INTERNATIONAL BUSINESS.

UNIT I : International trade -Meaning - Nature and Scope - gains from international trade - barriers to international trade. Foreign trade and economic growth Terms of Trade - Forms of International Business.

Introduction:

International trade is the exchange of capital, goods, and services across international borders or territories because there is a need or want of goods or services.

International trade allows countries to expand their markets and access goods and services that otherwise may not have been available domestically. As a result of international trade, the market is more competitive. This ultimately results in more competitive pricing and brings a cheaper product home to the consumer.

Types Of International Trade: There are three types of international trade**:**

1. Export Trade
2. Import Trade and
3. Entrepot Trade. - is a combination of export and import trade and is also known as Re-export. It means importing goods from one country and exporting it to another country after adding some value to it.

Business which is conducted internationally in more than one country is termed as an International business. It refers to the trade of goods, services, technology, capital and/or knowledge across national borders and at a global or transnational scale. It involves cross-border transactions of goods and services between two or more countries. **International business** is also known as globalization.

International business encompasses all commercial activities that take place to promote the transfer of goods, services, resources, people, ideas, and technologies across national boundaries.

Successful international businesses recognize the diversity of the world marketplace and are able to cope with the uncertainties and risks of doing business in a continually changing global market...

Features of International Business:

- Large scale Operations:
- Immobility of Factors:
- Heterogeneous Markets:
- Integration of Economies:
- Dominated by developed countries and MNCs:
- Beneficial to Participating Countries:
- Keen Competition:
- Special Role of Science and Technology:
- Sensitive nature
- Increased investment opportunities
- Earn foreign exchange
- Optimum utilization of resources

(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) Immobility of Factors: The factors of production such as capital and labour are less mobile between countries than within a country. There are legal restrictions on their movement across nations. The differences in socio-cultural environment ,economic condition and geographical factors also restrict their movement.

(3) Heterogeneous Markets: Buyers from different countries differ in their taste, preferences belief and purchase behaviour. For example people in US change their consumer durables very frequently, but in India we do not replace them until it is worn out. Such differences make it difficult to design products and evolve marketing strategies that are appropriate for customers in the International market.

(4**) Integration of economies:** International business integrates (combines) the economies of many countries. This is because it uses finance from one country, labour 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.

(5) 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, 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.

(6) Benefits to participating countries: International business gives benefits to all Participating countries. However, the developed countries get the maximum benefits. The developing countries also get benefits. They get rapid industrial development, get more employment opportunities. All this results in the economic development of the developing countries. Therefore, developing countries open up their economies through liberal economic Policies.

(7) 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.

(8) The 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.

(9) 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, an 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.

(10) Increased investment opportunities*:* with globalization companies can move the capital to whatever country offers the most attractive investment opportunity. This prevents capital from being trapped in domestic economies earning poor returns.

(11) Earn foreign exchange*:* Countries export their 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 strengthen the economy of its country.

(12) Optimum utilization of resources*:* International trade makes optimum utilization of resources. This is because it produces goods on a very large scale for the international market. International trade utilizes resources from all over the world.

Nature of International Business:

1. International Restrictions: In international business, there is a fear of the restrictions which are imposed by the government of the different countries. Many country's governments don't allow international businesses in their country. They have trade blocks, tariff barriers, foreign exchange restrictions, etc. These things are harmful to international business.

2. Benefits To Participating Countries: It gives benefits to the countries which are participating in the international business. The richer or developed countries grow their business to the global level and they get maximum benefits. The developing countries get the latest technology, foreign capital, employment opportunities, rapid industrial development, etc. This helps developing countries in developing their economy. Therefore, developing countries open up their economy for foreign investments.

3. Large Scale Operations: International business contains a large number of operations at a time because it is conducted on a large scale globally. Production of the goods at a large scale, they have to fulfil the demand at a global level. Marketing of the product is also conducted at a large scale to make them aware of the product. First, they fulfil the domestic demand and then they export the surplus in the foreign markets.

4. Integration Of Economies: International Business combines the economies of many countries. The companies use the finance, labour, resources, and infrastructure of the other countries in which they are working. They produce the parts in different countries, assembles the product in other countries and sell their product in other countries.

5. Dominated By Developed Countries: International business is dominated by developed countries and their MNC's. Countries like U.S.A, Europe, and Japan all are the countries that are producing high-quality products, they have people working for them on high salaries. They have large financial and other resources like the best technology and Research and Development centers. Therefore, they produce good quality products and services at low prices. They help them to capture the world market.

6. Market Segmentation: International business is based on market segmentation on the basis of the geographic segmentation of the consumers. The market is divided into different groups according to the demand of the consumers in different countries. It produces goods according to the demand of the consumers of the different market segmentations.

7. Sensitive Nature: International Business is highly affected by economic policies, political environment, technology, etc. It can play a positive role to improve the business and can also be negative for the business. It totally depends on the policies made by the government; it can help in expanding the business and maximizing the profits and vice-versa.

Scope of International Business:

1.Foreign Investments: Foreign investment is an important part of international business. Foreign investment contain investments of funds from the abroad in exchange for financial return. Foreign investment is done through investment in foreign countries through international business. Foreign investments are two types which are direct investment and portfolio investment.

2. Exports And Imports Of Merchandise: Merchandise are the goods which are tangible. (those goods which can be seen and touched.) As mentioned above merchandise export means sending the home country's goods to other countries which are tangible and merchandise imports means bringing tangible goods to the home country.

3. Licensing And Franchising: Franchising means giving permission to the new party of the foreign country in order to produce and sell goods under your trademarks, patents or copyrights in exchange of some fee is also the way to enter into the international business. Licensing system refers to the companies like Pepsi and Coca-Cola which are produced and sold by local bottlers in foreign countries.

4. Service Exports And Imports: Services exports and imports consist of the intangible items which cannot be seen and touched. The trade between the countries of the services is also known as invisible trade. There is a variety of services like tourism, travel, boarding, lodging, constructing, training, educational, financial services etc. Tourism and travel are major components of world trade in business.

5. Exchange of technical and managerial knowledge: There are lots of growth opportunities for both of the countries, developing and under-developing countries by trading with each other at a global level. The imports and exports of the countries technical and managerial knowledge help to increase their profits and help them to grow at a global level.

6. Benefiting From Currency Exchange: International business also plays an important role while the currency exchange rate as one can take advantage of the currency fluctuations. For example, when the U.S. dollar is down, you might be able to export more as foreign customers benefit from the favourable currency exchange rate.

7. Limitations Of The Domestic Market: If the domestic market of a country is small then the international business is a good option for the growth of the business in the host country. Depression of domestic market firms force to explore foreign markets.

REASONS FOR THE GROWTH OF INTERNATIONAL BUSINESS

The prevalence of international business has increased significantly during the last part of the twentieth century, thanks to the liberalization of trade and investment and the development of technology. Some of the significant elements that have advanced international business include:

- The formation of the World Trade Organization (WTO) in 1995
- The inception of electronic funds transfers
- The introduction of the euro to the European Union
- Technological innovation that facilitates global communication and transportation
- The dissolution of a number of communist markets, thus opening up many economies to private business

Today, global competition affects nearly every company—regardless of size. Many source suppliers from foreign countries and still more compete against products or services that originate abroad. International business remains a broad concept that encompasses the smallest companies that may only export or import with one other country, as well as the largest global firms with integrated operations and strategic alliances around the globe.

GAINS FROM INTERNATIONAL BUSINESS:

International Business or trade is beneficial to all the participating countries as it enables the country to export the surplus to other countries and there by secure a better market or it . Similarly it enables a country to import a commodity which it cannot produce at all or can produce only at a high cost.

Classical Economist like Adam Smith advocated free trade so that gains to all countries can be maximised. Some of the important gains to the countries are

- International Specialisation
- Equalisation of prices
- Equitable distribution of scarce materials
- Exchange of technical and managerial knowledge and skill
- Comparative cost advantage

BARRIERS TO INTERNATIONAL TRADE:

A barrier to trade is often a government-imposed restraint on the flow of international goods or services. Those restraints are sometimes obvious, but are most often subtle and non-obvious. Some of the important special problems in international Business are

1. **Political and Legal Differences**: The political and legal environment of foreign markets is different from that of the domestic. The complexity generally increases as the number of countries in which a company does business increases. It should also be noted that the political and legal environment is not the same in all provinces of many home markets. Example: The political and legal environment is not exactly the same in all the states of India.

2. Social and Cultural Differences: The cultural differences, is one of the most difficult problems in international marketing. Many domestic markets, however, are also not free from cultural diversity.

3. Differences in the Currency Unit: The currency unit varies from nation to nation. This may sometimes cause problems of currency convertibility, besides the problems of exchange rate fluctuations. The monetary system and regulations may also vary.

4. Differences in the Language: An international marketer often encounters problems arising out of the differences in the language. Even when the same language is used in different countries, the same words of terms may have different meanings. The language problem, however, is not something peculiar to the international marketing. Example: The multiplicity of languages in India.

5. Economic Barriers: The economic environment may vary from country to country. This barrier is further classified as Tariff and Non Tariff Barriers

Tariff Barriers - The most common barrier to trade is a tariff **– a** tax on imports. It aims at restricting the flow of goods to protect the domestic Industry against competition. Tariffs raise the price of imported goods relative to domestic goods .

- Specific tariffs
- Ad valorem tariffs
- Protective tariff
- Anti –dumping duty
- Voluntary export restraints
- Counter acting tariff

Non Tariff Barriers – are also called as trade restriction, particularly import controls, is a very important problem, which an international marketer faces.

- Quantity Restriction - Import quotas and Licensing
- Forex Restriction – Exchange control acts like FEMA
- Technical and Administrative Regulations
- Consular Formalities
- Preferential Arrangements.

FOREIGN TRADE AND ECONOMIC GROWTH:

Foreign trade enlarges the market for a country's output. Exports may lead to increase in national output and may become an engine of growth. Expansion of a country's foreign trade may energise an otherwise stagnant economy and may lead it onto the path of economic growth and prosperity.

Increased foreign demand may lead to large production and economies of scale with lower unit costs. Increased exports may also lead to greater utilisation of existing capacities and thus reduce costs, which may lead to a further increase in exports. Expanding exports may provide greater employment opportunities. The possibilities of increasing exports may also reveal the underlying investment in a particular country and thus assist in its economic growth.

Some of the important ways in which foreign trade contributes to economic growth are as follows:

i. The primary function of foreign trade is to explore means of procuring imports of capital goods, without which no process of development can start.

ii. It makes capital available through International Investment,

iii. Foreign Trade enables flow of modern technology, which helps to increase productivity

iv. Foreign trade generates pressure for dynamic change through (a) competitive pressure from imports, (b) pressure of competing export markets,- and (c) a better allocation of resources.

v. Exports allow fuller utilisation of capacity resulting in achievement of economies of scale, separates production pattern from domestic demand.

vi. Foreign trade increases workers’ welfare as - Larger exports translate into higher wages- it enables workers to become more productive as the goods they produce increase in value; and it increases technology transfers from industrial to developing countries resulting in demand for more skilled labour in the recipient countries.

vii. Increased openness to trade has been strongly associated with reduction in poverty in most developing countries.

viii. Making use of competitive advantage enables production of unique products and helps increase the profitability of domestic industries.

In short, trade promotes growth enhancing economic welfare by stimulating more efficient utilisation of factor endowments of different regions and by enabling people to obtain goods from efficient sources of supply.

TERMS OF TRADE:

Terms of trade (TOT) represent the ratio between a country's export prices and its import prices The ratio is calculated by dividing the price of the exports by the price of the imports and multiplying the result by 100. An improvement in a nation's terms of trade is usually regarded as good for the nation in the sense that the prices that the nation receives for its exports rise relative to the prices that it pays for imports.

It refers to the quantity of imports that exports buy. It is measured by the ratio of export price to import price. It is the ratio at which a country can export or sell domestic goods for imported goods.

$$TOT = \frac{\text{Index of export prices}}{\text{Index of import prices}} \times 100$$

or $$TOT = \frac{P_X}{P_m} \times 100$$

Types of terms of trade:

1. Net Barter or commodity Terms of trade -
2. Gross Barter Terms of trade.
3. Income Terms of trade.
4. Single Factoral Terms of trade.
5. Double Factoral terms of trade.
6. Real costs terms of trade.
7. Utility terms of trade.

Forms of International Business

- **Importing & Exporting**: Imports: a good or service brought into one country from another.
- **Licensing** : Licensing is one of other ways to expand the business internationally.
- **Franchising:** Franchising is closely related to licensing.
- **Strategic Alliance & Joint venture**.
- **Foreign Direct Investment (FDI)**

$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$