

Examination - University of Delhi

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Signed :- Sanyam Jain

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When an organization established its presence abroad it faces the following problems:

1) Political Instability:- The biggest hurdle is the

spread of International business is political instability. India-Pak wars, Iran-Iraq war, Arab-Israeli conflicts, Civil war in Sri-Lanka and similar other conflicts have in the past have created huge political risk for the growth of international trade.

2) Frequent changes in government policies also have an adverse impact on international business. Asian Crisis and economic crisis in Europe have been a good-bad back for international trade.

2) Foreign Intervention:- The operation of multinational corporations in developing countries create a debt trap for these countries due to their low purchasing power. This has happened in Romania; Poland, Mexico, Brazil, Congo and Kenya.



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Technological Price :- Foreign countries entering

Other markets face the problems of technological piracy. Like Microsoft Windows version is costly, for users but its pirated version is quite economic in the Indian market.

Price Sensitivity :- The standard of living is generally low in developing countries as in contrast to developed nations. People prefer low cost items that people build their budget. When a company establishes its operational in a developing country, though it brings new technology and innovation it must keep in mind the economic affordability of the product failing while the product would not be able to sell in the market.

Taste and Preference :- People belonging to

different parts of the world, following different religious and social practices have different taste and preferences.

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For example:- People in America drive cars

which have steering wheel on the left side but people in India prefer cars have steering wheel on the right hand side.

If the car company establishes its operation in India, it must change its operation and plant in the foreign country which means that there were huge capital investment and a failure of the product in the car means that the company had to suffer huge losses and shut down after a short span of 2 years.

The company might have adopted different mode of entry into business. Joint venture might have brought more success to the company given that it failed to understand the customer and business environment.

Joint ventures:- In this method, the

company which wants to enter foreign market sets up an enterprise in collaboration with



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A local firm in the host country. The two firms share the ownership and control of the joint venture.

Generally, the multinational company provides capital and technology where as day to day management is left to the local firm.

For example:- Hero Honda motors was a joint venture between Hero Cycles of India and Honda motors of Japan.

The following advantages could have been enjoyed by the company:-

- 1) Global expansion at a low costs.
- 2) Benefit of the knowledge of local firm with regard to market, political system, culture, language and business system.