International Business Management

Introduction

- Business carried by the nations with the rest of the countries in the world
- Existence of Business traces in past with a few presence of international trade
- But now, there exists different forms of Business including FDI, DFI
- Things such as Natural Resources, Human Resources, Social/Cultural Environment, Political Environment and the Legal Environment are of concern when IB is under consideration

Examples:

- Coffee Business
- Tea produced and exported from Sri Lanka, and is very popular outside
- Computer having parts produced in different parts such as USA, Japan, Taiwan etc now being assembled/sold in India
- Television, these days is produced by Japan. But USA was the pioneer when they were selling around in USA. Japan took over USA when they started production of coloured TVs
- McDonald's was producing beef meat burgers. After a social analysis of Indian market, they replaced all with veg and chicken based burgers

Features of International Business:

1. Accurate Information
   Example: Bata is from Czech Republic and not from India. In that region, they have a business well developed into Europe region due to heavy winters. With accurate information on the climate, Bata has invested into leather products and had a strong hold over the market in earlier days
2. Timely Information
   Example: Coca Cola has entered Europe due to timely information regarding demand, whereas Pepsi was late on that and joined the market later.
3. Size of Business
   Huge amounts of money is involved when considering International Brand. At times, it's so big that it exceeds the GDP of certain nations.
4. Market Segmentation
   Business is based on geographical demarcations i.e., where they need to be concentrated.

International Business Approaches

<u>Douglas Wind and Pelmutter</u>:

1. Ethnocentric Approach:
   Due to availability of resources or due to competition or because of change of public opinion, there can be excess of production and when the demand for product goes down, there may be excess of products in the market. This makes the company push for International Business. The domestic company then pushes its product for international level. The domestic company continues to produce excess and pushes excess products to neighbouring countries and considers it an extension like a new region. There is no establishment of any manufacturing in the new region. Products are made in domestic country and exported to nearby countries.

Example: Domestic company in India selling in Sri Lanka as well. Domestic company in Germany exporting to Netherlands

2. Polycentric Approach:
   In this approach, the domestic company sets up a subsidiary in other country and sells the products from that country.

   Example: Domestic Company in Germany sets up a subsidiary in Switzerland that sells products within Switzerland itself.

3. Regiocentric Approach:
   Here the company has set up a subsidiary to meet up demands of that region, it produces the product to satisfy that country and it's surrounding region. Thus, here a region is being targeted.

   Example: Domestic Company in Germany sets up a subsidiary in Switzerland that sells products within Switzerland itself as well as neighbouring countries.

4. Geocentric Approach:
   The company has a reach extending beyond a region has targeted multiple countries.

   Example: Nokia, located in Finland, which is very cold. So during the extreme coldness and arctic climate, people are isolated and even any kind of SOS cannot be communicated. This brought the innovation of mobile to that country and reached 89% usage within the country when US had around 20%. They started as ethnocentric and expanded to neighbouring countries, Norway and Denmark and then expanded to regiocentric in Europe followed by Geocentric approach having a very strong userbase in India.

Why International Business?

1. To achieve higher rate of profits:
   Primary motive of business is survival but profit is also an important concern. Sometimes, domestic market cannot promise higher market advantage, expansion can help increase the profits due to higher demand outside

   Example: Apple, in 2007, $730M was net profit from international market. Apple faced lower profits compared to other companies due to competitors having a wider reach outside of USA. Similar case was for Hewlett Packard.
   Shark fins are used for oil, medicine and same for Sardines and fishes, prawns have a wide demand in USA. Thus these are sold in International Market as they can earn a lot of profits from western side.

2. Expansion of production capacities beyond the demand of the domestic country

   Example: Toyota has a lot of demand in International Market having higher population. In spite having a small population, the demand outside needs higher production which pushed Toyota to establish a wide production market.
   Similar for European countries which have small population but have higher demand outside.

3. Severe competition in the home market:
   Drives a company to aim for international market

4. Political Stability and Political Instability:
   Companies can show interest in both depending on situations. Mostly countries aim for stable economies but for dangerous market/exploiting resources, political unstable countries often become targets

   Example: USA has noticed political instability, and have established fertilizer companies and have ruined the water resources, environment, economy of Mexico
   Bhopal Gas Tragedy, establishment of dangerous industry in centre of city.

5. Limited home market:

   Example: Japan due to small audience reached outside market.
   ITC has entered European market, due to lower purchasing cost in India, establishing it outside was more profitable.

6. Availability of technology and HR
   Due to cheaper cost of production outside the domestic country.

7. High cost of transportation
   Costly product with added high transportation cost may lead to loss international, thus opening up production sites in areas with good connectivity to decrease the transportation cost.

   Example: Production of Roses, Petroleum

8. Nearness to raw materials

   Example: Japan shifted the TV production to Malaysia/Singapore to reduce the cost.

9. To avoid tariffs and quotas
   Tariffs are charges and quotas are limits on items. To protect domestic producers, these have been implemented. To avoid these, a business is set up in those regions.

Advantages of International Business

1. High standard of living:
   When natural resources are efficiently utilised, the product is made at low cost and can be sold at higher prices, which in turn brings in foreign currency starts flowing into the country leading to Economic Development. They can then expand the business, which would lead to hiring of more people thus improving the economic situation of country.

   Example: Tanzania, known for poverty, managed to come out of poverty earlier than possible. Making use of loan from World Bank, which assigns 50% of it’s loan to improvise situation of African countries. All of the diseases, except Malaria, has been completely evicted. This has been made possible by investment in Tourism. By investing in safaris and zoos, the country gained attraction of tourists and improved its financial situation when foreign currency started flowing in

2. Increased Socio-economic Welfare
3. Wider market
4. Provides opportunity for and challenge to domestic business:

   Expand business via joint venture etc

5. Division of labour and specialization
6. Cultural transformation:
   Shift that happens in organization, departments etc.

   Example: Say ATMs, where the earlier needed person to go to the bank but now it can be done via any local machine.

7. Economic growth of the world

   Example: Dubai and petroleum(now tourism)

8. Optimum utilization of world resources

Problems in International Business

1. Political Factors
2. High foreign investment and high cost
3. Exchange instability
4. Entry requirement
5. Tariffs and quotas

Cultural Environment

Refer to Indo-Cultural subject for better understanding

- Languages
- Values
- Aesthetics
- Business Norms
- Prescriptive
- Socially Shared
- Culture Facilitates Communication
- Learned: Enculturation and acculturation:

Enculturation is to learn culture of self/relative family/country

Acculturation is to learn culture of others

- Enduring
- Dynamic
- Cultural Attitudes and IB
- Culture and Thinking Process
- Time and Culture
- Space and Culture
- Culture and Colour
- Culture and Gifts

Political Environment

1. Stability and Instability in political system

   Companies prefer to invest in stable political systems.

   Example: In Bhopal, a dangerous chemical industry was setup in heart of the city. This shows for rampant corruption

2. Political parties, Nature of Constitution and Government system

3. Political Relations and IB:

   - Former USSR and India:

     One of the strongest nations and had good ties with India, but post Chechen War, the USSR split up to modern boundaries. Former USSR helped India in military investment by providing arms and amenities.

   - USA and Pakistan:

     USA supported Pakistan because USA was a competitor for USSR then.

Political Risk

Example: Trump during his tenure, brought a lot of restrictions on Chinese companies. After imposition of new rules, regulations, import restrictions and tariffs on tech and FDA(Food and Drugs Administration) which resulted in a major risk for investment in International Business. In return, China imposed taxes on agricultural taxes on America, when America imposed 25% tax on items like steel etc, which caused a huge backlash to American farmers as China is number 1 consumer for soya bean and farmers were unable to export to China. On the other side, the increase in steel price, would indirectly lead to increase in price of automobile industry could increase.

Another case is of unemployment, where the immigrants are being employed on higher scale due to lower wages and higher proficiency, thus causing employment problem for local labour. Noticed in USA and Europe.

- Confiscation: When the political party ideology changes, such that a company is forced to leave such that the government provides no remuneration is provided for existing capital.

Example: When USA established companies in USA and when the communist party came to China, many companies had to leave.
It also happened when Fidel Castro became PM of Cuba.

- Expropriation: In this case, some amount of money is given in return for leaving and all the capital is then owned by the country.
- Nationalization: Process by government takes over privately owned resources, with or without any compensation, and is given over to a domestic company.

  Example: In Bolivia, all the natural gas industries which was under the ownership of private companies. But post 2006, the government became the owner of all natural resources.
  In 2007 in Venezuela, the government took decision to nationalize Telecommunication and Electricity. Even to this day, poverty is rampant.

- Domestication: When an established company is forced to change its labour. They may continue with ownership, but say the employees must be from the host country, or the export-import is controlled by the government.
- General Instability Risk: Due to terrorism/civil wars as seen in Afghanistan, Syria-Egypt, Israel-Palestine, Nigeria. In Nigeria, kidnapping of public, takeover of oil fields etc.
- Operation Risk: Presence of internal/civil war or cold war can prevent operation due to lack of stability in work life of people.

  Example: Australia doesn't accept applications from NZ and vice versa.

Indicators of Political Risk

Example: Trade war between China and USA(explained above). Apple was impacted by the trade war as China is 3rd largest market for them. Since the market is unstable, Apple is sceptical for long term plans. Analysts have suggested that if the market in China collapses, the global market will fail and they had already seen a 10% fall in stock due to the situation.

Civil war, and in Egypt and Syria, Oil-rich region of the Niger Delta in Nigeria-Kidnap- Shell company

1. Social Unrest
2. Attitude of Nationals
3. Policies of the Host Government
   Example: India during British Colonial period. The British Raj imposed restrictions on domestic products(Swaraj) and forced them to buy goods being sold at high price, manufactured from raw materials in India.

Examples:

- Risk of financial, market or personnel losses because of political decisions or disruptions.
- Physical Risk:

  Niger Delta in Nigeria. kidnap foreign oil workers. Shell Oil-hiring security firms-create schools, hospitals and jobs for locals.

- Sector risk:

Petroleum sector –nationalized-Mex (1938), Lib (1968), Ir (1972), Ven and Kuw (1975), Ira (1978) Nig (1979). Copper mines Zai, Zam, and Chi and Iron mines in Ven.

Banking sector Gui (1962), Viet (1975) and Ira and Nicar (1978).

Challenges faced by International Business

1. International company structure

Coca-Cola- The company is organized into continental groups/ country-based or regional sub-divisions, each overseen by a President. Coca-Cola brand and product is controlled centrally and consistent around the world.

2. Foreign Laws and Regulations

European countries-14 weeks maternity leave-U.S. employers-no such things

3. Cost Calculation and global pricing strategy:

Swedish furniture giant Ikea, known in Europe for its low- cost value, struggled initially in China but not later.

4. You need to learn about the culture, language, religion, body language and etiquette of the foreign market you are interested in pursuing.
5. Currency rates
6. Choosing the right global shipment methods
7. Communication difficulties and cultural differences
8. Political risks
9. Supply chain complexity and risks of labor exploitation
10. Worldwide environmental issues

Modes of Entering International Business

Licensing

It's an agreement that is a contract between 2 parties where one is the Licensor and the Licensee. Licensor is the one who grants the license for the licensee to use the brand name, trademark or technology or right to sell the product. Licensor gains the skills and expertise of the licensee and ability to gain royalty through the contracted party's revenue. Licensee obtains benefit in the form R&D, as they do not need to invest money into that and can obtain the product without needing for any IP and allows them to directly enter the market & obtain revenue. In the case of Licensor, the control over their IP would fall and there's not much control over the product or a possibility of theft/replication over time leading to risk of losing the market. On the contrary, the Licensee has to pay royalty regularly on the profit obtained on top of the payment for acquirement of the product.

Example: Nestle and Starbucks entered the licensing agreement for $7.1B in 2018. Here Nestle is the licensee that agreed to pay the given amount to Starbucks to obtain the exclusive right to sell coffee through Nestle's distribution network. Starbucks also asked for royalties from the packed coffees that was being sold. With this, Nestle obtained license to a famed product, improving their brand image and Starbucks obtained a larger reach and connectivity and obtain a passive revenue through royalties without expending any additional capital in reaching remote areas.

Another example is of Pepsi and Heineken.

Franchising

It's also similar to licensing but the control of parent company is stronger. The company, franchiser, supports the franchisee and helps with the advertising and training for employees, if needed. They also provide quality assurance.

Example: McD, Dominos, Pizza Hut, KFC, Baskin Robins, etc has a lot of multiple branches in every city. They have to make product in a specific way and need to use the same logo and every employee needs to wear the same uniform. This is due to strong influence of parent company as a franchise.

Contract Manufacturing

Manufacturing services that some manufacturer performs on the contractual basis of others requirements. Advertising/Marketing is done by the parent company. Started in 1970s, due to NASA because of decrement in funding. Even IBM started with this in 1980s due to inability to produce for a wide demand.

Example: Nike shoes make use of Cobblers Association in Asia, that provides cheap production rate and good quality.

Contract Marketing

Many Indian companies are contract marketers for German companies especially common in medical, elevator tech.

Example: Walmart, Kmart etc

Management Contracts

Example: Transit flights are contracts for connecting places or connecting airports where the resident airlines do not operate such as Qantas Airlines in Australia, KLM in Germany.

Joint Ventures

Binding contract between 2 venture partners to set up a project either in home country of either part or another country.

Example:

Toyota and Suzuki join venture of Glanza(Baleno)

TATA with Singapore Airlines(SIA) released Vistara which started operations on 9th January 2015 and flight started from New Delhi to Mumbai. By 2018, Vistara operated in 25 destinations in India. First flight to operate their flight from T2 of Mumbai. Here 51% stake is with TATA and 49% with SIA. Vistara has carried 3M passengers and is a story one of the most successful venture in India.

Another is TATA Beverages eg TATA GluconD

Narishko Beverages, that is responsible for the producing water tapped from Himalayan Range known as Himalaya and is a joint venture with Pepsico.

Mahindra & Renault venture with 51% & 49% ownership respectively.

Collaboration

Example:

Bajaj Auto has **technology** collaboration with Kawasaki Japan for a particular part

Shelby had a collaboration with Ford for GT40 that won Le Mans, to enter the racing division

Foreign Direct Investment/Direct Foreign Investment

Investment into foreign companies

Acquisition

Complete/Partial or conditional acquirement of a company. Say a famous company wants to enter a market where a local company is already functioning, the advanced company will acquire the capital and make it sell their product thus saving them from additional investment to expand for land, hr etc or in case of partial acquirement, make them produce for the parent company's requirements.

Example: Steel Industries, LN Mittal acquired business in Indonesia to expand, Pharmaceutical SunPharma acquired by Ranbaxy, Microsoft acquired LinkedIn at $196/share leading to a $26B deal and Disney acquiring 21st Century Fox for $71.3B, with competitor being Comcast is one of the biggest deal but led to large number of layoffs

Turnkey Projects

A contractor is commissioned to complete a given project followed by complete handover. There's a term called B(O)OT(Build Own Operate Transfer)

Example: Railways, Highways, Military.

L&T was commissioned to construct AB5 in Manipal

Greenfield Strategy

Starting from scratch. Here company is involved in setting up an industry from scratch.

Example: Hyundai Motors made Greenfield Investment by setting manufacturing unit in Czech Republic(earlier known as Yugoslavia)

Mercedes purchased 100acres of land in Pune to set up a new manufacturing unit

Brownfield Strategy

It is investing in capital that has already been set up by someone else either in same country or other. After investment the prior's ownership is gone.

Example: Vodafone did so, TATA Motors did same in United Kingdom

Entry Barriers

Tariff Barriers

- Minimum price to sell a product to prevent any damage to local market

Non-Tariff Barriers

- Prevention of entry of product due to restrictions such as language. Eg. HP product made for India can't be sold in France as it needs to be in French.

Henry Fayol’s 14 Principles

Division of work

Leading to specialization of specific skills.

Example: Peter England -> Cutting Material, Making Hand, Making Front, Stitching Patterns, Assembling

Authority and Responsibility

Go hand in hand. Responsible for result but should have authority to bring those.

Example: Ability to achieve 3Cr under 3 peoples, so to achieve say 4Cr the person needs to recruit 3 more people, therefore the person should have authority to recruit by themselves. Especially given the person operates in Manipal and manager who demands 4Cr resides in Bihar. In such case language might be barrier. So the authority needs to be provided for example paying for advertising the recruitment.

Discipline

Means obedience and respect for authority and rules.

Unity of Command

One superior for a team. Aim is to prevent overlap of teams

Unity of Direction

One head for one plan, ie suppose there are two different objectives thus 2 teams, therefore as a part of each team, there must be one superior. Aim is to prevent overlap of activities.

Subordinate Interest

Remuneration

Centralization and Decentralization

Scalar Chain

Chain of authority in a pyramid, so having scalar connections on lateral level

Order

Right person for right job, training/hiring for job based on skills

Equity

Everybody is equal, no discrimination/impartiality

Stability of Tenure

Initiative

Esprit de Corps

Team spirit

Porter's Diamond Model

Study on 100 industries in 10 nations to find out the real reason for certain brands to become popular and for certain to fail. Answers questions like:

- Why Japan do so well in the automobile industry?
- Why does Switzerland excel in the production and export of precision instruments and Pharmaceuticals?
- Why do Germany and USA do so well in the chemical industry?

Factor Conditions/Endowments:

- Things such as natural resources, climate, location and demography which make up for basic factors, other factors such as tech development, labour market and scientific knowledge make up for advanced factors. In the diamond model, the advanced factors are regarded as being most significant for competitive advantage. These factors can be created through training, research and innovation and thus are a product of investment by individuals, companies or the government. The basic assumption is that a nation must continually upgrade or adjust its factor conditions. The basic factors provide the country with an initial advantage that can subsequently be reinforced by investing in advanced factors. On the other hand, disadvantages in basic factors mean that countries need to invest in advanced factors
- Natural Resources influence the company where it's established. It's a factor that is free from man made influence except for making perfect utilizing it efficiently. Eg. Japan may not have resources yet managed to make up for it. On the other hand, Democratic of Congo is well endowed but did not manage to exploit that. Venezuela also has good amount of coal,

oil etc didn't manage to capitalize on it. While, Saudi Arabia successfully capitalized and turn around the situation.

- Climate influences animal husbandry, chocolate industries etc. Sometimes bad climate may need R&D to make up for unfavorable climate. Eg. Nokia in Finland(explained prev)
- Japan is a good example for factor endowments.

Demand Conditions

- Can a demand make a company internationally famous?
- If a product has high demand within the country, then demand outside the country will be stimulated. Local -> Neighbour -> Regional -> Global

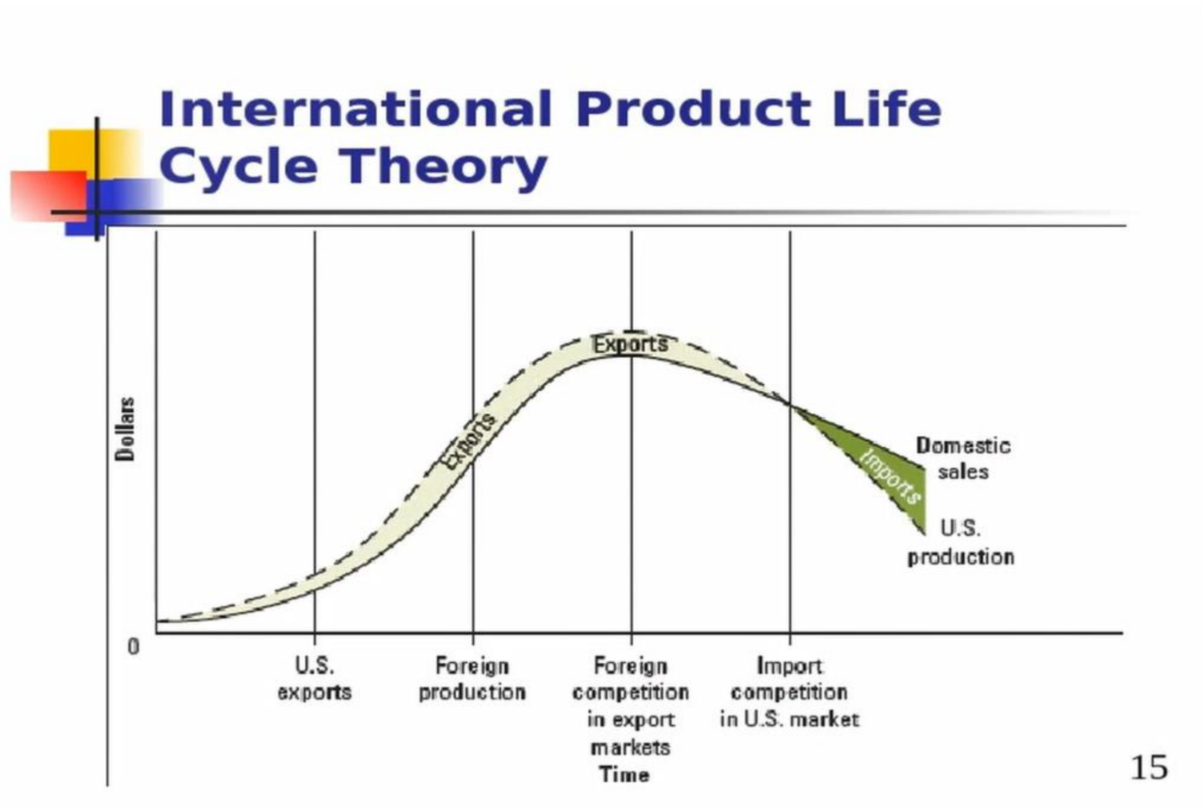
Firm Strategy and Rivalry

- Firm with a proper strategy to market their product or good structure or a rival, then they can get international popularity
- Aim to retain old customers and gather new customers while tackling competitors
- BMW, Audi, Porsche, Mercedes all are based in Germany, each face cut throat competition leading to improvement in firm strategy to improve over each other.

Related and Supporting Industry

- Indica, released in India, was only assembled and sold, but no manufacturing was done directly and completely outsourced.
- Switzerland pharmaceutical is completely supported by the dye industry which allows for different shaping, dyeing properties for the tablets
- German is known for textile industry is supported by cotton supplying industry, wool and high quality textiles which is primary material for textile and other is high quality technology.
- Sweden is known for steel industry supported by fabricated steel products like ball bearing
- Demand for computers in America supported by the semi conductor industry

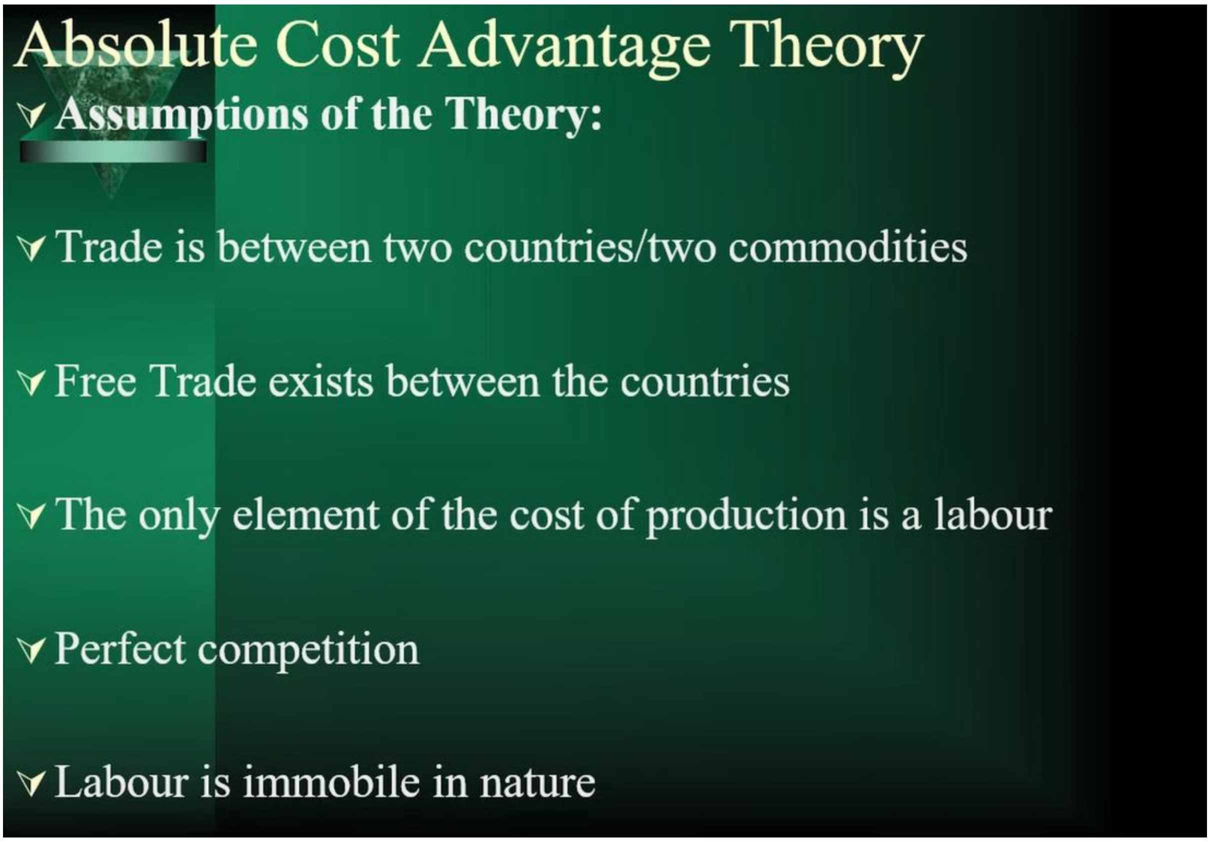
International Product Life Cycle



Why countries try do more exports and discourage imports?

- Tussle between Indian Govt and Tesla. Prevent import and setup local manufacturing units
- Kellogg's managed to do influence Mexico after 40 years but they withdrew from India due to cultural/food habits obstacle faced here and instead shifted the market via targeting kids breakfast.


Type 3 main reasons for countries to discourage imports
encourage local business
lower product prices
protect local industries
domestic employment falls
import taxes on products
to protect local interest
help economy
increase employment
subsidies
to boost domestic players
promote self sustainance
nontariff barriers
lower prices
support local manufacture
boost domestic employemen
taxes on imported goods


Absolute Cost Advantage Theory
Assumptions of the Theory:
Trade is between two countries/two commodities
Free Trade exists between the countries
The only element of the cost of production is a labour
Perfect competition
Labour is immobile in nature

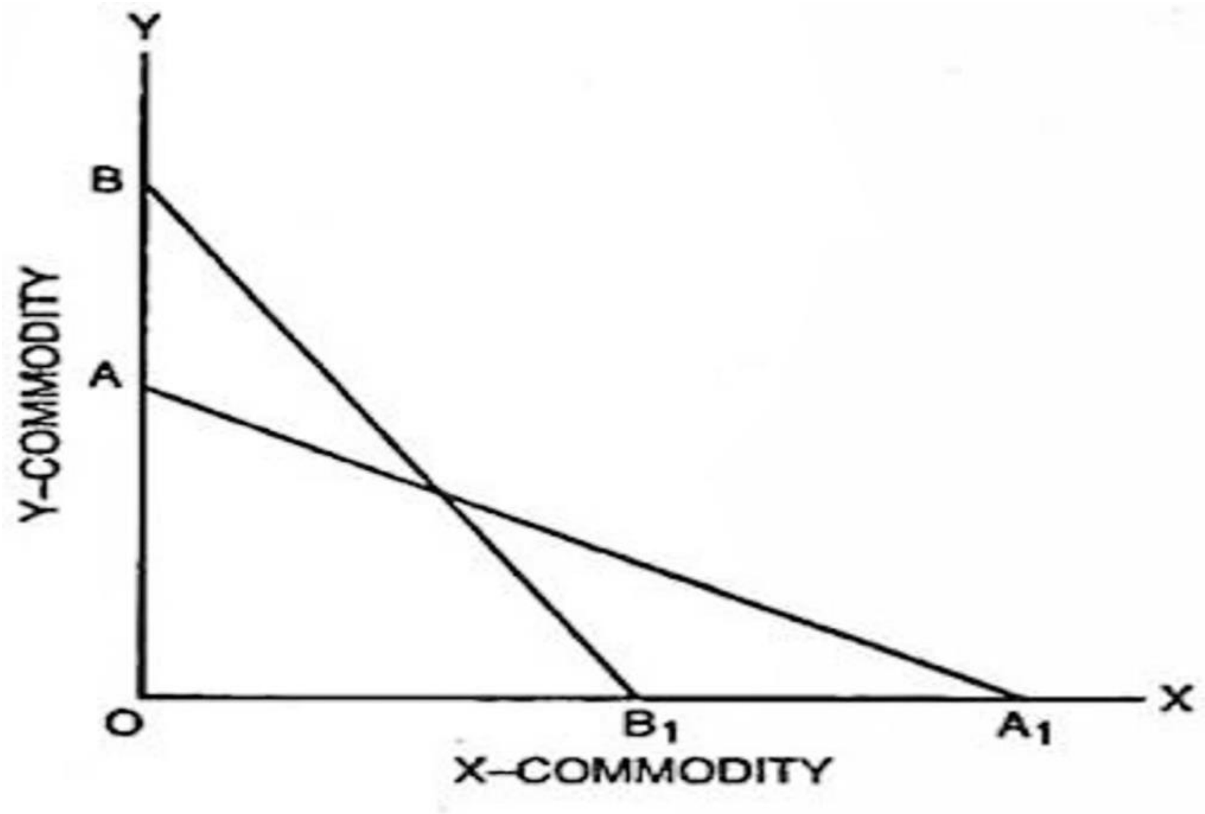
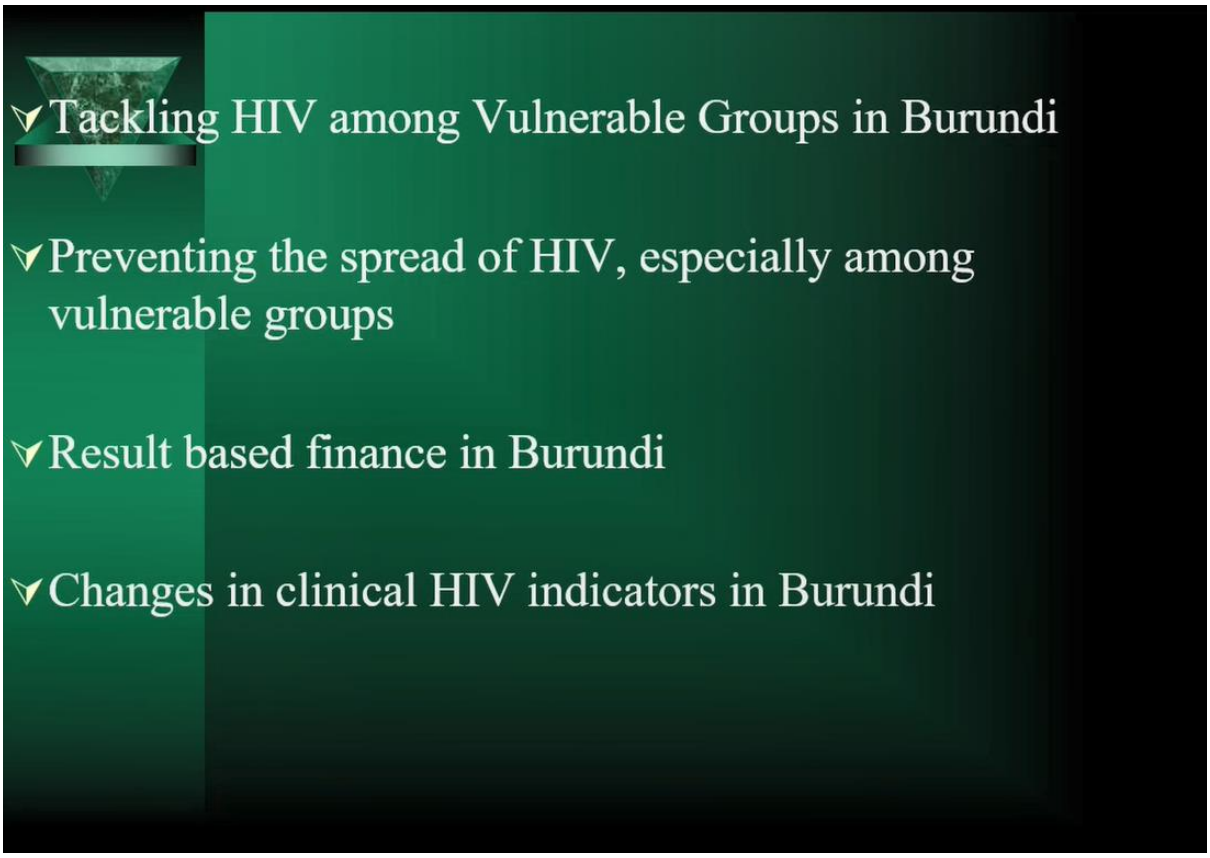

Y
B
A
Y–COMMODITY
O
B1
A1
X
X–COMMODITY

Fig. 2.1


Ghana and South Korea (Rice & Cocoa)
200 Units of resources available for both countries
Ghana-10 units of resources to produce 1 ton of Cocoa and 20 units of resources to produce 1 ton of Rice
200/10= 20 Tons of Cocoa and No Rice
200/20= 10 Tons of Rice and No Cocoa
S. Korea- 40 units of resources to produce 1 ton of Cocoa and 20 units of resources to produce 1 ton of Rice
200/40= 5 Tons of Cocoa and No Rice
200/10= 20 Tons of Rice and No Cocoa

World Bank


Tackling HIV among Vulnerable Groups in Burundi
Preventing the spread of HIV, especially among vulnerable groups
Result based finance in Burundi
Changes in clinical HIV indicators in Burundi


World Bank
1. Membership
2. Board of Governors
3. Executive Directors
4. President
IBRD
IDA
IFC
MIGA
ICSID

Dead Sea Red Sea Canal

- Back ground
- Feasibility study
- Supporters View

1. International Tourism
2. Protect mineral extraction industry
3. Cooperation and peace in middle East

Opponents View

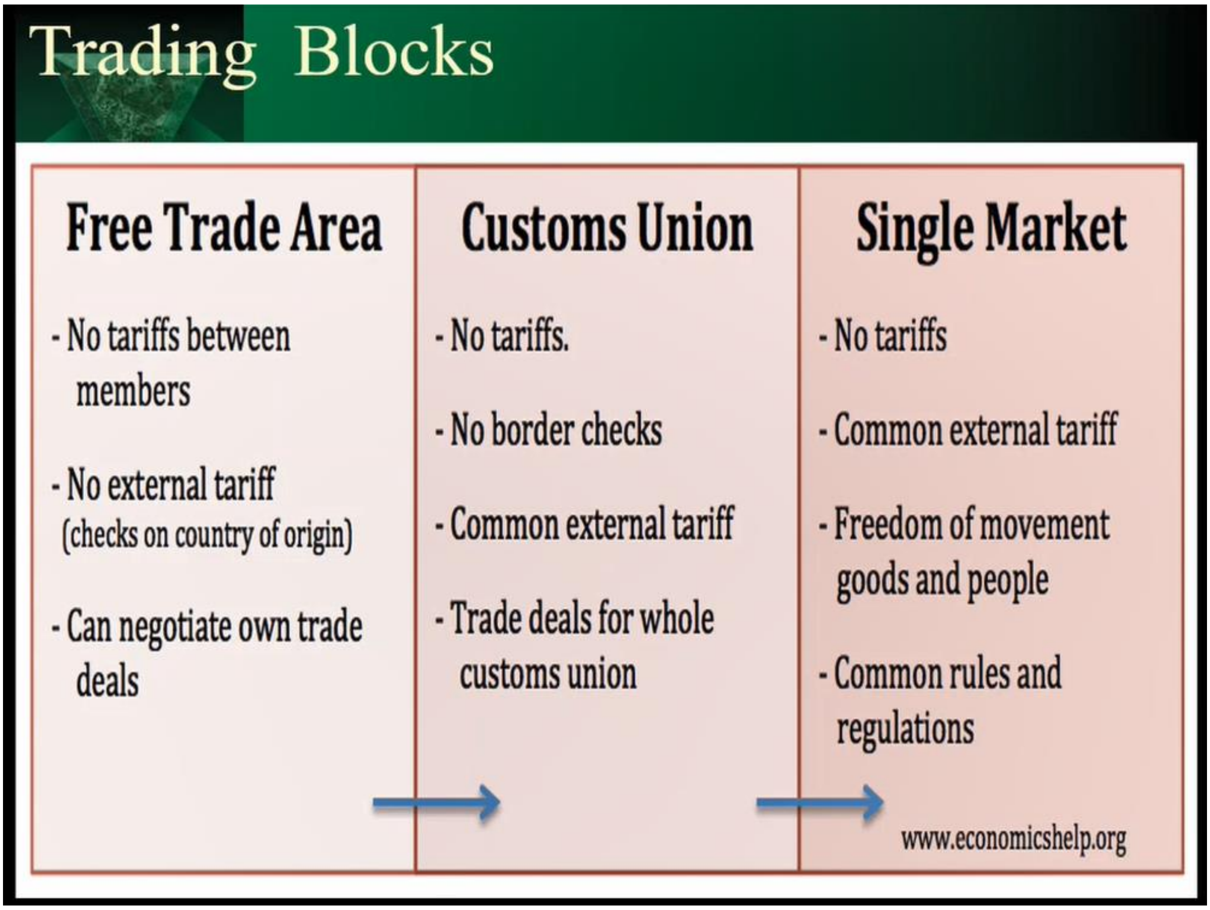
1. Danger of water intake
2. Pipeline effect
3. Gypsum problem
4. Development of Algae
5. Economic point
6. Technical point
7. Palestinian perspective

Alternative to the dead-Red canal

1. On supply side
2. On demand side
3. Change practice by mineral extraction industry

United States — Import Prohibition of Certain Shrimp and Shrimp Products

- 7 species
- Direct and indirect activities
- 1997 IMPT
- US Endangered Species Act
- TED


Trading Blocks
Free Trade Area
- No tariffs between members
- No external tariff
(checks on country of origin)
- Can negotiate own trade deals
Customs Union
- No tariffs.
- No border checks
- Common external tariff
- Trade deals for whole customs union
Single Market
- No tariffs
- Common external tariff
- Freedom of movement goods and people
- Common rules and regulations
www.economicshelp.org

NAFTA

- Job, wage, trade, env, health issue.
- 66%-emp, 66%-big corp, 73% small ind, 58% cheap import, 81% US laws.
- 1. Job creation and job quality:

a) Unique trade deficits:

14.7 billions and 18.5 billions but EU had surplus.

b) US exports back to US:

US owned Maquiladora plants

c) High wage manufacturing jobs lost:

- Automobiles and Electronics.

2. Agriculture:

a)Attack of the NAFTA tomatoes:

100 farmers- 24 packaging house -1 billion loss.

b) Currency depreciation in Canada-Cheap import

c) Canadian wheat flood to US market.

Competition from Canada and Mexico

Bacterial contaminations in Mexico

3. Environment:

Hazardous industries in Mexico

Increase in passing truck

4. Public health:

I) Food safety:

a) Food safety inspection (FDA) declined

b) Poisonous NAFTA berries:

Strawberry floods-270 sick-130 children's-Michigan.

II) Environmentally linked health threats:

a)Water contamination:

RG- Hep-A.

b) Birth rate defect clusters continues:

Anencephaly and spinabifida

Neural tube defect rate babies- 19/10000 babies

5.Wage levels in USA and Mexico:

Huffy bicycles-Celina, Ohio laying off 650

Bass shoes -Maine for 122 years, laying off 350.

Thomson consumer electronics-Bloomington, Indiana -laying off 1,200 workers.

Increased foreign investment in Mexico-decline in living standards - extensive failures among Mexican small- and medium-sized businesses.

6. Economic development and living standards:
Bad jobs for Mexicans

28,000 small business destroyed by MNC

Low subsidy

Middle class vanished- 8 millions

Purchasing power decreased- salaried middle class

Increase in poverty-devaluation of currency

7. Sovereignty and democratic government:

Political unrest and disturbances

8. Highway safety and law enforcement:

I. Trucks:

a) Insufficient truck inspections:

3.3 millions per year

2 to 5 inspectors 5000/day

EI Paso- one inspector-1300/day

b) Mexican trucks are out of service

Safety violations

C) Mexican trucks are demonstrated unsafe:

Overloading, no insurance , faulty breaks

II. Drugs:

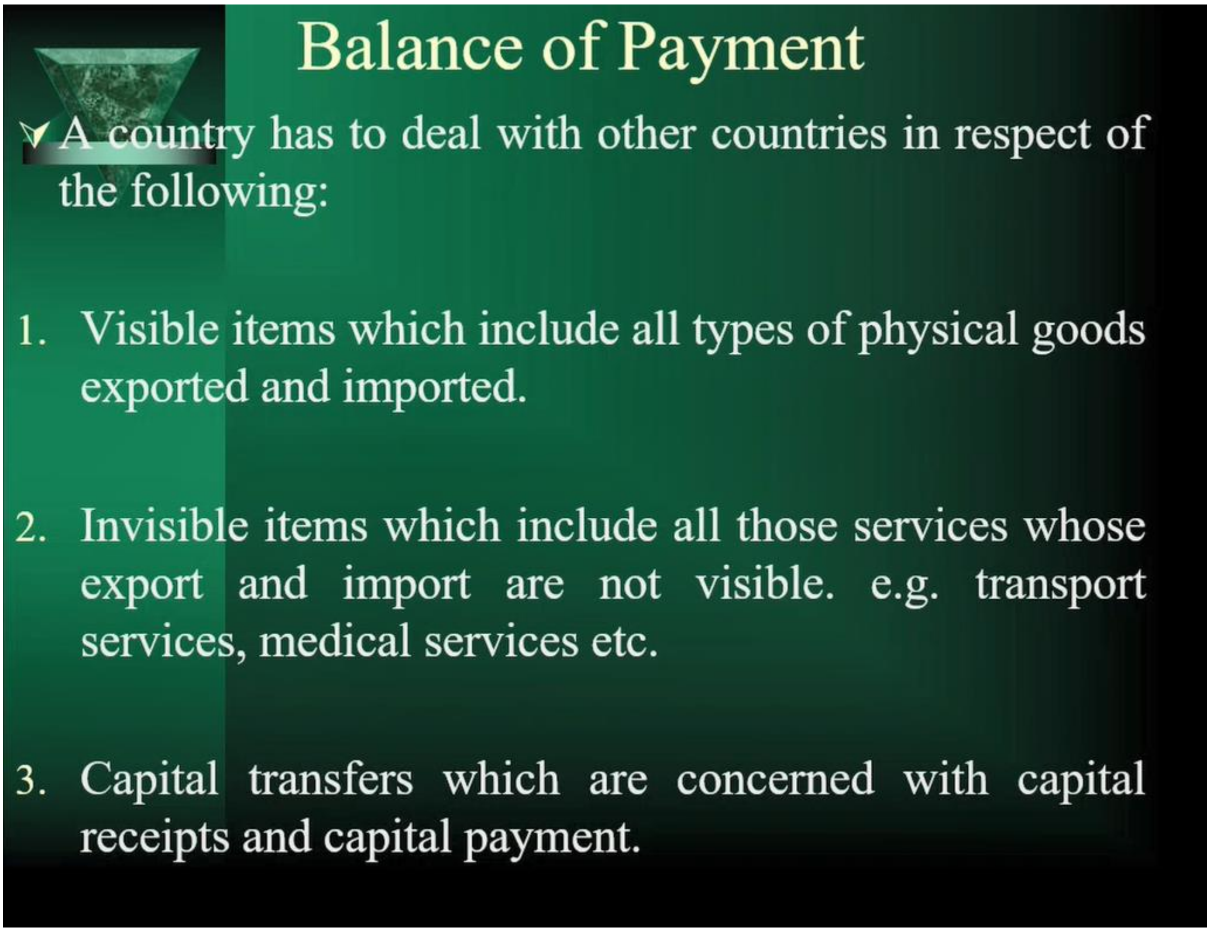
a) Cocaine -330 tons-70%

b) Heroin

III. Smuggling:

2 lakhs cars, 90% illegal guns

Balance of Payment



- According to Kindle Berger, "The balance of payments of a country is a systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries during a given period of time".

- It is a double entry system of record of all economic transactions between the residents of the country and the rest of the world carried out in a specific period of time.

- When we say "a country's balance of payments" we are referring to the transactions of its citizens and government.

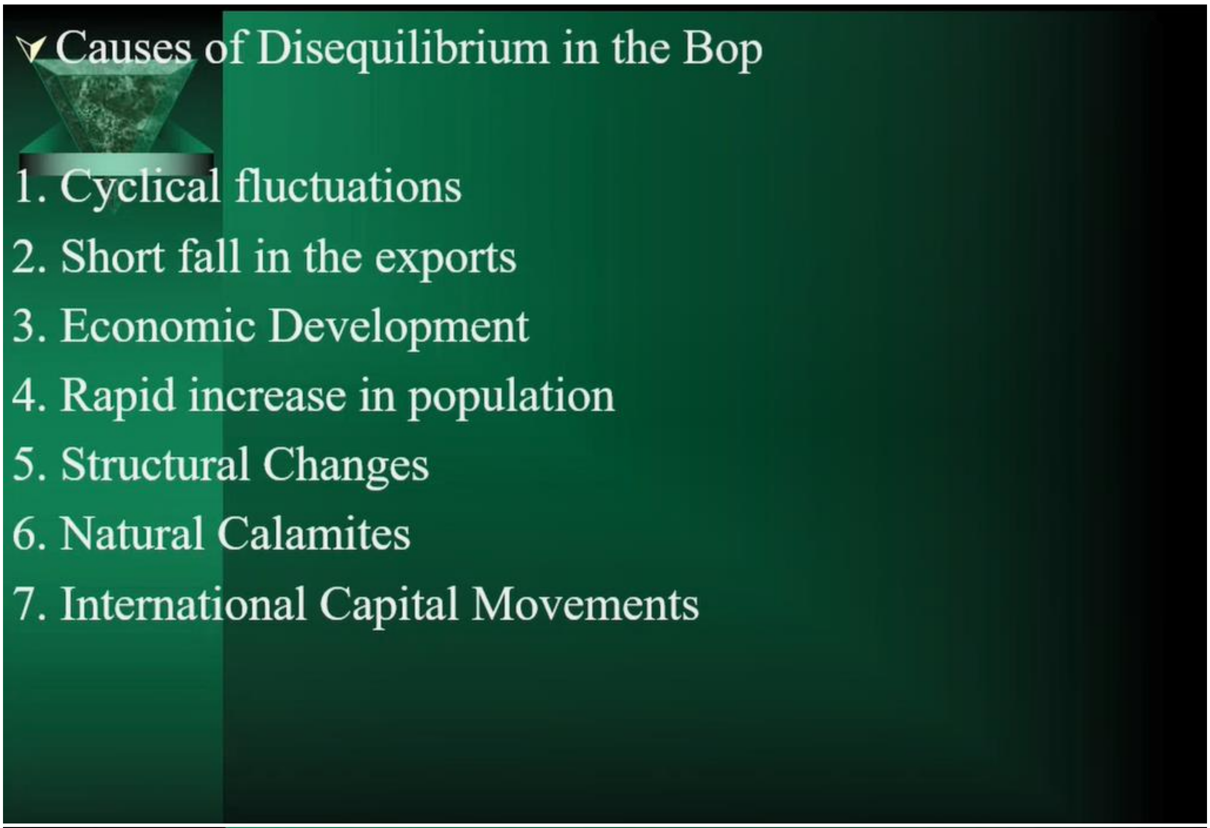
- The balance of payments of a country is a systematic record of all economic transactions between the residents of a country and the rest of the world.

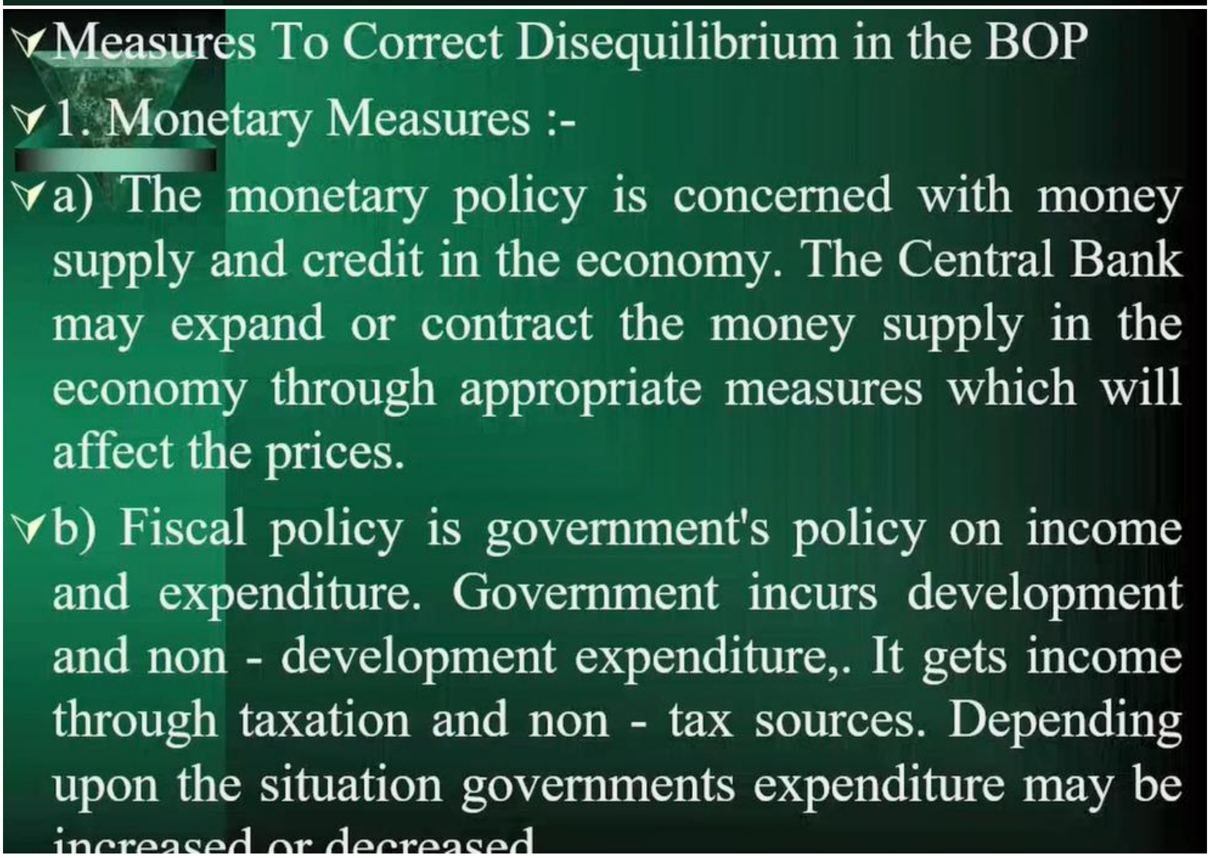
- It presents a classified record of all receipts on account of goods exported, services rendered and capital received by residents and payments made by them on account of goods imported and services received from the capital transferred to non-residents or foreigners.

- Features:
- It is a systematic record of all economic transactions between one country and the rest of the world.
- It includes all transactions, visible as well as invisible.
- It relates to a period of time. Generally, it is an annual statement.
- It adopts a double-entry book-keeping system. It has two sides: credit side and debit side. Receipts are recorded on the credit side and payments on the debit side.

- Balance of Trade:
- The difference between a country's imports and its exports. Balance of trade is the largest component of a country's balance of payments.
- Debit items include imports, foreign aid, domestic spending abroad and domestic investments abroad. Credit items include exports, foreign spending in the domestic economy and foreign investments in the domestic economy.
- When exports are greater than imports than the BOT is favourable and if imports are greater than exports then it

Dequilibrium and ways to stop





- c) Exchange Rate Depreciation:
- By reducing the value of the domestic currency, government can correct the disequilibrium in the BoP in the economy. Exchange rate depreciation reduces the value of home currency in relation to foreign currency. As a result, import becomes costlier and export become cheaper.

- d) Devaluation:
- Devaluation is lowering the exchange value of the official currency. When a country devalues its currency, exports becomes cheaper and imports become expensive which causes a reduction in the BOP deficit.

- e) Deflation:
- Deflation is the reduction in the quantity of money to reduce prices and incomes. In the domestic market, when the currency is deflated, there is a decrease in the income of the people. This puts curb on consumption and government can increase exports and earn more foreign exchange.

- f) Exchange Control:
- All exporters are directed by the monetary authority to surrender their foreign exchange earnings, and the total available foreign exchange is rationed among the licensed importers. The license-holder can import any

- II. Non- Monetary measures :-
- a) Export Promotion
- To control export promotions the country may adopt measures to stimulate exports like: export duties may be reduced to boost exports cash assistance, subsidies can be given to exporters to increase exports goods meant for exports can be exempted from all types of taxes.

- b) Import Substitutes
- Steps may be taken to encourage the production of import substitutes. This will save foreign exchange in the short run by replacing the use of imports by these

- c) Import Control
- 1. Quotas – Under the quota system, the government may fix and permit the maximum quantity or value of a commodity to be imported during a given period. By restricting imports through the quota system, the deficit is reduced, and the balance of payments position is improved.

- 2. Tariffs – Tariffs are duties (taxes) imposed on imports. When tariffs are imposed, the prices of imports would increase to the extent of tariff. The increased prices will reduce the demand for imported goods and at the same time induce domestic producers to produce more of import substitutes.

Dumping and counter trade

- When a country or company exports a product at a price that is lower in the foreign importing market than the price in the exporter's domestic market.

- Types of Dumping:

1. Sporadic dumping:

- Companies dump excess unsold inventories to avoid price wars in the home market and preserve their competitive position. They can dump by exporting them to a foreign market where the products are not sold.

- ***2. Predatory dumping***
- Unlike sporadic dumping, which is occasional, predatory dumping is permanent. It involves the sale of goods in a foreign market at a price lower than the home market. Predatory dumping is done to gain access to the foreign market and eliminate competition.

- ***3. Persistent dumping***
- When a country consistently sells products at a lower price in the foreign market than the local prices, it is called persistent dumping. It happens when there is a constant demand for the product in the foreign market.

- ***4. Reverse dumping***
- Reverse dumping happens when the demand for the product in the foreign market is less elastic. It means that price changes do not impact demand. Therefore, the company can charge a higher price in the foreign market and a lower price in the local market.

- **Advantages of Dumping**
- Consumers in the importer's country can gain access to products at lower prices.
- Exporters receive subsidies from their government to sell at lower prices abroad.
- The exporter's country can generate employment and become industry leaders.

- Countertrade
- Countertrade is a reciprocal form of international trade in which goods or services are exchanged for other goods or services rather than for hard currency. This type of international trade is more common in developing countries with limited foreign exchange or credit facilities.

- Types of countertrade

1. Barter: Exchange of goods or services directly for other goods or services without the use of money as means of purchase or payment.
2. Buyback: occurs when a firm builds a plant in a country - or supplies technology, equipment, training, or other services to the country and agrees to take a certain percentage of the plant's output as partial payment for the contract.

3. Counter purchase: Sale of goods and services to one company in other country by a company that promises to make a future purchase of a specific product from the same company in that country.

4. Offset: Agreement that a company will offset a hard - currency purchase of an unspecified product from that nation in the future. Agreement by one nation to buy a product from another, subject to the purchase of some or all of the components and raw materials from the buyer of the finished product, or the assembly of such product in the buyer nation.

5. Switch trading: Practice in which one company sells to another its obligation to make a purchase in each country.

Economic Environment

- Stage of economic growth & the pace of growth
- Inflation rate
- Growth in spending power
- Rate of people in a pensionable age
- Recession or boom
- Shortage
- Unemployment
- Level of national & per capita income.
- Incidents of taxes, both direct & indirect tax
- Availability of manpower-managerial, technical & workers available & their salary & wage structures
- Productivity

Technological Environment

- Internet
- Social media
- Electronic media
- Research and development
- Rate of technological change

Legal Environment

- Health and safety
- Product safety
- Advertising regulations
- Employment law
- Labor law

Free Trade


Arguments for and against Free Trade
Arguments for Free Trade:
i. Advantages of Specialization
ii. All-Round Prosperity
iii. Competitive Spirit
iv. Accessibility of Domestically Produced Goods and Services
v. Greater International Cooperation
vi. Free from Interference

Arguments against Free Trade:

- *i. Advantageous not for LDCs*
- *ii. Destruction of Home Industries/Products*
- *iii. Inefficiency becomes Perpetual*
- *iv. Danger of Overdependence*
- *v. Penetration of Harmful Foreign Goods*

Arguments for and against Protection

- **Arguments for Protection:**
- *1. Infant Industries*
- *2. Diversification of Industries Argument*
- *3. Employment Protection*
- *4. Balance of Trade*
- *5. Dumping to Reflect Low Marginal Cost of Production*

Globalization

Globalization of production and markets of Indian motion pictures-A case of Krrish

- The history of cinema

- Indian film industry:

1. 1920-1950
2. 1950-1960
3. 1970-1980
4. 1990-2000

- The film making process in general:

1. Preproduction

2. Production

3. Postproduction

Krrish

- Film Kraft
- Preproduction
- Recruiting the special FX team
- Selecting perfect location
- Special recruitment