

Introduction to International Business

Objective, Scope & Importance



MMS Sem III 2022-23

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TLP for Course “International Business”

What is A Business?

- It is an organization or economic system where **goods** and **services** are **exchanged** for one another or for **money**.
- Every business requires some form of **investment** and enough **customers** to whom its **output** can be **sold** on a **consistent** basis in order to make a **profit**.
- Businesses can be **privately owned**, **not for profit** or **state-owned**.

What is International Business?



What is International Business?

Manufacturing or Trade across geographical boundaries of one's country is known as International Business.










International Business or External Business doesn't only include international movement of goods and services but also the movement of capital, personnel, technology, and intellectual property like patents, trademarks, and copyrights.

It isn't limited only to the export and import of goods but services such as international travel and tourism, transportation, communication, banking, warehousing, distribution, and advertising.

What is International Business?










- International business is defined as all business activities, including the creation and transfer of resources, goods, services, know-how, skills, and information, which transcend national boundaries.
- The resources may be raw materials, energy, technological know-how and patents, capital, and organizational skills.
- Goods include manufactured parts, sub-assemblies, and assemblies.
- Know-how may include product and process technological innovations, copyrights, trademarks, and brands.
- Skills may include organizational and managerial skills.
- Information includes databases as well as information networks.

Imports and exports of major trading economies

GOODS	Q1 2022 RELATIVE TO 2019 AVERAGE		Q1 2022 RELATIVE TO Q4 2021	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS
 Brazil	↑ 30%	↑ 43%	↓ 3%	↑ 15%
 China	↑ 35%	↑ 49%	↑ 2%	↑ 4%
 India	↑ 37%	↑ 34%	↑ 4%	↑ 7%
 Japan	↑ 20%	↑ 8%	↑ 6%	↑ 2%
 Republic of Korea	↑ 39%	↑ 29%	↑ 4%	↑ 3%
 Russian Federation	↑ 15% *	↑ 38% *	↓ 6% *	↑ 5% *
 South Africa	↑ 19%	↑ 46%	↑ 8%	↑ 10%
 United States	↑ 30%	↑ 17%	↑ 8%	↑ 4%
 European Union	↑ 37%	↑ 12%	↑ 7%	↑ 2%

Source: UNCTAD

Imports and exports of major trading economies

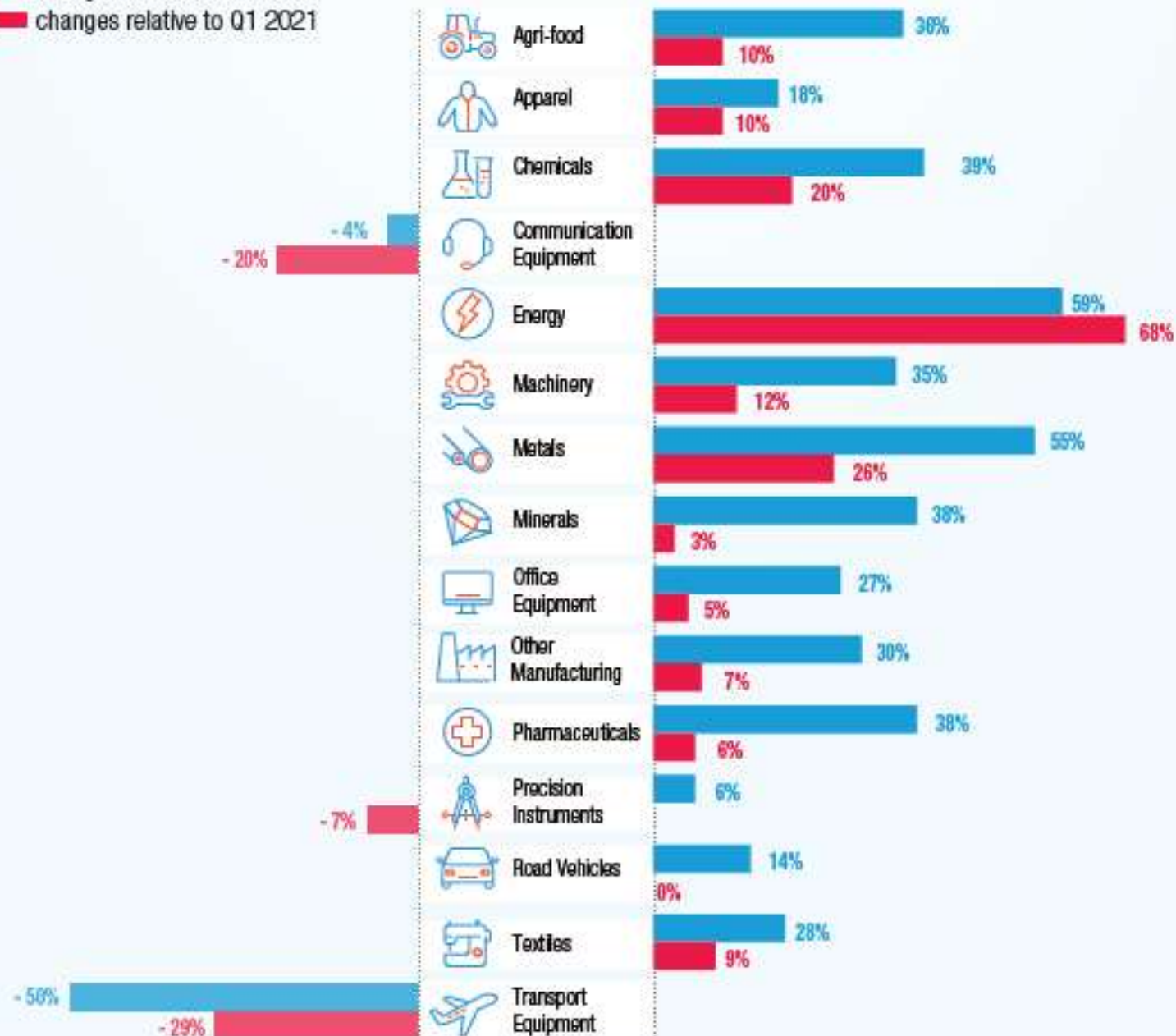
SERVICES	Q4 2021 RELATIVE TO 2019 AVERAGE		Q4 2021 RELATIVE TO Q3 2021	
	IMPORTS	EXPORTS	IMPORTS	EXPORTS
 Brazil	↓ 27%	0%	↓ 2%	↓ 1%
 China	↓ 8%	↑ 58%	↑ 3%	↑ 9%
 India	↑ 16%	↑ 21%	↑ 4%	↑ 4%
 Japan	↓ 5%	↓ 19%	0%	↓ 2%
 Republic of Korea	0%	↑ 26%	↑ 3%	↑ 1%
 Russian Federation	↓ 15%	0%	↑ 7%	↑ 9%
 South Africa	↓ 15%	0%	↑ 1%	0%
 United States	↓ 1%	↓ 8%	↑ 2%	↑ 3%
 European Union	↑ 3%	↑ 10%	↓ 2%	↑ 2%

Source: UNCTAD

Energy, metals and chemicals sectors drove trade growth in Q1 2022

■ changes relative to Q1 2019

■ changes relative to Q1 2021



Three Forms of International Business

1. DOMESTIC MARKET EXTENSION BY EXPORTING:

Firms following this strategy locate all production function and as many as the marketing function as possible in the home country. Export managers must be knowledgeable about any differences between domestic and foreign environmental forces that could have impact on the marketing mix.

2. MULTI-DOMESTIC COMPANY:

Similar to a Holding company – strong financial control from head quarters but whose subsidiary have considerable autonomy in formulating their own business strategies based on perceived market differences Headquarter managers maintain veto power.

Three Forms of International Business

3. GLOBAL CORPORATION:

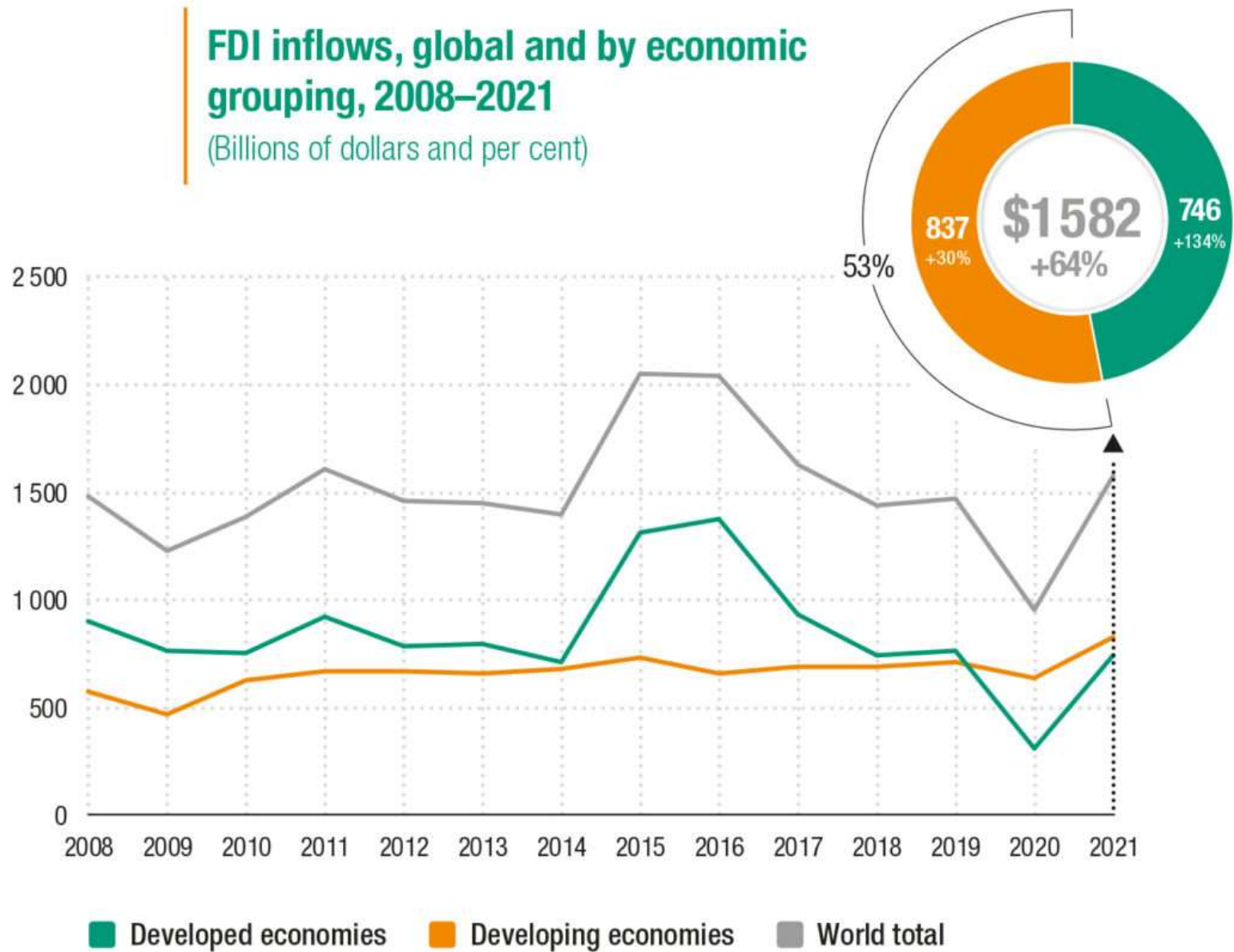
Management of global corporation look at the **world economy** as the **single market**. There is a strong **central authority** with **global managers** of functional areas such as marketing and production etc. who attempt to **standardize** their operations world wide and there is no international division. Managerial functions such as **strategic planning** and **budgeting** are performed globally.

Global Forces influencing International Business

- Economic and Socioeconomic forces
- Physical and Environmental forces
- Sociocultural forces
- Political forces
- Legal forces
- Labour forces
- Competitive and Distributive forces
- Financial forces

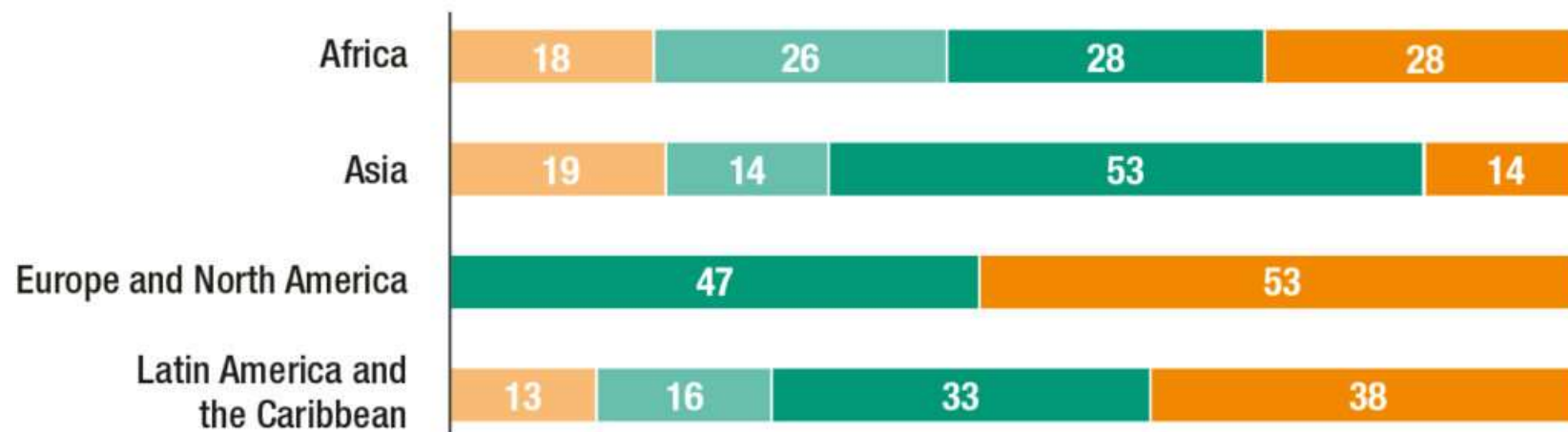
FDI inflows, global and by economic grouping, 2008–2021

(Billions of dollars and per cent)

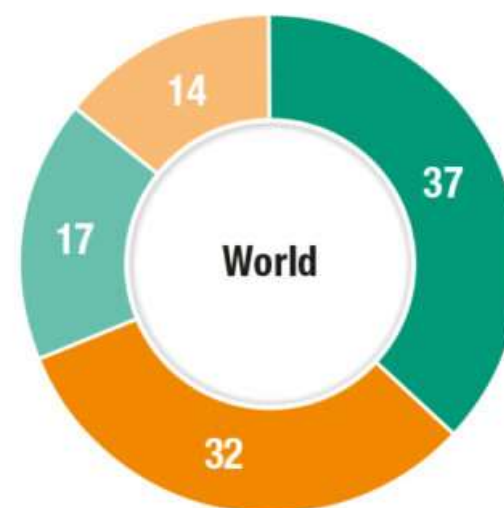


Source: UNCTAD, FDI/MNE database (<https://unctad.org/fdistatistics>).

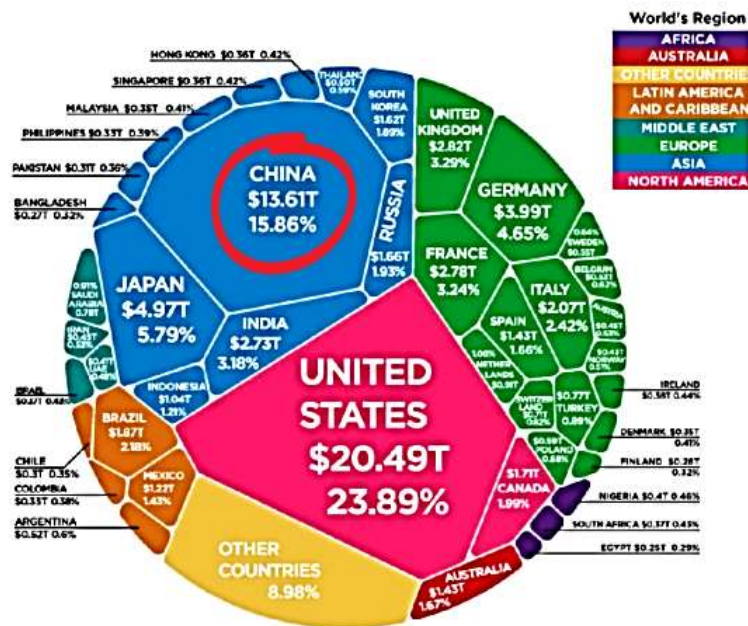
Sectoral distribution of new tax incentives for investment, by region and world, 2011–2021 (Per cent)



- Manufacturing
- Agriculture, fisheries, forestry
- Extractive sector
- Services



Source: UNCTAD, Investment Policy Monitor.



Article & Sources:
<https://howmuch.net/articles/the-world-economy-2018>
<https://databank.worldbank.org>

No.2 since 2010
 GDP (2019): \$14.28 trillion
 GDP per capita (2019): \$10,200
 Corruption Perception Index (2021): 45 (66th)



Chinese economic growth slows

Year-on-Year GDP has fallen to its lowest since 1992





Source: China's National Bureau of Statistics

BBC

- * Increasing labor cost
- * Declining labor force growth
- * Diminishing returns to investment
- * Slowing productivity

Trade Time-Lapse: USA vs. China

Each Country's Biggest Trading Partner by Year (1980 - 2018)

USA  Biggest Trading Partner* (%)  China

75 50 25 0 25 50 75

1980



Article & Sources:

<https://howmuch.net/articles/trade-timelapse-usa-china>
International Monetary Fund - <https://data.imf.org>

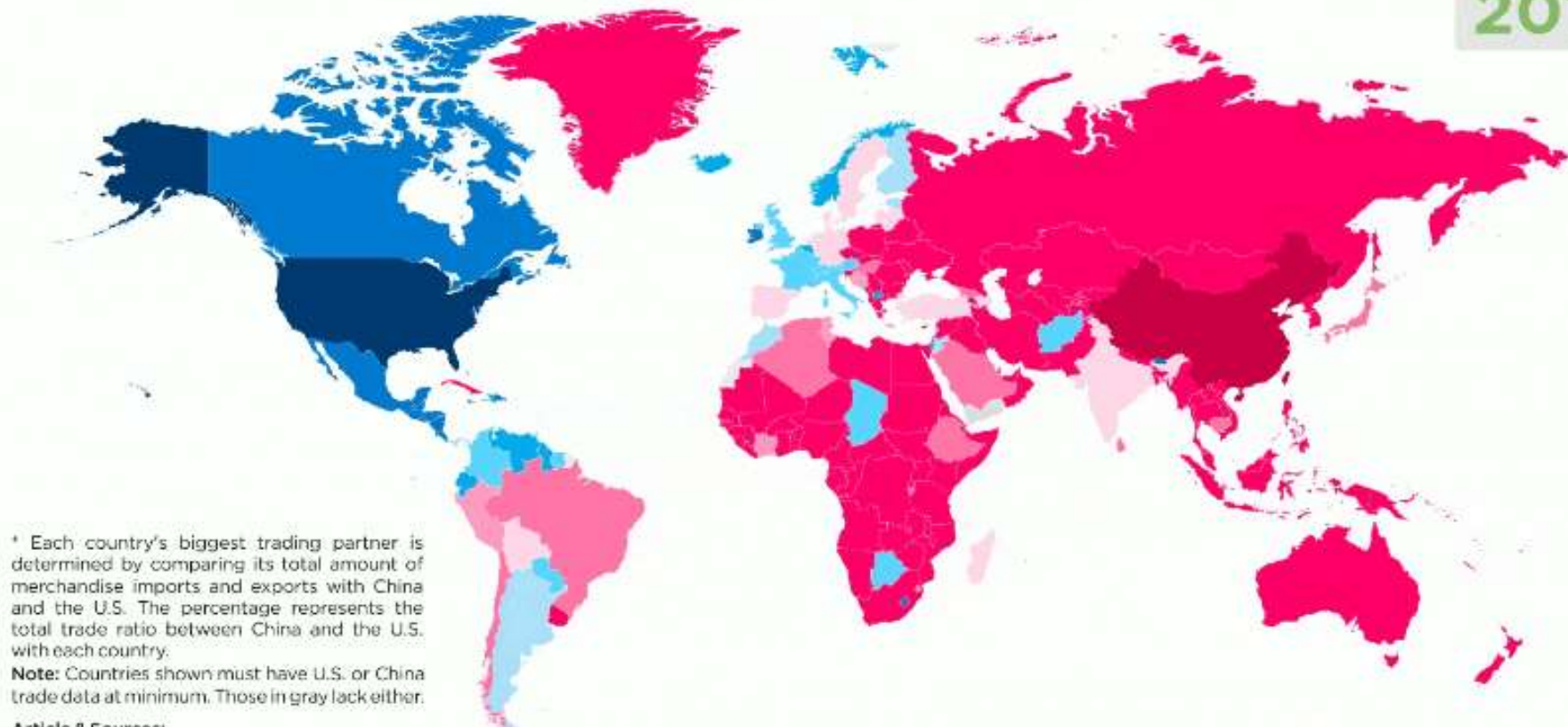
howmuch.net

Trade Time-Lapse: USA vs. China

Each Country's Biggest Trading Partner by Year (1980 - 2018)



2018



* Each country's biggest trading partner is determined by comparing its total amount of merchandise imports and exports with China and the U.S. The percentage represents the total trade ratio between China and the U.S. with each country.

Note: Countries shown must have U.S. or China trade data at minimum. Those in gray lack either.

Article & Sources:

<https://howmuch.net/articles/trade-timelapse-usa-china>
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howmuch.net

International Business vs Domestic Business

Nationality of Buyers and Sellers: People or organizations from one country are involved in domestic business whereas, in international business, people and organizations of different countries take participation.

Nationality of other Stakeholders: Stakeholders such as suppliers, employees, and shareholders belong to one country in domestic or internal business, and in international business, they can be from different countries.

Customer Heterogeneity Across Markets: Domestic markets are homogeneous but international markets are relatively less homogeneous due to differences in language, culture, preferences, customs, etc. across countries.

International Business vs Domestic Business

Difference in Business Systems and Practices: The difference in business systems and practices in international business is much more than domestic business because different countries have different socio-economic development, economic infrastructure, and market support services.

Political System and Risks: Domestic businesses have less impact on them from the political environment of the country because they understand and can predict its impact on business operation whereas international businesses face a different political environment across countries which are quite difficult to predict.

International Business vs Domestic Business

Business Regulations and Policies: Domestic businesses have to follow rules, regulations, and policies of a single country whereas international businesses have to follow rules, regulations, and policies of multiple countries.

Currency Used in Business Transactions: International business transactions involve the use of currencies of different countries whereas domestic currency is only used in domestic business.

The differences between Domestic business and International business

Domestic business

1. One nation, same language and culture
2. One currency
3. Political environment and factors
4. Market is relatively homogeneous
5. No problem of exchange control
6. Relative freedom from government
7. Relatively stable business environment
8. Uniform financial climate
9. Business “rules of the game” mature
10. The same natural resources

International business

1. Many nations, many languages & cultures.
2. Different currencies in different countries.
3. Different political environment and are the same. Factors in different countries are vital.
4. Markets are diverse and highly heterogeneous.
5. There are problems of exchange controls & tariffs and tariffs & they act as obstacles.
6. Government influences business decisions interference.
7. Multiple environments many of which are highly unstable.
8. Variety of financial climates ranging from over conservative to wildly inflationary.
9. Rules diverse, changeable and unclear.
10. Different kinds of natural resources.

Source: <https://youtu.be/IMdhfBQUhtI>

Reason for International Business

- **Uneven Distribution of Natural Resources:** Due to unequal distribution of natural resources, all countries cannot produce goods at a low cost. As a consequence, it has an impact on their productivity levels. Therefore, the countries with less quantity of a natural resource either purchase the resource or the actual product itself from the countries with an abundance of these.
- **Availability of Productivity Factors:** The numerous production variables, like labor, capital, and raw materials, that are required to produce and distribute diverse commodities and services are found in different quantities in different countries. It gives rise to buying and selling of productivity factors among the countries. For example, due to unemployment in India, foreign countries can employ labor at cheap rates from India.

Reason for International Business (Cont.)

- **Specialization:** Some countries specialize in producing goods and services for which they have advantages such as education, favorable climatic circumstances, and so on. It results in the business between different countries for the purchase and sale of specialized products.
- **Cost Advantages:** Production costs vary according to geographical, political, and socioeconomic situations in different countries. Some countries are in a better position to manufacture certain commodities at a lower cost than others. Firms participate in international trade to purchase products that are cheaper in other countries and to sell things that they can supply at a lower cost.

Scope of International Business (IB)

1. **Goods Exports and Imports:** International Business allows firms to export and import goods across different countries.
2. **Service Exports and Imports:** With the help of international business, firms can offer services to people belonging to different countries.
3. **Licensing and Franchising:** Firms can enter into international business using licensing and franchising. Licensing is permitting another party of a foreign country to produce and sell products under its trademarks, patents, or copyright against some fee. Franchising is similar to licensing but it terms of service.
4. **Foreign Investments:** A firm can enter into international business by investing in firms located abroad in exchange for some financial return.

Benefits of International Business

Benefits to Countries

- Foreign Exchange
- Efficient Resource Utilization
- Growth Possibilities & Job opportunities
- Improved Standard of Living

Benefits to Firms

- Profit opportunities
- Increased Resource Utilization
- Growth Prospects
- Decrease Competition
- Improved Business Vision

Benefits of IB to Countries

- **Earning of Foreign Exchange:** International Business helps a country to collect and earn foreign currency from the investment offered by a foreign firm in the domestic market. Foreign currency helps in meeting imports of any country from foreign countries.
- **More Efficient Use of Resources:** International business allows firms to use the resources present in different countries more efficiently. Firms can bring the newest technologies from which the resources can be utilized more efficiently.

Benefits of IB to Countries (Cont.)

- **Improving Growth Prospects and Employment Potentials:** By setting up new industries and businesses in different countries, the international business helps in improving the economic growth and employment potential in those countries. Larger scale production contributes to the GDP as well as generates employment.
- **Increased Standard of Living:** In the presence of an international business, people of any country can consume goods and services produced in some other countries. It helps in improving the standard of living of those people and the country in general.

Benefits of IB to Firms

- **Prospects for Higher Profits:** International business gives scope to firms a whole new market to target. Firms can sell their products in markets where prices are relatively high and earn more profits.
- **Increased Capacity Utilization:** The products produced by a firm more than the demand in the domestic market can be sold to a foreign market with the help of international business. The capacity to produce more can be utilized with an expansion in the market.
- **Prospects for Growth:** Firms can improve the prospects of their growth by getting into the international market. The demand for a certain product in the domestic market is limited but in the international market, firms can reach new heights.

Benefits of IB to Firms (Cont.)

- **Way Out to Intense Competition in Domestic Market:** When the competition in the domestic market increases, firms can move out of the domestic boundaries to find a new market. By this, they can counter the intense competition in the domestic market.
- **Improved Business Visions:** Every firm's vision is to grow, become more competitive, diversify and gain strategic advantage over its competitors. The international business allows firms to grow and build themselves with greater prospects.

PROBLEMS OF INTERNATIONAL BUSINESS

Disadvantages of International Business



