Family-Based Groups
  - Importance of Work
  - Need Hierarchy
  - Importance of Occupation
  - Self-Reliance

Reconciliation of International Differences

- **Stereotypes:-** A generalized picture of a person, created without taking the whole person into account; to make such a generalization. Stereotypes are generalizations about people usually based on inaccurate information or assumptions rather than facts.
- **Cultural Shock:-**The term, culture shock, was introduced for the first time in 1958 to describe the anxiety produced when a person moves to a completely new environment. This term expresses the lack of direction, the feeling of not knowing what to do or how to do things in a new environment, and not knowing what is appropriate or inappropriate. The feeling of culture shock generally sets in after the first few weeks of coming to a new place.
- **Polycentrism:-** Polycentrism is the principle of organisation of a region around several political, social or financial centres. A county is said to be polycentric if its population is distributed almost evenly among several centres in different parts of the county.
- **Ethnocentrism**:- The belief that one's own culture is superior to all others and is the standard by which all other cultures should be measured. The feeling that one's group has a mode of living, values, and patterns of adaptation that is superior to those of other groups. Violence, discrimination, proselytizing, and verbal aggressiveness are other means whereby ethnocentrism may be expressed.
- **Geocentrism: -** The view of things in which one looks at positive aspects of both home & host cultures & accept the differences.

UNIT 2

Topic covered:-Theories of International Trade:- Classical country based theories:- Mercantilism, Absolute advantage theory, comparative cost advantage theory, factor endowment theory, modern firm based theories:- country similarity theory, product life cycle theory, global strategy rivalry theory and porter national competitive advantage theory. International trading environment: - Free trade vs. protection, tariff and non- tariff barriers, commodity agreement, regional economic integration, cartels.

INTRODUCTION

The reason for the emergence of international trade is that the human wants are varied and unlimited and no single country possesses the adequate resources to satisfy all these wants. Hence there arises a need for interdependence between countries in the form of international trade. So in order to make effective utilization of the world's resources international trade is to be boosted and the problems faced by the countries should be dealt with.

BASIS OF INTERNATIONAL TRADE

No country is self sufficient in producing all the required goods and services from its own resources. This problem can be solved through international trade where the countries obtain those goods which it cannot produce or cannot produce as cheaply as possible in another country. However this is not the only basis for doing international trade, there are other reasons also. Trade economists have laid down different theories for international trade.

International Trade Theory

- Mercantilism
- Absolute Advantage theory
- Comparative cost theory
- Opportunity cost theory

- Heckscher-Ohlin Theory/ Factor Endowment theory
- Country Similarity theory
- Vernon's theory of International Product Life Cycle
- Global strategy rivalry theory
- Porter national competitive advantage theory

1. Mercantilism:-

Mercantilism (1500-1800 century in Poland) suggests that it is in a country's best interest to maintain a trade surplus -to export more than it imports :-

- Countries should export more than they import and receive the difference in gold.
- Mercantilism views trade as a zero-sum game
- one in which a gain by one country results in a loss by another.
- The primary objective of Mercantilism was to increase the power of the nation state wealth which measured by its holdings of treasure (usually gold)

Mercantilism theory leads to the starting of colonialism

European countries competed for world power and needed colonies to provide necessary raw materials so mother country does not have to import from other nations and markets for exports.

Colonies power like the British used to trade with their colonies like India, Srilanka etc. by importing the raw material from & exporting the finished goods to colonies. The colonies had to export less valued goods and import more valued goods. Thus colonies were prevented from manufacturing. This practice allowed the colonial powers to enjoy trade surplus and forced the colonies to experience trade deficit. The theory benefitted the colonial powers and caused much discontent in colonies. In fact, this was the background situation for American Revolution.

The mercantilism theory suggests for maintaining favorable BOT in the form of import of gold for export of goods and services. But the decay of gold standard reduces the validity of this theory. This theory was modified in neo-mercantilism.

Theory of Neo-Mercantilism

Neo Mercantilism proposes that countries attempt to produce more than the demand in the domestic country in order to achieve a social objective like full employment in the domestic country or a political objective like assisting a friendly country. Mercantilist policies are politically attractive to some firms and their workers, as mercantilism benefits certain members of society. Modern supporters of these policies are known as neo-mercantilists, or protectionists e.g. China. This theory was attacked only ground that the wealth of a nation is based on its available goods and service rather than on gold.

2. ABSOLUTE ADVANTAGE THEORY

The trade theory that first indicated importance of specialization in production and division of labor is based on the idea of theory of absolute advantage which is developed first by Adam Smith in his famous book The Wealth of Nations published in 1776. Smith argued that it was impossible for all nations to become rich simultaneously by following mercantilism because the export of one nation is another nation's import and instead stated that all nations would gain simultaneously if they practiced free trade and specialized in accordance with their absolute advantage. Smith also stated that the wealth of nations depends upon the goods and services available to their citizens, rather than their gold reserves. While there are possible gains from trade with absolute advantage, the gains may not be mutually beneficial. Comparative advantage focuses on the range of possible mutually beneficial exchanges.

Smith reasoned that:

- workers become more skilled by repeating the same tasks
- workers do not lose time in switching from the production of one kind of product to another

- longer production runs provide greater incentives for the development of more effective working methods
- The neo-mercantilists want higher production through full employment and that every industry produces an exportable surplus leading to favorable BOT.

Natural vs. Acquired Advantages

A natural advantage may exist because of:

- given climatic conditions
- access to particular resources
- The availability of labor, etc.

An acquired advantage may exist because of:

- superior skills
- better technology
- Greater capital assets, etc.
- Real income depends on the output of products as compared to the resources used to produce them.

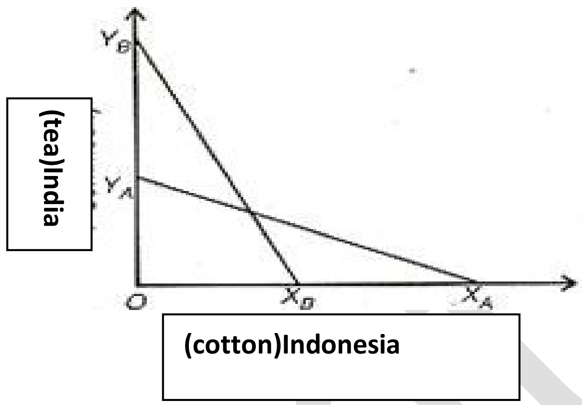
Assumptions of the theory

- Trade between two countries
- Only two commodities are traded
- Free trade exists between the countries
- The only element of cost of production is labor

Example:- Per unit cost of production(Rs.)

Country	Cotton(A)	Tea(B)

India	5	10
Indonesia	10	5



- India has absolute cost advantage in the production of tea and Indonesia in the production of cotton.
- Both countries will gain if India produces and exports tea and Indonesia produces and exports cotton.

The theory of international trade by A. Smith is based on the following preconditions:

- Labor is the only factor of production. It only affects the productivity and price of goods;
- full employment, i.e. all available labor forces are used in the production of goods;
- international trade involves only two countries, which trade only by two products between each other;
- production costs are constant, and its reduction increases the demand of goods;
- the price of one product is expressed in amount of labor spent on production of another product;
- transport costs of goods from one country to another are not taken into account;
- foreign trade is carried out without any restrictions;

- international trade is balanced (import is paid by export);
- Factors of production are not moved between countries.

Advantages

- More quantity of both products
- Increased standards of livings both countries
- Increased production efficiency
- Increase in global efficiency and effectiveness
- Maximization of global productivity and other resources productivity.

Disadvantages

- Country by country difference in specialization
- Deals with labour only and neglects other factors
- Neglected transport cost
- Country size varies
- no absolute advantages for many countries.

3. Comparative advantage [David Ricardo, 1817]:

Absolute Cost Advantage theory fails to explain the situation when one country has absolute cost advantage in producing many products. David Ricardo a British economists – expanded the Absolute Cost Advantage theory to clarify this situation and developed the Theory of Comparative Cost Advantage

A country can

- maximize its own economic well-being by specializing in the production of those goods and services it can produce relatively efficiently and
- Enhance global efficiency via its participation in free trade.

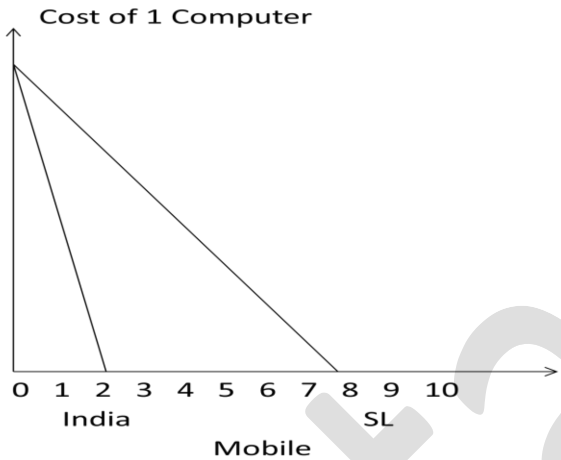
Ricardo also reasoned that:-

- a country can simultaneously have an absolute and a comparative advantage in the production of a given product
- by concentrating on the production of the product in which it has the greater advantage, a country can further enhance both global output and its own economic well-being
- Trade is a positive sum game
- Focus on comparative cost advantage not on absolute cost advantage.
- Each country specializes in the production of that commodity in which its comparative cost of production is the least.
- A country will export those commodities in which its comparative costs are less.
- A country will import those commodities in which its comparative costs are high.
- If the country specialized in all products it produced then to know comparative advantage it should compare opportunity cost.
- As per this theory a country should reduce goods at lower opportunity cost.
- **Example**

	Mobile	Computer
India	40 ← 2 times	20
Srilanka	32 ← 8 times	4

Srilanka is 8 times more productive in making mobiles. India is only 2 times more productive in making mobile. SL has to produce mobile and India has to produce computer. This is one way.

	Mobile	Computer
India	40M=20C 1M cost=20/40=0.5C	20C=40M 1C=40/20=2M
SL	32M=4C 1M=4/32=1/8=.125C	4C=32M 1C=32/4=8M



It means that for sure India will make computer and will sale computer. In India cost of 1 computer is 2 mobile. If somebody is offering less than 2 mobile for purchase a computer than India will deny. India can produce at home. If some other country offers more than 2 mobile than India will be happy to sale 1 computer in exchange. Because here cases are India and Srilanka. In Srilanka 1 Computer cost is 8 mobile. If it negotiate with India and agreed to purchase computer by or exchange of 5 mobile. This is the situation where both countries will get benefit.

Srilanka can give 8 mobile but he is giving 5 mobile. India is getting more than 2 mobile both countries getting benefit.

Assumptions of comparative advantage

The Ricardian doctrine of comparative advantage is based on the following assumptions**:**

- There are only two countries, say A and B.
- They produce the same two commodities, X and Y.
- Tastes are similar in both countries.
- Labour is the only factor of production.
- All labor units are homogeneous.
- The supply of labor is unchanged.

- Prices of the two commodities are determined by labor cost, i.e.. The number of labor-units employed to produce each.
- Commodities are produced under the law of constant costs or returns.
- Trade between the two countries takes place on the basis of the barter system.
- Technological knowledge is unchanged.
- Factors of production are perfectly mobile within each country but are perfectly immobile between the two countries.
- There is free trade between the two countries, there being no trade barriers or restrictions in the movement of commodities.
- No transport costs are involved in carrying trade between the two countries.
- All factors of production are fully employed in both the countries.
- The international market is perfect so that the exchange ratio for the two commodities is the same.

It's Criticisms:

(1) **Unrealistic Assumption of Labour Cost: -** The most severe criticism of the comparative advantage doctrine is that it is based on the labor theory of value. In calculating production costs, it takes only labor costs and neglects non-labor costs involved in the production of commodities. This is highly unrealistic be- cause it is money costs and not labor costs that are the basis of national and international transactions of goods. Further, the labor cost theory is based on the assumption of homogeneous labor. This is again unrealistic because labor is heterogeneous—of different kinds and grades, some specific or specialized, and other non-specific or general.

(2) **No Similar Tastes: -** The assumption of similar tastes is unrealistic because tastes differ with different income brackets in a country. Moreover, they also change with the growth of an economy and with the development of its trade relations with other countries.

(3) **Static Assumption of Fixed Proportions:-** The theory of comparative costs is based on the assumption that labor is used in the same fixed proportions in the production of all commodities. This is essentially a static analysis and hence unrealistic. As a matter of fact labor is used in varying proportions in the production of commodities. For instance, less labor is used per unit of capital in the production of steel than in the production of textiles. Moreover, some substitution of labor for capital is always possible in production.

(4) **Unrealistic Assumption of Constant Costs:-**The theory is based on another weak assumption that an increase of output due to international specialization is followed by constant costs. But the fact is that there are either increasing costs or diminishing costs. If the large scale of production reduces costs, the comparative advantage will be increased. On the other hand, if increased output is the result of increased cost of production the comparative advantage will be reduced, and in some cases it may even disappear.

(5) **Ignores Transport Costs: -** Ricardo ignores transport costs in determining comparative advantage in trade. This is highly unrealistic because transport costs play an important role in determining the pattern of world trade. Like economies of scale, it is an independent factor of production. For instance, high transport costs may nullify the comparative advantage and the gain from international trade.

(6) **Factors not fully Mobile internally: -** The doctrine assumes that factors of production are perfectly mobile internally and wholly immobile internationally. This is not realistic because even within a country factors do not move freely from one industry to another or from one region to another.. The greater the degree of specialization in an industry, the less is the factor mobility from one industry to another. Thus factor mobility influences costs and hence the pattern of international trade.

(7) **Two-Country Two-Commodity Model is Unrealistic: -** The Ricardian model is related to trade between two countries on the basis of two commodities. This is again unrealistic because, in actuality, international trade is among countries trading many commodities.

(8) **Unrealistic Assumption of Free Trade: -** Another serious weakness of the doctrine is that it assumes perfect and free world trade. But, in reality, world trade is not free. Every country applies restrictions on the free movement of goods to and from other countries. Thus tariffs and other trade restrictions affect world imports and exports. Moreover, products are not homogeneous but differentiated. By neglecting these aspects, the Ricardian theory becomes unrealistic.

(9) **Unrealistic Assumption of Full Employment:-** Like all classical theories, the theory of comparative advantage is based on the assumption of full employment. This assumption also makes the theory static. Keynes falsified the assumption of full employment and proved the existence of underemployment in an economy. Thus the assumption of full employment makes the theory unrealistic.

(10) **Self-Interest Hinders its Operation:-** The doctrine does not operate if a country having a comparative disadvantage does not wish to import a commodity from the other country due to strategic, military or development considerations. Thus often self-interest stands in the operation of the theory of comparative costs.

(11) **Incomplete Theory: -** It is an incomplete theory. It simply explains how two countries gain from international trade. But it fails to show how the gains from trade are distributed between the two countries.

4. Heckscher-Ohlin/ Relative Factor Endowment/Factor Proportions Theory

In view of the criticism cost against comparative advantage theory, the question pointed out by many was-how do the countries acquire comparative advantage? Eli Heckscher & Bertil ohlin-swedish economists-developed the theory of relative factor endowments-to answer this question. Factor endowments are land, capital, natural resources, labor climate etc. The observations made by these two economists include-

- Factor endowments vary among countries. e.g., the USA is rich in capital resources, India is rich in labor, Saudi Arabia is rich in oil resources, South Africa & Papua New Guinea have gold mines.
- Acc. to these economists, if labor is available in relation to land & capital, in a country, the price of labor would be low & the price of land & capital would be high in that country. The vice versa is true in those countries where land & capital are available in abundance in relation to labor.
- These relative factor costs would lead countries to produce the products at low costs.
- Countries have comparative advantage based on the factors endowed and in turn the price of the factors. Countries acquire comparative advantage in those products for which the factors endowed by the country concerned are used as inputs. For example, India and China have comparative advantage in labor-intensive industry like textile and tobacco, Saudi Arabia has comparative advantage in oil. Therefore, countries export those goods in which they have comparative advantage due to factory endowed.

Countries participate in international trade by exporting those products which they can produce at low cost consequent upon abundance of factors and import the other products which they can produce comparatively at high cost.

- **Land-labor Relationship**: countries where area of land available is less in relation to the people go for multistory factories and produce light-weight products. For example, Canada, Australia, India, etc.
- **Labor-capital relationship**: countries where labor is abundant in relation to capital can be expected to export labor-intensive products, and vice versa is true in case of capital abundant countries. Thus, labor abundant countries acquire export competitiveness in products requiring large amount of labor compared to capital. For example, India has export competitiveness in textile garments while Iran has export competitiveness in hand-made carpets. Japan has export competitive advantage in products requiring large amounts of capital

relative to labor like computers, televisions, refrigerators, cars, etc. however, this generalization has an exception.

- **Leontief paradox**: there are certain surprising aspects to the labor-capital relationship in international trade. Wassily Leontief observed that US exports are labor-intensive compared with US imports. But, it is assumed that the USA has abundant capital relative to labor. Therefore, this surprise finding is known as Leontief paradox. This is because of variation in labor skills. Advanced countries have higher labor skills compared to developing countries. Therefore, advanced countries have competitive advantage in exporting products requiring higher labor skills while the developing countries have advantage in exporting products requiring less skilled labor.
- **Technological complexities**: Technological advancements made it possible to produce products in different methods. Canada produces wheat with more machines and India produces mostly with labor. In addition, industries locate different production processes in different countries in order to reduce cost of production. This theory explains relative advantage of the countries based on the factor-endowments. Thus, the theories discussed so far, are country- based theories rather than firm-based theories. Now, we shall discuss firm-based theories.

5. Country Similarity Theory

Country similarity theory was developed by a Swedish economist named Steffan Linder. This theory suggests that intra-industry trade takes place between the countries with similar levels of development. According this theory, the companies that develop new products for the domestic market, export the products to those countries that are at similar level of development after meeting the needs of the domestic market. According to Linder, the similarities in consumer preferences in the countries that are at the same economic development provide the scope for intra-industry trade among countries.

Example India and China

Basis for trade among countries

- similarity of political and economic interests
- Cultural similarity
- Similarity of location

Cultural Similarities: Countries prefer to export to those countries having similar culture. For example, exports and imports among European countries, between USA and Canada, among the Asian countries, and among the Islamic countries.

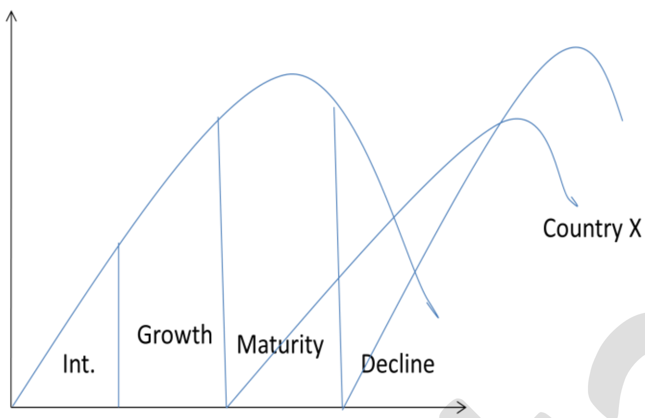
Similarity of Location: Countries prefer to export to the neighboring countries in order to have the advantages of less transportation cost. For example, Finland is a major exporter to Russia due to less transportation costs.

Similarity Of Political And Economic Interests: Similar political interests close political relations and economic interests enable the countries to enter into agreements for exports and imports. Countries prefer to trade with their politically friendly countries. For example, India used to export to the former USSR. The enemity of the USA with Cuba resulted in the USA importing of sugar from Mexico by abandoning sugar import from Cuba.

Conclusion:-Steffan Linder believed that international trade of manufactured goods occurred between countries at the same stage of economic development that shared the same consumer preferences. Therefore the country similarity theory consists of the value that most trade in manufactured goods should be between nations with similar per capita income, and that intra industry trade in manufactured goods should be common.

6. Product life cycle theory

- Given by Raymond Vernon in 1960.
- This theory explained diffusion of product from one country to another.
- U.S.A (Japan, Great Britain, Developing Country)



Stages

There are usually 4 stages

- Introduction Stage
- Growth Stage
- Maturity Stage
- Decline Stage

IPLC

- When a company in a developed country wants to launch a new innovative product in a home country such market is usually accept this innovative product because such market has high income consumer. These consumers able to purchase these expensive products. Price elasticity is low in a developed country because of high income. Production starts domestically in this stage. Demand is not high but gradually building up. Then product entered to product growth stage
- In growth stage production is started in different location internally or externally. At this stage company has gain some experience and can take some risk. Modification has done according to customer need. Consumer feedback is very important in this stage by the end of this growth stage company need to inc. revenue because lot of experiment has done so

company need capital so country have to increase profit. For increasing profit co. have to sell more how this possible company started doing same in neighboring country because country wants to generate more profit and more sale. The characteristics of country are there in some demand of innovative product. Meanwhile country is on growth stage.

- But in long run introduction of innovative product gives benefit. Other benefit is by the end of growth stage. Parent co. started exporting. Export to other countries is based on the selection of demographic and demand factor. By the end of growth stage product entered into maturity stage. Export into different market will increase economically beneficial. End of maturity stage product become standard. There is no need to change in product. This same product is selling into different countries. The firm started in cost reduction part rather addition to new feature. Now as a result, entire production process will become standardized. Now for parent company opening a subsidiary in least expensive country.

7. Global Strategic Rivalry Theory

- Global strategic rivalry theory emerged in the 1980s and was based on the work of economists Paul Krugman and Kelvin Lancaster.
- Their theory focused on MNCs and their efforts to gain a competitive advantage against other global firms in their industry. Firms will encounter global competition in their industries and in order to prosper, they must develop competitive advantages. The critical ways that firms can obtain a sustainable competitive advantage are called the barriers to entry for that industry.

Theory

- Firms struggle to develop sustainable competitive advantage,
- Advantage provides an ability to dominate the global marketplace,
- Focus: strategic decisions firms use to compete internationally

The barriers to entry refer to the obstacles a new firm may face when trying to enter into an industry or new market. The barriers to entry that corporations may seek to optimize include:

- research and development,
- the ownership of intellectual property rights,
- economies of scale,
- unique business processes or methods as well as extensive experience in the industry, and,
- The control of resources or favorable access to raw materials.
- According to the theory, a new firm needs to optimize a few factors that will guide the brand in overcoming all the barriers to achievement and gaining a significant appreciation in that international market.
- In all these factors, a methodical study and timed developmental steps are essential. Whereas, having the total ownership rights of rational properties is also essential. In addition, the beginning of exceptional and helpful methods for industrialized as well as scheming the entrance to a raw substance will also come helpful in the way.

A firm can gain a competitive advantage through:

- **Owning intellectual property*:*** It is done by brand name, trademark, patent/copyright, unique formula etc. Example – Unique formula of Coca-cola
- **Investing in Research & Development:** It is the procedure of gaining a competitive advantage by R&D systems. Example – Boeing is the most successful aircraft manufacturing because it does a vast amount of study for its competitors by its R&D department
- **Achieving economies of scale or scope:** At the time of international trade, the manufacturer increased. For this cause cost per unit reduces and new sector/scope is being created for investment consequently, various sized and typed product can be produced.

- **Exploiting the experience curve*:*** Sometimes competitive advantage can be increased by injecting the experience. Very frequently firms employ experienced inhabitants for their need.

Conclusion

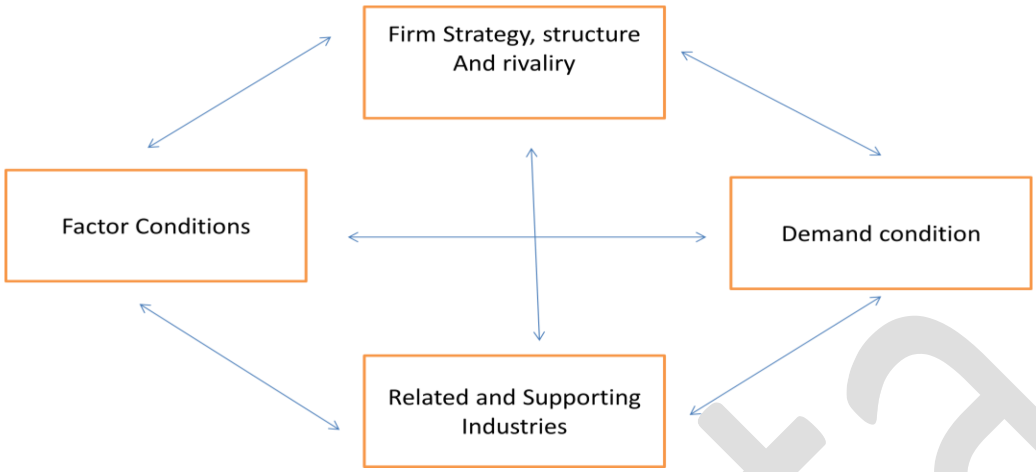
It focuses, however, on planned decisions that firms implement as they participate globally. These decisions influence both international trade and international investment. Global Rivalry Theory describes numerous ways in which Multinational Enterprises can develop a competitive advantage over its competitors. Some of the ways are by ownership or patenting of rational property rights, channeling money into research and development, the exceptional procedure of the experience curve and development of their business to international business or economics. Once again, the major aim here is for turnover maximization for those companies and the social and environmental aspects are not addressed.

8. National Competitive Advantage Theory

Economist Michael Porter, a Harvard University professor and advisor for both the public and private sectors, first defined national competitive advantage (NCA) in his 1990 book "The Competitive Advantage of Nations." Also known as the Porter Competitive Advantage, NCA is basically an evaluation of how competitively a nation participates in international markets. Porter offers a diamond-shaped diagram to outline the framework of four key factors that can modify four ingredients to become more competitive. The four ingredients are –

- The availability of resources
- The information used in deciding which opportunities to pursue for the company
- The goals of individuals in companies
- The innovation and investment pressure on companies.

Porter diamond of national advantages



Factor Conditions

Factor conditions are general sets of factors that make a nation competitive. These factors can be anything from human resources and material resources to infrastructure and the quality of research at universities. Although a nation may have an abundance of factor conditions (i.e. low-cost labor and lush vegetation), the usage of these factors is more important than their mere existence. Likewise, when a nation lacks a factor, they use innovation to make up for it, which usually leads to an increase in NCA. For example, Japan is a small nation that lacks enough land fit for agriculture; in order to make up for this and become more competitive in the international markets, however, Japan has exploited its wealth of human resources to become a global leader in technology.

Demand Conditions

Demand conditions describe the home demand of a product or service belonging to a specific company. Home demand is determined by a number of factors, which include customer needs and wants and a company's capacity and growth rate, as well as the tools used to share domestic preferences with foreign markets. Demand conditions are important because a NCA will arise when domestic demand outweighs foreign demand, since companies tend to devote more time to developing products that are in demand locally rather than abroad. For example, if there is a high demand for the iPhone in the U.S., Apple will be more willing to work on improving its design and thus do better in not only the U.S. market, but the international market as well.

Related and Supporting Industries

A nation will have more NCA when its internationally competitive supplying industries are prosperous and lead to the prosperity of its related and supporting industries. The success of competitive supplying industries will promote innovation and globalization of other closely related industries. For example, the success of the automobile industry not only benefits the industries of its suppliers (e.g. metal, leather, rubber), but also industries that are directly linked to automobiles (e.g. car insurance).

Firm Strategy, Structure, and Rivalry

The establishment, organization and management of local companies determine domestic competition and leads to the fluctuation of NCA. This is where many nations' companies differ due to the cultural variances from one country to the next. Companies that are family-owned or have a family-business structure will behave differently than publicly quoted companies when it comes to local and international competition. Furthermore, local rivalry is incredibly advantageous to NCA; this is because high local rivalry spurs innovation and improvement, and thus promotes a national competitive advantage. For example, the rivalry between iPhone and Androids in the smart phone market is healthy because this incites innovation on either side and makes both companies key players in providing the U.S. with a high-ranking NCA.

Free trade vs. protection

Meaning of Free trade

Free trade is said to take place between countries when there are no barriers to trade put in place by governments or international organizations. Goods are able to move freely between countries.

Meaning of Protectionism

Any measured designed to give local producers of good or service an advantage over a foreign competitor.

Arguments for Protection

There are many arguments for protecting local producers and industries. These include:

- Protecting Domestic Employment
- Protecting the Economy from Low-Cost Labour
- Protecting an infant (sunrise) Industry.
- To Avoid the Risks of Over-Specialization
- Strategic Reasons
- To Prevent Dumping

1. Protecting Domestic Employment

- At any given time in an economy, there will be some industries that are in decline (sunset industries) because they cannot compete with foreign competition.
- If the industries are relatively large, this will lead to high levels of structural unemployment and governments often attempt to protect the industries in order to avoid the unemployment.
- The negative externalities of a rapidly declining major industry may so great; the government feels obligated to provide some protection.

Counter Argument for Free Trade: - The industry will continue to decline and protection will simply prolong the process. Although there will be short-run social costs, it could be better to let the resources employed in the industry more into another, expanding area of the economy.

2. Protecting the Economy from low-cost labour

- It is often argued that the main reason for declining domestic industries is the low cost of labour in exporting countries.

- The economy should be protected from imports that are produced in countries where the cost of labour is very low.

Counter Argument for Free Trade: - If we protect the economy from low-cost labour, it will mean that consumers pay higher prices than they should. Production in a protected economy would take place at an inefficient level. The country wishing to export would lose trade and their economy would suffer.

3. **Comparative Advantage Changes Over Time**

It should be realized that comparative advantage changes over time and that a country that has a comparative advantage in the production of a good at present may not have that in the future. For example, if it quite likely that the US did have a comparative advantage in shipbuilding at one time. As relative factor costs change in different countries, it is important that resources should move freely as possible form industries where comparative advantage is waning, into industries where it is growing.

4. **Protecting an Infant (sunrise) industry**

Many governments argue that an industry that is just developing may not have the economies of scale advantages that larger industries in other countries may enjoy. The domestic industry will not be competitive against foreign imports until it can gain the cost advantages of economies of scale. Because of this, it is argued that industry needs to be protected against imports, until it achieves size where it is able to compete on an equal footing.

Counter Argument for Free Trade:- Most developed countries have highly efficient capital markets which allows them access to large amounts of financial capital, even more so since the advent of globalization. Due to this fact, it can be argued that there is no basis for the idea that industries in developed countries will set up in a relatively small way. They could be able to benefit from economies of scale with relatively short period of time.

5. **To avoid the risks of over-specialization**:- Governments may want to limit over-specialization, if it means the country could become over-dependent on the export sales of one or

two products. Any change in the world markets for these products might have serious consequences for the country's economy. For example, changes in technology could severely reduce the demand for a commodity, as the development of quartz crystal watches did for the Swiss wristwatch industry, harming the economy.

The introduction of new products or changes in the patterns of demand and supply can have serious effects on the economies of developing countries which tend to over specialize in the production of primary products without choice.• For example, the over-supply of coffee on the world market, caused a fall in price, and had severe impact on countries like Ethiopia.

Counter Argument for Free Trade: - There are no real arguments against this view. It does not promote protectionism, it simply points out the problems that countries may face if they specialize to a great extent.

6. **Strategic Reasons**: **-** It is sometimes argued that certain industries need to be protected in case they are needed at times of war, for example: agriculture, steel and power generation. Steel is needed for many items such as planes and tanks. The steel industry would argue that it must be protected in order to stay competitive.

   Counter Argument for Free Trade: - To certain extent, this argument may be a valid one, although it is often overstated. In many cases, it is unlikely that countries will go to war, if they do, it also unlikely that they will be cut off from all supplies. Most probably this argument is being used as an excuse for protectionism.

   Dumping: - Dumping is the selling a country of large quantities of a commodity, at a price lower than its production cost, in another country.

   For example, the EU may have a surplus of butter and sell this at a very low cost to a small developing country. Where countries can prove that their industries have been severely damaged by dumping, their governments are allowed under international trade rules to impose anti-dumping measures to reduce the damage. However, it is very difficult to prove whether or not a foreign industry is guilty of dumping.

Counter Argument For Free Trade: - A government that subsidizes a domestic industry may actually support dumping. For example, developing countries argue that when the EU exports subsidized sugar, it is actually a came of dumping because the price doesn't reflect that actual cost of the EU sugar producers. Therefore if dumping does occur, it is more likely that there will be a need for talks between governments, rather than any form of protection.

Tariff and Non-tariff barriers

INTRODUCTION

Trade barriers are restrictions imposed on the movement of goods between countries (import and export). The major purpose of trade barriers is to promote domestic goods than exported goods, and there by safeguard the domestic industries. Trade barriers can be broadly divided into tariff barriers and non tariff barriers.

Tariff Barriers

• Term tariff means 'Tax' or 'duty'.

• Tariff barriers are the 'tax barriers' or the 'monetary barriers' imposed on internationally traded goods when they cross the national borders.

Major tariff barriers:

- **Specific duty**: It is based on the physical characteristics of the good. A fixed amount of money can be levied on each unit of imported goods regardless of its price.
- **Ad Valorem tariffs**: The Latin phrase 'ad valorem' means "according to the value". This tax is flexible and depends upon the value or the price of the commodity.
- **Combined or compound duty**: It is a combination of specific and ad valorem duty on a single product, for instance, there can be a combined duty when 10% of value (ad valorem) and 1$ per kilogram(specific tax) are charged on metal M.

- **Sliding scale duty:** The duty which varies along with the price of the commodity is known as sliding scale duty or seasonal duties. These duties are confined to agricultural products, as their prices frequently vary because of natural and other factors.
- **Countervailing duty:** It is imposed on certain import where it is being subsidized by exporting governments. As a result of the government subsidy, imports become cheaper than domestic goods, to nullify the effect of subsidy; this duty is imposed in addition to normal duties.
- **Revenue tariff**: A tariff which is designed to provide revenue or income to the home government is known as revenue tariff. Generally this tariff is imposed with a view of earning revenue by imposing duty on consumer goods, particularly on luxury goods whose demand from the rich is inelastic.
- **Anti –dumping duty**: At times exporters attempt to capture foreign markets by selling goods at rock-bottom prices, such practice is called dumping. As a result of dumping, domestic industries find it difficult to compete with imported goods. To offset anti-dumping effects, duties are levied in addition to normal duties.
- **Protective tariff**: In order to protect domestic industries from stiff competition of imported goods, protective tariff is levied on imports. Normally a very high duty is imposed, so as to either discourage imports or to make the imports more expensive as that of domestic products.

Classification of tariff on the basis of trade relationship:

- **Single column tariff**: here the tariff rates are fixed for various commodities and the same rates are charged for imports from all countries. Tariff rates are uniform for all countries and discrimination between importing countries is not made.
- **Double column tariff**: here two rates of tariff on all or some commodities are fixed. The lower rate is made applicable to a friendly country or the country with which bilateral trade agreement is entered into. The higher rate is made with all other countries.

- **Triple column**: here 3 rates are fixed. They are: general rate, international rate, preferential rate. The first two are similar to lower and higher rates while the preferential rate is substantially lower than the general rate and is applicable to friendly countries with trade agreement or with close trade relationship.

Non-Tariff Barriers

Non-tariff barriers to trade (NTBs) are trade barriers that restrict imports, but are unlike the usual form of a tariff; And Tariff Barriers restricts Exports. Some common examples of NTB's are anti-dumping measures and countervailing duties, which, although called non-tariff barriers. Example of Tariff Barrier is Export Duty.

Non Tariff Barriers

• Any barriers other than tariff.

• It is meant for constructing barriers for the free flow of the goods.

• It do not affect the price of the imported goods.

• It affects the quality and quantity of the goods.

1. **LICENSES**: License is granted by the government, and allows the importing of certain goods to the country.
2. **VOLUNTARY EXPORT RESTRAINS** (VER): these types of barriers are created by the exporting country rather than the importing one. These restrains are usually levied on the request of the importing company. eg. Brazil can request Canada to impose VER on export of sugar to Brazil and this helps to increase the price of sugar in Brazil and protects its domestic sugar producers.
3. **Quotas:** under this system, a country may fix in advance, the limit of import quantity of commodity that would be permitted for import from various countries during a given period. This is divided into the following categories:

a) Tariff quota: certain specified quantity of imports allowed at duty free or at a reduced rate of import duty. A tariff quota, therefore, combines the features of a tariff and import quota.

b) Unilateral quota: the total import quantity is fixed without prior consultations with the exporting countries.

c) Bilateral quota: here quotas are fixed after negotiations between the quota fixing importing country and the exporting country.

d) Multi lateral quota: a group of countries can come together and fix quotas for each country.

4. **Product standards**: here the importing country imposes standards for goods. If the standards are not met, the goods are rejected.
5. **Domestic content requirements**: governments impose DCR to boost domestic production.
6. **Product Labeling**: certain countries insist on specific labeling of the products. Eg. EU insists on products labeling in major languages in EU.
7. **Packaging requirements**: certain nations insist on particular type of packaging of goods. Eg. EU insists on packaging with recyclable materials.
8. **Foreign exchange regulations**: the importer has to ensure that adequate foreign exchange is available for import of goods by obtaining a clearance from exchange control authorities prior to the concluding of contract with the supplier.
9. **State trading**: in some countries like India, certain items are imported or exported only through canalizing agencies like MMTT(minerals and metals trading cooperation of India)
10. **Embargo**: partial or complete prohibition of trade with any particular country, mainly because of the political tensions.

Other NTBs are:

• Health and safety regulations.

• Technical formalities

• Environment regulations

Commodity Agreement

Meaning

A commodity agreement is an undertaking by a group of countries to stabilize trade, supplies, and prices of a commodity for the benefit of participating countries. Commodity agreement usually involves a consensus on quantities traded, prices, and stock management. It serves solely as forums for information exchange, analysis, and policy discussion.

In other words, International Commodity Agreements (ICA's) are essentially multilateral instrumentalities of government control that support the international price of individual primary commodities, especially through such arrangements as export quotas or assured access to markets.

Objectives

- Stimulate a dynamic and steady growth in developing countries.
- Ensure reasonable predictability in the export earnings to provide them with expanding resources for their economic and social development.
- The market for commodities is particularly susceptible to sudden changes in supply conditions, called supply shocks (bad weather, disease, and natural disasters) and cause commodity markets to become highly volatile. In order to avoid these situations, commodity agreements helps the supply to be stable.

Conditions to make an agreement

- Inelastic Demand
- Reasonably stable market share
- Mixed producer-consumer interest

- Distress price levels
- Equal representation for importing and exporting countries
- The assurance of increasing market outlets for supplies originating in the regions of most efficient production.

Forms of commodity agreements

1. **Quota Agreements**: This prevents a fall in commodity prices by regulating their supply. In this type of agreement, allocation of export quotas to participating countries according to a mutually agreed formula takes place. They also restrict export or production by a certain percentage of basic quotas decided by Central Committee or Council.

   Merit: Avoid accumulation of stocks

   Demerit: Misallocation of resources

2. **Buffer Stock Agreements**: Buffer Stock is a stockpile of commodities held by an international organization that aims to stabilize world market prices by buying for and selling from its stockpile. They release stocks of commodities onto the market when prices rise to a certain level and build them up when they fall.

   Merit: They stabilize price by balancing demand supply.

   Demerit: Not applicable to goods which are in danger of deterioration.

3. **Bilateral Agreements**: An agreement is entered between major exporter and a major importer of a commodity. Two kinds of prices called upper price and lower price is fixed. When the prices exist within this limit throughout the period of agreement, the business is inoperative.

   If it rises than the upper price, then the exporting country is expected to sell a specified quantity at upper price fixed. On the other hand, if price falls below the lower limit specified, the importer is obliged to purchase contracted quantity at fixed lower price.

   Merit: Free market conditions are preserved.

Demerit: Creation of two price system.

Imperative commodity agreements

1. **The International Cocoa Agreement :- A**n agreement was made between the seven main cocoa exporting countries, Cameroon, Ivory Coast, Gabon, Ghana, Malaysia, Nigeria and Togo, and the main importing countries including the EU members, Russia, and Switzerland.

   The main purpose of this agreement was to promote the consumption and production of cocoa on a global basis as well as stabilize cocoa prices.

2. **International Coffee Agreement: -** The International Coffee Organization (ICO) is the main inter-Governmental organization for coffee in the year 1962. The main object is increasing world coffee consumption through innovative market development activities by means of statistics and market study and also promoting the improvement of coffee quality. United States led recent efforts to renegotiate the ICA, and seventh International Coffee Agreement (ICA 2007) was adopted by the International Coffee Council on September 28, 2007.

3. **International Tropical Timber Agreement: -** The International Tropical Timber Agreement (ITTA), established International Tropical Timber Organization (ITTO), an intergovernmental organization with 59 members, with an objective of sustainable management of tropical forests. The agreement was signed in the year 1994 and it was re-negotiated in the year 2006 for implementing better policies. ITTO promotes market transparency by collecting, analyzing and disseminating data on the production and trade of tropical timber. It facilitates intergovernmental consultation and international co-operation on issues relating to the trade and utilization of tropical timber and the sustainable management of its resource base.

4. **International Sugar Agreement: -** International commodity agreements, in their modern form, may be dated from the Brussels Sugar Convention (1902), the major contemporary exporters of beet sugar undertook to support the international market by abandoning national systems of export subsidies. Floor and ceiling prices were established and enforced essentially by regulating the permissible exports of member countries**.**

5. **Other Agreements**

- International Natural Rubber Agreement
- International Tin Agreement
- International Wheat Agreement
- A case on The Organization of Petroleum Exporting Countries (OPEC) is also notable.

Advantages

- Such agreements tend to be strongly favored by the less developed countries as a means of "stabilizing" the foreign exchange.
- A place for overseas suppliers within the Common Market.
- Reduce the budgetary burden resulting from a combination of direct payments, unrestricted domestic production.

Disadvantages

- Stabilization of the price paid for only a portion of world export sales trends.
- The price swings experienced by these commodities have by and large been reversible.
- The important virtue of taking into account fluctuations in export volume rather than responding exclusively to variations in commodity prices.

Conclusion

This is to conclude that commodity agreement aims in bringing stabilized price as allocator of resources and indicator of trends. Although there are some difficulties in terms of technology, it is manageable to make agreements more effective. It is advisable that the appropriate forms are combined to control the losses and make the best use of the agreement to become a self reliant and develop ourselves rather than using a single technique.

Regional Economic Integration

Introduction

Regional Economic Integration refers to agreement between groups of countries in geographic region to reduce and ultimately remove tariff and non tariff barriers to the free flow of goods, services and factors of production between each other countries. Regional trade agreements are design to promote free trade, but instead the word may be moving toward a situation in which a number of regional trade blocks compete against each other.

Objectives of economic integration

- To pursue non-economic objectives such as strengthening political ties and managing migration flows.
- To ensure increased security of market access for smaller countries by forming regional trading blocs with larger countries.
- To improve members bargaining strength in multilateral trade negotiations or to protest against the slow trade of pace negotiations.
- To promote regional infant industries which cannot be viable without a protected regional market

Levels of integration

- **Free trade area**: - A free trade area is a grouping of countries to bring about free trade between them. The free trade area abolishes all restrictions on trade among the members but each member is left free to determine its own commercial policy with non-members.
- **Customers union: -** It not only eliminates all restrictions on trade among members but also adopts a uniform commercial policy against the non members.
- **Common market**: - It allows free movement of labor and capital within the common market, besides having the two characteristics of the customers union, namely, free trade among members and uniform tariff policy towards outsiders.

- **Economic union**: - The economic union achieves some degree of harmonization of national economic policies, through a common central bank, unified monetary and fiscal policy etc.

European Union: - It comprised six nations, namely, Belgium, France, Federal republic of Germany, Italy, Luxembourg and Netherland was brought into being on January 1, 1958 by the Treaty of Rome, 1957.

- Eliminate tariffs, quotas and other barriers on intra community trade.
- Devise a common internal tariff on imports from the rest of the world.
- Allow the free movement of factors of production within the community.
- Harmonize their taxation and monetary policies and social security policies.

European Union 1992

- The community members of Customs union had taken some steps towards their economic policies including adoption of agricultural policy in 1962 and established the European monetary system in 1979.
- The EC council promptly committed the EC to carry out the white paper's program named "completing the internal market" by 1992.
- This program which envisaged the unification of the economies of member nations into a single market by removing all border barriers to trade and factor mobility.
- Border control
- Limitations on the movement of people and their right of establishment
- Differing internal taxation regimes
- Lack of common legal framework for business
- Controls on movement of capital
- Heavy and differing regulation of services

- Divergent product regulations and standards
- Protectionist public procurement policies.

NORTH AMERICA FREE TRADE AGREEMENT (NAFTA)

- The North American free trade Agreement (NAFTA) had its origin in the Canada-US free trade Agreement, which became effective on January 1, 1989.
- Mexico became a member of it with effect from January 1, 1994. NAFTA is a large trading bloc with a combined population and total GNP greater than the 15-member EU.
- NAFTA is perceived to expand by pulling together north, central and South America. NAFTA has achieved substantial trade liberalization.
- The two way trading relationship between US and Canada is the largest in the world. Mexico replaced Japan as the second-largest market for US exporters, while remaining as the third most important supplier to the US

FUNCTIONS OF NAFTA

- To eliminate barriers to trade in, and facilitate the cross border movement of, goods and services between the territories of the parties.
- Promote the conditions of fair competition in the free trade area.
- Increase substantially investment opportunities in their territories
- Provide adequate and effective protection and enforcement of intellectual property rights in each party's territory.
- Create effective procedures for the implementation and application of this agreement, and for its joint administration and the resolution of disputes.

CARTELS

CARTEL

A Cartel is formal "agreement'' among competing firms. It is a formal organization of producers and manufacturers that agree to fix prices, marketing, and production. Cartels usually occur in an oligopolistic industry. A group of parties, factions, or nations united in a common cause; a bloc.

Firms form a cartel so that they can raise profits

Facts of cartels:- The name is derived from Edmund Cartel and Georges Cartel. The aim of such collusion is to increase individual members' profits by reducing competition. Cartels usually occur in an Oligopolistic Industry .Cartel members may agree on matters as Price Fixing Total Industry Output, Market Shares, and Allocation of Customers

Definition of 'Cartel'

A cartel is a collection of businesses or countries that act together as a single producer and agree to influence prices for certain goods and services by controlling production and marketing. A cartel has less command over an industry than a monopoly - a situation where a single group or company owns all or nearly all of a given product or service's market.

Negative effect on Consumer's interests

- Increase the prices
- Lacks transparency

- Restrict output
- Carve up the market

Successful Cartel

- All the members of the cartel must agree on the price and the production levels of the product.
- The potential of a member to gain monopoly
- Inter-market contact between firms increases

Unsuccessful Cartel

- Unable to prevent members from cheating because they cannot prevent entry or competition from new products
- Cartels are inefficient to the extent that they approximate the behavior of a monopolist
- Lack of Coordination

Conclusion

Cartel agreements are economically unstable. Once a cartel is broken, the incentives to form the cartel return and the cartel may be re-formed. International and national cartels are hard to burst. Cartels do not abolish competition, but regulate it.

UNIT -3

INTERNATIONAL INSTITUTE OF TECHNOLOGY & MANAGEMENT, MURTHAL SONEPAT
E-NOTES, Subject: International Business, Subject Code: BBA-310-B,
Course: BBA, Semester-6th
(Prepared By: Ms. Shweta, Assistant Professor, BBA)

Topic covered: - Balance of payment: concept, components of BOP, disequilibrium in BOP, causes of disequilibrium in BOP, Foreign exchange market, nature of transactions in foreign exchange market and type of players, foreign direct investment: types, reasons of increased FDI inflow in developing economies, impact of FDI in home and host country.

Balance of Payment

Introduction

- Balance of payment (BOP) accounts are an accounting records of all monetary transactions between a country and the rest of the world. These transactions include payment for the country's exports and imports of capital, goods & services.
- The BOP situation of India started improving since 1992-1993.
- A country has to deal with other countries in respect of 3 items:-

a. Visible items:-which include all types of physical goods exported and imported.

b. Invisible items:-which include all those services whose export and import are not visible. e.g. medical services

c. Capital transfers:- which are concerned with capital receipts and capital payment.

Definition: - According to Kindle, "the balance of payment of a country is a systematic record of all economic transactions between a country and the rest of the world.

Objective: - Its main objective is to represent the economic position of a country, whether its currency is rising or falling in its external value.

Features

- It is a systematic record of all economic transaction between one country and the rest of the world.
- It includes all transactions, visible as well as invisible.

- It adopts a double-entry book keeping system. It has two sides:-

a. Credit side - Receipts

b. debit side - Payment

- All items – government and non-governments.

Components of BOP

1. **Current Account Balance**

   BOP on current account is a statement of actual receipts and payment in short period. It is a real account. It includes the value of export and imports of both visible goods. The current account includes: - export and import of services, interest, profits and dividends. BOP on current account= (visible + invisible exports)-(visible + invisible import)

2. **Capital Account Balance: -** It refers to all financial transactions. It is the difference between the receipts and payment on account of capital account. The capital account involves inflows and outflows related to investments, short, medium and long term borrowings. There can be surplus or deficit in capital account. It includes: - private foreign loan flow, gold movements etc.

3. **Overall BOP: -** Deficit or surplus of current account is set off by capital account. Capital account is set off by current account.

Balance of Trade

- BT= Export of Visible items- import of visible items
- Favorable BOT = Export> Import
- Unfavorable BOT= Export< Import
- Equilibrium in BOT= Export =Import

Basis of comparison	**BOT**	**BOP**
Meaning	BOT is a statement that captures the country's export	The balance of payment of a country is a systematic record of

	and import of goods with the remaining world.	all economic transactions between a country and the rest of the world.
Records	Goods only	Both goods and services
Capital transfer	Not include	include
Result	Favorable, unfavorable and balanced	Both receipts and payment side's tallies.
Component	Current account only	Current and capital account
Basis of comparison	**BOT**	**BOP**

Balance of Payments Always Balances

- Balance of payment in accounting sense
- Balance of payment in operational sense

STRUCTURE OF BOP

Receipts/Credit	Payments/Debit
CURRENT A/C	
•Export of Goods •Export of Services •Services rendered by Domestic Commercial co. •Services of Domestic Experts •Export by Foreign Tourists •Receipts from Transportation Services •Income from Foreign Investment •Income from Export of Foreign Govt. •Gifts & Donations received •Mixed Export by Foreigners •Unilateral transfers from rest of the world.	•Import of goods •Import of services •Services rendered by foreign companies •Services of foreign experts •Export of country's tourists abroad •Payments for the domestic use of foreign transportation •Income to foreign from investment made at home. •Govt. export in foreign countries •Gifts & Donations to the foreigners •Mixed Export in foreign countries •Unilateral transfers to rest of the world

Receipts/Credit	Payments/Debit
CAPITAL A/C	
•Foreign private loans	•Repayment of private loans from foreigners
•Inflow of banking capital	•Outflow of banking capital
•Loans received by the govt.	•Repayment of loans by govt. sector
•Reserves & Monetary gold inflows	•Reserves & Monetary gold transfers payments
•International sales of gold	•Purchase of gold in International market
•Capital Receipts	•Capital Payments

Meaning of disequilibrium in balance of payments

A country's balance of payments is in disequilibrium when there is no perfect equality between the demand and supply for foreign exchange.

Unfavorable and favorable BOP

- Balanced BOP:-

  $B = R - P = 0$

- Favorable BOP:-

  $BF = R - P > 0$

- Unfavorable BOP:-

  $BU = R - P < 0$

R= Receipts

P= Payment

Causes of disequilibrium in balance of payments

- Natural causes
- National Income

- International relationship
- Economic Development plans
- Population Explosion
- Change in foreign exchange rate
- Decline in foreign demand
- Political factors-like instable govt.
- Price cost effect
- Change in taste

Method of correcting disequilibrium in balance of payments

- Export promotion
- Import substitution
- International relationship
- End of political alliances
- Liberal industrial policy
- Foreign loans
- Social Measures
- Encouragement to foreign investment
- Attraction to foreign tourist
- Full convertibility of rupee

Importance of Bop

- Knowledge of foreign Receipts and Payments.
- Knowledge of foreign investments

- Helpful in national planning
- Helpful for international financial organization
- Determination of National Economic Policy.

Foreign Exchange Market

Introduction

Foreign exchange is the mechanism by which the currency of one country gets converted into the currency of another country. The conversion of currency is done by the banks who deal in foreign exchange. These banks maintain stocks of one currency in the form of balances with banks. The **Foreign Exchange Market** is a market where the buyers and sellers are involved in the sale and purchase of foreign currencies. In other words, a market where the currencies of different countries are bought and sold is called a foreign exchange market.

Nature of foreign exchange

- Volatile, affected by hedger, arbitrager, speculator.
- Affected by demand and supply. Affected by rate of interest.
- Affected by balance of payment surplus and deficit.
- Affected inflation rate.
- Spot and forward rates are different.
- Affected by the economic stability of the country.
- Affected by the fiscal policy of the government.
- Affected by the political condition of the country.
- It can be quoted directly or indirectly

Functions of Foreign Exchange Market

- **Transfer Function:** The basic and the most visible function of foreign exchange market is the transfer of funds (foreign currency) from one country to another for the settlement of payments. It basically includes the conversion of one currency to another, wherein the role of FOREX is to transfer the purchasing power from one country to another.

  For example**,** if the exporter of India import goods from the USA and the payment is to be made in dollars, then the conversion of the rupee to the dollar will be facilitated by FOREX. The transfer function is performed through a use of credit instruments, such as bank drafts, bills of foreign exchange, and telephone transfers.

- **Credit Function:** FOREX provides a short-term credit to the importers so as to facilitate the smooth flow of goods and services from country to country. An importer can use credit to finance the foreign purchases. Such as an Indian company wants to purchase the machinery from the USA, can pay for the purchase by issuing a bill of exchange in the foreign exchange market, essentially with a three-month maturity.

- **Hedging Function:** The third function of a foreign exchange market is to hedge foreign exchange risks. The parties to the foreign exchange are often afraid of the fluctuations in the exchange rates, i.e., the price of one currency in terms of another. The change in the exchange rate may result in a gain or loss to the party concerned.

Types of Foreign Exchange Transactions

- **Spot Transaction:** The spot transaction is when the buyer and seller of different currencies settle their payments within the two days of the deal. It is the fastest way to exchange the currencies. Here, the currencies are exchanged over a two-day period, which means no contract is signed between the countries. The exchange rate at which the currencies are exchanged is called the Spot Exchange Rate**.** This rate is often the prevailing exchange rate. The market in which the spot sale and purchase of currencies is facilitated is called as a Spot Market.

- **Forward Transaction:** A forward transaction is a future transaction where the buyer and seller enter into an agreement of sale and purchase of currency after 90 days of the deal at a fixed exchange rate on a definite date in the future. The rate at which the currency is exchanged is called a Forward Exchange Rate. The market in which the deals for the sale and purchase of currency at some future date are made is called a Forward Market.
- **Future Transaction:** The future transactions are also the forward transactions and deals with the contracts in the same manner as that of normal forward transactions. But however, the transaction made in a future contract differs from the transaction made in the forward contract.
- **Swap Transactions:** The Swap Transactions involve a simultaneous borrowing and lending of two different currencies between two investors. Here one investor borrows the currency and lends another currency to the second investor. The obligation to repay the currencies is used as collateral, and the amount is repaid at a forward rate. The swap contracts allow the investors to utilize the funds in the currency held by him/her to pay off the obligations denominated in a different currency without suffering a foreign exchange risk.
- **Option Transactions:** The foreign exchange option gives an investor the right, but not the obligation to exchange the currency in one denomination to another at an agreed exchange rate on a pre-defined date. An option to buy the currency is called as a Call Option, while the option to sell the currency is called as a Put Option.

Foreign Direct Investment

Introduction:- Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

Definitions

- Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans".
- In a narrow sense, foreign direct investment refers just to building new facilities.

Need of FDI

- Improvement of Economical infrastructure
- Technological Up gradation
- Managing Balance of Payments
- Exploitation of Natural Resources
- Scope of Employment
- Improvement of export
- Export competitiveness
- Benefit to consumers

Types of FDI

1. **Greenfield investment**: direct investment in new facilities or the expansion of existing facilities. Greenfield investments are the primary target of a host nation's promotional efforts because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace. However, it often does this by crowding out local industry; multinationals are able to produce goods more cheaply (because of advanced technology and efficient processes) and uses up resources (labor, intermediate goods, etc).
2. **Mergers and Acquisitions**: occur when a transfer of existing assets from local firms to foreign firms takes place, this is the primary type of FDI. Cross-border mergers occur when the assets and operation of firms from different countries are combined to establish a new legal entity. Cross-border acquisitions occur when the control of assets and operations is transferred from a

local to a foreign company, with the local company becoming an affiliate of the foreign company.

3. **Horizontal Foreign Direct Investment**: is investment in the same industry abroad as a firm operates in at home.

4. **Vertical Foreign Direct Investment**: Takes two forms:
   - Backward vertical FDI: where an industry abroad provides inputs for a firm's domestic production process
   - Forward vertical FDI: When an MNC uses its home supplied inputs for production in host country.

5. **Conglomerate FDI:** When MNC manufactures the product in foreign countries which are not manufactured by the company at home.

6. **Wholly Owned Subsidiary**-A Wholly Owned Subsidiary, is an entity that is controlled completely by another entity. The controlled entity is called a company, corporation, or limited liability company, and the controlling entity is called its parent (or the parent company). The reason for this distinction is that an individual cannot be a subsidiary of any organization; only an entity representing a legal fiction as a separate entity can be a subsidiary. While individuals have the capacity to act on their own initiative, a business entity can only act through its directors, officers and employees. The most common example of a wholly owned subsidiary in India is LG that was set up in 1997 as LGEIL (LG Electronics India Ltd.)

COSTS & BENEFITS OF FDI

HOST COUNTRY

- Benefits to the host country:
  - Availability of scarce factors of production.
  - Improvements on BOP.
  - Building of economic & social infrastructure.

- Fostering of economic linkages.
- Strengthening of the govt. budget.

➢ Cost to the host country:

- Strained BOP following reverse flow.
- Dependence on the import of technology
- Employment of expatriates.
- Inappropriate technology
- Unhealthy competition
- Cultural & political interference.

HOME COUNTRY

➢ BENEFITS

- Availability of raw material
- Improvement in BOP
- Employment generation
- Revenue to the govt.
- Improved political relations

➢ COSTS

- Undesired outflow of factors of production
- Possibility of conflict with the host-country government.

Factors influencing FDI

1. **Supply Factors**-These factors influence a firms decisions relating to FDI.

- **Production cos**t-low production cost, low labor cost low taxes etc.(example-ford plant in Chennai-(car export to S.A)

- **Logistics-** coke and Pepsi bottling plant in India.
- **Natural resources**-MNC tends to utilize FDI to access natural resources that are critical to them. Example Japan paper mill.
- **Availability of quality human resource at low cost**. Example- India, china, Malaysia attracts FDI as the cost of operations of business in these countries is relatively less.
- **Access to key technology-** existing technology rather developing technology.

2. **Demand Factors**

- **Customer Access-** operations close to customer(fast food or service oriented and retail outlets) example- KFC
- **Marketing Advantage-** low market costs, hand on experience regarding customers, market handling, improving customer services etc.
- **Exploitation of competitive advantages**- enjoys competitive advantage through trademarks, brand name, and technology etc.

3. **Political Factors**

- **Avoidance of trade barriers-** companies establish production facilities in foreign market to avoid trade barriers like high export tariffs, quotas etc.
- **Economic Development Incentives**- Government at different levels like- local, state and national levels offer incentive.

UNIT -4

Topic covered: -International financial institutions and liquidity- IMF, IBRD, IFC, World trade organization- objectives, organization structure and functioning, WTO and India, International human resource management, International marketing management.

International Monetary Fund (IMF)

Definition: The International Monetary Fund is an organization of 189 member countries. It stabilizes the global economy in three ways. First, it monitors global conditions and identifies risks. Second, it advises its members on how to improve their economies. Third, it provides technical assistance and short-term loans to prevent financial crises. The IMF's goal is to prevent these disasters by guiding its members.

The International Monetary Fund (IMF), is an international monetary institution established by 44 nations under the Bretton Woods Agreement of July 1944. It was established to –

- promote economic and financial cooperation among its members
- To facilitate the expansion and balanced growth of world trade
- To eliminate the widespread devastation and economic loss of the Second World War.

Membership

At present 186 countries are members of the International Monetary Fund. To join the IMF, a country must deposit a sum of money called a quota subscription, the amount of which is based on the wealth of the country's economy. Quotas are reconsidered every five years and can be increased or decreased based on IMF needs and the prosperity of the member country. Voting rights are allocated in proportion to the quota subscription.

Objectives of International Monetary Fund

The main objectives of International Monetary Fund are as follows –

- International Monetary Cooperation – Due to widespread devastation after the Second World War monetary cooperation among member countries was needed to prevent the outbreak of another war.
- To ensure stability in foreign exchange rates – the instability in foreign exchange rates produced adverse repercussions on international trade; hence the IMF was established to curb this situation.
- To eliminate exchange control – IMF strives to remove or relax exchange controls with a view to give encouragement to the flow of International Trade.
- To establish a system of multilateral trade and payments system – This was considered necessary as the old bilateral trade agreements obstructed the free flow of international trade.
- To help member nations to achieve balanced economic growth of international trade.
- To eliminate the disequilibrium in the balance of payments.
- To promote investment of capital in undeveloped countries.

Organization and structure of International Monetary Fund (IMF) The structure of the International Monetary Fund consists of –

- Board of Governors
- An Executive Board
- A managing Director
- A Council and a staff with its headquarters at Washington, USA.
- There are adhoc and standing committees appointed by the Board of Governor and the Executive Board.
- There is also an Interim Committee appointed by the board of governors.

The Board of Governors and the Executive Board are decision making organs of the Fund. The Board of Governors is the top structure composed of one Governor and one alternate Governor appointed by each member. The Board has now 24 members who meet annually to take decisions regarding policies of the fund and fund activities.

The Executive board has 21 members, five Executive Directors appointed by five members with the largest quotes and 15 Executive Directors are elected at intervals of two years by the remaining members according to the constituencies on a geographical basis. Its power relate to all regulatory, supervisory and financial activity of the fund.

The Managing director of the fund is elected by the Executive Directors. He is the non-voting Chairman of the Executive Board and the Head of the Fund staff and is responsible for its organization, appointment and dismissal.

The Interim Committee was established along with the development committee in October 1974 to advise the Board of Governors on supervising the management and report all aspects of the transfer of real resources to developing countries respectively. Both the committees consist of 22 members currently.

Functions or activities of the International Monetary Fund (IMF)

- It serves as a short term credit institution.
- The fund provides a mechanism for improving short term balance of payments position.
- The fund provides machinery for international consultations.
- It provides a reservoir of the currencies of the members countries and enables members to borrow one another's currency.
- It promotes orderly adjustment of exchange rates to promote exchange stability.

Advantages of International Monetary Fund (IMF)

- Establishment of a monetary reserve fund – Under this system, the fund is able to accumulate a sufficient stock of the national currencies of different countries which meets the foreign exchange requirements of the member countries.
- Setting up of a Multilateral Trade and payments System – It was hoped that restrictions on foreign trade would be eliminated after the end of the transitional period.
- Improvement in short term disequilibrium in balance of payments. This is achieved by lending foreign currencies to member countries against their national currency.
- Stability in Foreign Exchange Rates – the fund has attached a certain amount of stability in foreign exchange rates, this stability had the effect of promoting the flow of international trade among different countries.
- Advisory and Technical assistance – It helped member countries through its policy advice and technical assistance in formulating sound policies and building robust institution.

Criticism of International Monetary Fund (IMF)

- Limited scope – Its scope is limited as it deals only with imbalances in payments which arise from current trade transactions and not with the repayments of war loans or of blocked reserves.
- Fixation of unscientific quotes – The quotes of the various member countries have not been fixed on any scientific basis. It is criticized that the fund has been continuously dominated by few countries.
- Inability to remove exchange control – It has not succeeded in persuading member countries to eliminate exchange controls and other restrictions on foreign trade.
- Inadequate provision of liquidity – The fund found it difficult to meet the foreign exchange requirements of its members because of its limited resources. Despite various efforts there has been no perceptible improvement in the international liquidity situation.

- Inadequate representation of developing country – About 90% of the members of the International Monetary Fund are developing countries but they have been given only 38% of the total voting power in the affairs of the fund.

Conclusion

The IMF's primary purpose is to safeguard the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to buy goods and services from each other. This is essential for achieving sustainable economic growth and raising living standards**.** Its providing advice to members on adopting policies that can help them prevent or resolve a financial crisis, achieve macroeconomic stability, accelerate economic growth, and alleviate poverty; making financing temporarily available to member countries to help them address balance of payments problems—that is, when they find themselves short of foreign exchange because their payments to other countries exceed their foreign exchange earnings; and offering technical assistance and training to countries at their request, to help them build the expertise and institutions they need to implement sound economic policies.

World Bank

Definition: The World Bank is an international organization that helps emerging market countries reduce poverty. It is not a bank in the conventional sense of the word. Instead, it consists of two development institutions. One is the International Bank for Reconstruction and Development. The second is the International Development Association. The Bank's 189 member countries share ownership.

The Bank works closely with three other organizations:

1. The International Finance Corporation
2. The Multilateral Guarantee Agency

3. The International Centre for the Settlement of Investment Disputes.

The International Bank for Reconstruction and Development (IBRD) commonly referred to as World Bank, is an international financial institution whose purposes include assisting the development of its member nation's territories, promoting and supplementing private foreign investment and long term balance growth in international trade.

World Bank was established in July 1994 at United Nations monetary and financial conference in Bretton Woods, New Hampshire. It started operating on June 1946 and helped in reconstruction of nations devastated by World War II.

The World Bank has at present, three affiliates –

- International Development Association (IDA)
- International Finance Corporate (IFC)
- Multilateral Investment Guarantee Agency (MIGA)

Membership The members of the international monetary fund are the members of IBRD. It has 188 members 15th August, 2015. If a country resigns its membership, it is required to pay back all loans with interest on due dates.

Organizational structure of World Bank

The organization of the bank consists of the president, Board of Governors, Board of Executive Directors, the advisory and loan committee and other staff members.

- Board of Governors is the supreme policy making body consisting of one governor and alternative governor appointed for 5 years by each member country.
- Board of Executive Directors consists of 21 members, 6 of them are appointed by the six largest shareholders namely, USA, UK, West Germany, France, Japan, India, the rest 15 are elected by the remaining countries. The board meets regularly once a month to carry out routine working of the bank.

- The President is appointed by the board of executive directors. He acts as the chief Executive of the bank and is responsible for conducting day to day business of the bank.
- The Advisory and Loan committees are appointed by the board of Directors. It consists of 7 members.
- The Board of Governor and Executive Directors both hold voting power related to the contribution of Government which it represents.

Objectives of the World Bank

- To provide long run capital to member countries for economic reconstruction and development.
- To induce long-term capital investment for assuring Balance of Payment equilibrium and balanced development of international trade.
- To provide guarantee for loans granted to small and large units of member countries.
- To ensure the implementation of development projects.
- Promote capital investment in member countries by – (a) Providing guarantee on private loans (b) Providing loans for productive activities

Functions of the World Bank

1. **Borrowing Activities** –The IBRD is a corporate institution where capital is subscribed by its members. It finances its lending operations from its own medium and long term borrowings in the international capital market and currency swap agreements (CSA).

   It also borrows under the Discount – Note Programme – it places bond and notes directly with its member government and offers issued to investors and in public markets.

2. **Lending Activities –** The bank lends to its member countries in any of the following ways –

   a. By marketing or participating in Loans out of its own fund

b. By making or participating in direct loans out of funds raised in the market of the member or otherwise borrowed by bank.

c. By guaranteeing in whole or in part loans made by private investors.

3. **Training –** It set up the Economic Development Institute (EDI) for training senior officials and helps them to improve the management of their economics and to increase the efficiency of their investment programmes.
4. **Technical and Advisory Assistance –** It consists of two broad categories –
   - Engineering related – Feasibility studies, engineering design and Construction supervision.
   - Institution related – Diagnostic policy and Institutional studies, Management support and Training.
5. **Economic and Social Research –** It devotes roughly 3% of its budget to economic and social research. It established Research Policy Council (RPC) to provide leadership in the guidance, coordination and evaluation of all bank research. It published World Development Report every year.
6. **Operations Evaluation –** It helps borrowers in the post evaluation of their bank assisted projects. It set up the Operations Evaluation Department (OED) for this purpose.
7. **Settlement of Investment Disputes** – It set up the International Centre of Settlement of Investment Disputes (ICSID) between States and Nationals of other States River Water Dispute and Suez Canal Dispute are some successful examples.

Criticism of World Bank

- High interest rate – It charges a very high interest rate on loans, and also an annual commitment charge and a front-end fee. Presently it is 7.6%.
- Less aid to developing countries – Its lending operations account for only a small proportion of the total net and to developing countries.

- Faulty lending procedure – It is regarded to be faulty as it lays emphasis on the repaying capacity of the borrowing country before granting loans.
- Discriminatory – The bank has been criticized to be discriminatory in its purpose-wise and region-wise assistance to its members.
- Hard conditionality – The introduction of SAF and ESAF has made loan terms tighter. The borrowing country is required to follow an action programme set out in a letter of development policies.

India and the World Bank → World Bank has made a significant contribution to India's planned economic development through its direct and indirect assistance.

- Founder–member – India is a founder member of the Bretton Woods Twins, i.e. the World Bank and IMF. It has a permanent place on the bank's executive board.
- Loans – India has been the largest recipient of development finance from the World Bank. It granted loans worth Rs. 1992 cores in 1999-2000.
- Assistance from IDA – World Bank's subsidiary institution IDA provides loans from its soft window. It received loan worth Rs. 3464 crore in 1999-2000 from IDA.
- Purpose of Loans – Its purpose for providing loans has mainly been for development activities. It financed projects like railway, power aviation, agricultural development etc. It has extended loans to financial institutions like IDBI and ICICI.
- Technical Assistance – It sent a number of missions to India to evaluate the working and progress of its five year plan.
- Assistance from Aid India Club – The World Bank founded Aid India Club in 1950 to provide massive assistance to finance India's developmental plans.

IFC (International Finance Corporation)

Introduction

- It offers investment, advisory and asset management services to encourage private sector development in developing countries.
- Established in 1956.
- Have 184 member countries.
- To join IFC a country must first be a member of IBRD.
- CEO is Jin-Yong Cai
- Headquartered in Washington DC.
- Primary objective is to improve the quality of lives of the people in its developing countries.
- Helps private companies to mobilize financing international financial markets and also provides advice and technical assistance to businesses and governments.
- It's a corporation where shareholders are member governments that provide paid-up capital and consists of 25 executive directors.
- The executive director from India represents a constituency of 4 countries India, Bangladesh, Bhutan and Srilanka.

Goals of IFC:

- Sustainable agriculture opportunities.
- Improve health and education.
- Increase access to financing for microfinance and business clients.
- Advance infrastructure.
- Help small business grow revenues.
- Invest in climate health.

Purpose of forming IFC:

- Create opportunities for people to escape poverty and achieve better living standards by mobilizing financial resources for private enterprise.
- Promoting accessible and competitive markets.
- Supporting business and other private sector entities.
- Creating jobs and delivering necessary services to those who are poverty stricken.

Objectives of IFC:

- To invest in productive private enterprises in association with other private investors and without Govt. guarantee of repayment in cases where sufficient private capital is not available on reasonable terms.
- To bring together investment opportunities, private capital and experienced management.
- To help in stimulating the productive investment of private capital, both domestic & foreign.

Services Provided:

- Loans
- Equity
- Trade & supply chain finance
- Syndications
- Treasury client solutions
- Venture capital
- Advisory
- Asset management

Expertise Fields:

- Agribusiness & Forestry.

- Financial institutions.
- Funds.
- Health & education.
- Infrastructure.
- Manufacturing.
- Oil, Gas & Mining.
- Public – private partnerships.
- Telecommunications.
- Media &Technology.
- Tourism.
- Retail & Property.

Projects Undertaken in India:

IFC is supporting M.P Government to setup the 750MW Rewa-Ultra mega solar power project which is largest single – site solar power project in the world.

World Trade Organization

Introduction

Uruguay round of General Agreements on Tariffs and Trade (GATT) (1968-93) gave birth to World Trade Organization (WTO). World Trade Organization was formed as a replacement for General Agreements on Tariffs and Trade in 1995 with the purpose of supervising and liberalizing international trade.

Unlike GATT, World Trade Organization is a permanent organisation which has been established on the basis of an international treaty approved by participating countries. WTO has a total of 157 member countries accounting for over 97% of the world trade.

Objectives of World Trade Organization

- To accept the concept of sustainable development
- To protect the environment
- To ensure optimum utilization of world resources
- To enlarge production and trade of goods
- To ensure full employment and increase in effective demand
- To improve the standard of living of people of member countries

Functions of World Trade Organization

- To deal with regulation of trade between participating countries
- To provide a framework for negotiations and formalization of trade agreements
- It is responsible for enforcing trade laws and agreements
- It monitors trade services and trade related aspects at intellectual property rights
- To assist international organizations such as IMF and IBRD
- To provide a framework for dispute settlement

Structure of World Trade Organization

World Trade Organization is supervised by a highest authority called Ministerial Conference which consists of representatives of all WTO members. It meets at least once in two years to take decisions on all matters of multilateral trade.

WTO consists of a general body called general council which directly reports to the ministerial conference. It delegates responsibilities to 3 bodies –

(a) Council for Trade in Goods

(b) Council for Trade in Services

(c) Council for Trade-related aspects of intellectual property rights

Benefits of World Trade Organization

- The system helps promote peace
- Disputes are handles constructively
- Free trade cuts the cost of living
- Provides more choice of products and quality
- Trade raises incomes and stimulates economic growth
- Governments are shielded from lobbying
- The system encourages good governance
- Trade liberalization has helped in economic growth
- It provides a platform for multilateral discussions
- It has helped in reducing various tariff and non-tariff barriers
- It reviews economic policies and formulate new ones through trade reviews

Drawbacks of World Trade Organization

- Industrialization and decision making are dominated by developed countries.
- Developing nations do not have financial resources to participate in WTO discussions on negotiations.
- Very less attention is given to the development of under developed countries
- Rules and regulations cannot be strictly enforced on developed countries who are members of WTO.

International Human Resource Management (IHRM)

Introduction

- IHRM can be defined as set of activities aimed managing organizational human resources at international level to achieve organizational objectives and achieve competitive advantage over competitors at national and international level.
- IHRM includes typical HRM functions such as recruitment, selection, training and development, performance appraisal and dismissal done at international level and additional activities such as global skills management, expatriate management and so on.

OBJECTIVES OF IHRM

- Create a local appeal without compromising upon the global identity.
- Generating awareness of cross cultural sensitivities among managers globally and hiring of staff across geographic boundaries.
- Training upon cultures and sensitivities of the host country.

NEED FOR IHRM

- Managing expatriates
- Globalization has forced HRM to have international orientation
- Effectively utilize services of people at both the corporate office and at the foreign plants

FUNCTIONS OF IHRM

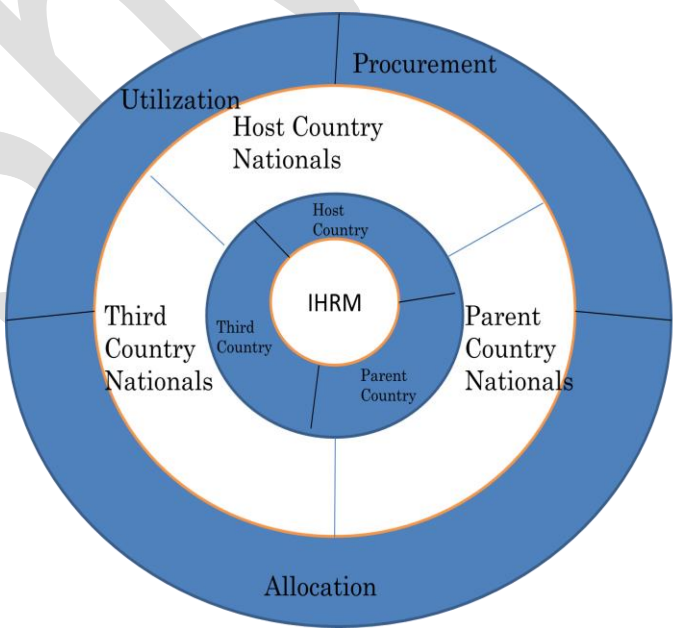
- RECRUITMENT
- SELECTION
- EXPATRIATES
- PERFORMANCE APPRAISAL
- TRAINING AND DEVELOPMENT
- COMPENSATION

- WOMEN IN INTERNATIONAL BUSINESS
- DUAL CAREER GROUPS
- INTERNATIONAL INDUSTRIAL RELATIONS
- TRADE UNIOUNS
- PARTICIPATIVE MANAGEMENT

Characteristics of IHRM

- More HR activities
- Need for a broader perspective
- More involvement in employee personal lives
- Changes in emphasis as the workforce mix of expatriates and locals vary
- Risk exposure
- More external influences

Nature of international human resource management



1. There are three broad human resource activities, viz., procurement, allocation and utilization.

2. There are three national or country categories involved in IHRM activities are:-

   i) the host country where a subsidiary may be located.

   ii) the home country where the head office is located

   iii) other countries that may be suppliers of finance, labor and other resources

3. The three categories of employees in international firm:-

   i)HCNs

   ii)PCNs

   iii)TCNs

IHRM is the interplay among these three dimensions- the human resource activities, types of employees and countries of operations.

International HRM compared with domestic HRM

1. HR activities are the same whether they are specific to one country or extend to several countries.
2. Environmental forces which impact the functioning of an HR department, whether it is domestic or global business. (political, legal, economic and cultural differences)
3. Interventions apply to both (performance management, motivation)

DIFFERENCE BETWEEN DHRM & IHRM

1. More HR activities (heterogeneous functions)
2. Broader perspective
3. More involvement in employee’s personal lives
4. Changes in emphasize as the workforce mix of PCNs and HCNs varies
5. Risk exposure

6. More Functions (international taxation, international relocation)

Issues in international human resource management

- Managing international assignments: Articles about the selection, training, compensation and repatriation of expatriate failure. Many articles refer to expatriate managements as the major concern of HR managers in MNCs.
- Employee and family adjustment
- Selecting the right person for a foreign assignment
- Culture
- Language and communication

Barriers to effective global HRM

- Variation (worldwide variations in social, political and economic circumstances)
- Perception of HR (business partner or transactional personnel)
- Attitudes and actions of headquarters towards HR
- Resistance to change
- Cultural difference in learning and teaching styles.

International Marketing Management

Definition: - International Marketing can be defined as exchange of goods and services between different national markets involving buyers and sellers. According to the American Marketing Association, "International Marketing is the multi-national process of planning and executing the conception, prices, promotion and distribution of ideal goods and services to create exchanges that satisfy the individual and organizational objectives."

Concepts of international marketing

- **Domestic Marketing:** Domestic Marketing is concerned with marketing practices within the marketer's home country.
- **Foreign Marketing:** It refers to domestic marketing within the foreign country.
- **Comparative Marketing:** when two or more marketing systems are studied, the subject of study is known as comparative marketing. In such a study, both similarities and dis-similarities are identified. It involves an analytical comparison of marketing methods practiced in different countries.
- **International Marketing:** It is concerned with the micro aspects of a market and takes the company as a unit of analysis. The purpose is to find out as to why and how a product succeeds or fails in a foreign country and how marketing efforts influence the results of international marketing.
- **International Trade:** International Trade is concerned with flow of goods and services between the countries. The purpose is to study how monetary and commercial conditions influence balance of payments and resource transfer of countries involved. It provides a macro view of the market, national and international.
- **Global Marketing:** Global Marketing consider the world as a whole as the theatre of operation. The purpose of global marketing is to learn to recognize the extent to which marketing plans and programmes can be extended worldwide and the extent to which they must be adopted.

Brief Historical Background of International Business/Trade relations-

- International business and trade has been there from times immemorial,
- Man is a social animal– wants different kinds of goods/ commodities- required for the standard of living.
- The country is not self-sufficient in developing all the products/ commodities etc.
- Hence dependent on other country
- Thus international business and trade exists- International trade is between nations, business is between companies.

Factors that reinforces to take interest in International Marketing in Modern Times

- Income growth of the consumers
- Lower trade barriers
- Desire for new products, around the world
- Search for new markets/new avenues/new segments
- Demand for new styled goods/ services– innovative goods.
- Integration of telecommunication facilities/communication
- Faster means of travel, transport, technology.
- Move towards reduction of international marketing barriers.

Difference between International and Domestic Marketing

International Marketing	Domestic Marketing
1**. Meaning:** It refers to those activities which results into transfers of goods and services from one country to another.	**Meaning:** It refers to those activities which results into transfers of goods and services inside the country itself.
2. Barriers: International trade is characteristics by tariff and non tariff barriers.	**Barriers: Domestic** marketing has no such restrictions.
3. Currencies: It involves exchange on the basis of different currencies.	**Currencies:** It involves exchange in the basis of same currencies.
4. Government: Interference Exchange takes place under government rules and regulations. There is high degree of government interference.	**Government:** It interference is zero or minimum only in case of essential commodities.

5. Culture: Trade should be done taking diverse into consideration. Even things like color combination can be affect the trade.	**Culture:** Culture does not affect in domestic marketing.
6. **Mode of Payment:** Letter of credit is normally as mode of payment.	**Mode of Payment:** Cash, Cheques, DD's are the most common.
7. Mobility of Factors of Production: Factors of Production are relatively immobile as compared to domestic marketing..	**Mobility of Factors of Production:** Domestic Trade enjoys greater mobility in factors of production
8. **Competition:** International Trade is subject to intense competition.	**Competition:** Competition is not as intense as it is in international marketing.
9. **Documentation:** International Marketing is subject to complex documentation	**Documentation:** Domestic trade does not involve much of documentation.
10. **Risk:** International Marketing is subject to high risk. Political, foreign exchange risk, bad debt risk are few of them.	**Risk:** Domestic Marketing is also subject to risk but not as high as international marketing

Benefits of International Marketing

- Economies of scale in production and distribution
- Lower marketing costs
- Power and scope
- Consistency in brand image
- Ability to leverage good ideas quickly and efficiently
- Uniformity of marketing practices
- Helps to establish relationships outside of the 'political arena'

- Helps to encourage ancillary industries to be set up to cater for the needs of the global player
- It allows each country to maximize their strengths and offset its weaknesses.
- Countries can optimize their comparative advantages.
- It can extend the product life cycle, dispose of discontinued items, and allow for innovations.

Disadvantages

- Differences in consumer needs wants and usage patterns for products
- Differences in consumer response to marketing mix elements
- Differences in brand and product development and the competitive environment
- Differences in the legal environment, some of which may conflict with those of
- The home market
- Differences in the institutions available, some of which may call for the creation
- of entirely new ones (e.g. infrastructure)
- Differences in administrative procedures
- Differences in product placement.

Thank you