INTERNATIONAL BUSINESS
(MCM2C09)

STUDY MATERIAL

II SEMESTER

CORE COURSE

M.COM.
(2019 ADMISSION ONWARDS)

UNIVERSITY OF CALICUT
SCHOOL OF DISTANCE EDUCATION

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SECOND SEMESTER

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CORE COURSE : MCM2C09 : INTERNATIONAL BUSINESS

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MODULE I

INTERNATIONAL BUSINESS

Introduction

International trade means trade between the two or more countries. International trade involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries. International business refers to business transactions crossing national borders at any stage of the transaction.

It refers to all business activities which involve cross border transactions of goods, services, capital, technology and other resources between two or more nations. Transaction of economic resources includes capital, skills, people etc. for international production of physical goods and services such as finance, banking, insurance, construction etc. After the collapse of the erstwhile Communist Bloc countries, the world has been dominated by a single super power that is the United States of America (USA). This has given rise to what is called as a Unipolar World. Today's world is getting increasingly integrated and the international markets are coming closer to form a Global Village because of the fact that the artificial trade barriers are being dismantled throughout the world.

Scope

Merchandise exports and imports: Merchandise means goods that are tangible, i.e., those that can be seen and touched. When viewed from this perceptive, it is clear that while merchandise exports mean sending tangible goods abroad, merchandise imports means bringing tangible goods from a foreign country to one’s own country.

Service exports and imports: Service exports and imports involve trade in intangibles. It is because of the intangible aspect of services that trade in services is also known as invisible trade.

Licensing and franchising: Permitting another party in a foreign country to produce and sell goods under your trademarks, patents or copyrights in lieu of some fee is another way of entering into international business. It is under the licensing system that Pepsi and CocaCola are produced and sold all over the world by local bottlers in foreign countries.

Foreign investments: Foreign investment is another important form of international business. Foreign investment involves investments of funds abroad in exchange for financial return. Foreign investment can be of two types: direct and portfolio investments.

Monopoly Power: It might arrive from patent rights, technological advantages, product segregation etc. Another reason for internationalization is limited market information.

Reasons for International Trade

Limitations of Domestic Market: Some demographic trends such as a contraction in birth rate decline in domestic demand, fully tapped market potential have adverse effects on some businesses. When the domestic market is small, international business is the option for growth. Depression in the home market drives companies to explore foreign markets.

Increased revenues: One of the top advantages of international business is that you may be capable to enlarge your number of probable clients. Each country you add to your list can open up a new path to business growth and increased revenues.

Growth opportunities: Foreign markets both developed country and developing country provide considerable expansion opportunities for the firms from a developing country. MNCs are interested in no. of developing countries due to initially increasing in their income and population of the predictable 1 billion increases in world population during 2000 to 2015; only about 3% will be in the high-income countries, foreign markets, both developed and developing countries after ample opportunities for developing country firms also.

Expand and diversify: International business can enlarge and expand its activities. This is because it earns very high profits. It also gets financial help from the government.

Opportunity to specialize: International markets can open up avenues for a new line of service or products. It can also give you an opportunity to specialize in a different area to serve that market.

Theories of International Trade

The theories of international trade are the models explaining the way the goods and services are exchanged across the global boundaries. International trade theories postulate different aspects of trading practices like basis for trade (reasons for trade), terms of trade (exchange ratio between products), and the gains from trade. International trade theories explain how the trade participating countries are benefited from the trade provided they are engaged in trading the goods services. It also helps to predict the size, content and direction of trade flows. Depending on the differences of arguments various economists put forward different models of trade pattern. Theories of international trade provide a conceptual understanding of the fundamental principles international trade and its behaviour. Trade theories gives an insight into the different products are bought and sold internationally as well as the pattern in which international trade takes place. This enables the learner of international business how a country emerges as a supplier of certain products as well as the user of certain other products. The regulatory framework prevailing in each country has a greater say in determining and defining its position in international business. The following are the major trade theories associated with the international business:

1. Mercantilism Theory
2. Absolute advantage Theory
3. Comparative advantage Theory
4. Factor Endowment (Heckscher-Ohlin) Theory
5. Country Similarity Theory
6. The New Trade Theory
7. International Product Life-Cycle Theory
8. Theory of Competitive Advantage
9. Theory of Reciprocal Demand

1. Theory of Mercantilism

This theory focuses on the export and import of gold and silver. It treated gold and silver only as the wealth of nations and did not take in to account the value of goods and services. The theory emerged in mid of 16th Century in England. The theory states that gold and silver are the wealth of nations. Gold and silver are essential for business of the country. Gold and silver were medium for exchange of goods for about 2 centuries. By exporting goods a country received gold and by importing goods it was out of gold and silver. The countries which consisted of kingdoms started giving importance to collecting gold and silver was considered a sign of wealth and prestige of the kingdom and its people. Even today the theory of mercantilism is followed by many nations. Governments of many countries push exports by giving direct and indirect incentives. Discourage imports by levying high customs duties i.e. a duty to be paid at entry point in a country. Indirect barriers for imports are also levied to restrict imports.

Features

The following are the key features of mercantilism theory

1. Restrictive trade aiming at the acceleration of exports and reduction of imports
2. Strict focus on the wealth accumulation than welfare promotion
3. No simultaneous gains or sharing of gains among countries are possible. One country can benefit only at the cost of other countries
4. Adoption of trade protectionism

2. Theory of Absolute Advantage

This theory was introduced by Adam smith. The base of the theory is that one nation gains the cost of another. The theory explains that country should export those goods which can be produced more efficiently at home and should import the goods which can be produced more efficiently abroad. This theory is based on the assumption that there are two countries, two commodities and one factor. The theory is that nation should produce goods in which it has greatest relative advantage. For Adam Smith the important point in International business is one of absolute cost advantage. Trade can happen between two countries if one country is able to produce at absolute low price and offer to the second and second country similarly produce another commodity at absolute low price and offer to first country. In other words, each country will import goods from the cheapest overseas source. Similarly, it exports goods that have cost advantage or where it can produce cheap. It is also called classical trade theory. The theory can be explained with an example. Suppose there are two countries- India and Brazil producing tea and sugar. By employing a worker for one hour India can produce either 10kilograms of tea or 5 kilograms of sugar. Similarly if a Brazil worker is employed she is capable of producing 10 kilograms of sugar or 5 kilograms of tea.

Output per hour (kg)

Country	Sugar	Tea
India	5	10
Brazil	10	5

From the table it is clear that by spending an hour's labour India is capable of producing twofold of tea than Brazil similarly in the case of sugar Brazil is able to generate double the production in India. In short Brazil has absolute advantage in sugar and India in tea. In this situation by concentrating on the respective absolute advantageous areas both nations can benefit by fully channelizing their resources to absolutely advantageous commodity**.**

3. Theory of Comparative Cost Advantage

This theory was developed by David Ricardo. The theory focuses that countries should specialize in a certain class of products for export but import the rest- even if the country holds an absolute advantage in all products. David Ricardo developed the theory of comparative advantage or comparative cost is the basis of international trade. Comparative advantages arise from the differences in the productivity and the theory is based on the principles of opportunity cost. It could market that low cost product to other countries and develop trade. In few developing countries there may not be any product of low cost or having cost advantage. International relations are not only on costs. It can be illustrated with the help of the following example:

Output per hour (kg)

Country	Wheat	Tea
India	10	10
Burma	4	5

In this example Indian labourers are capable of producing both wheat and tea in absolute advantage. Burma is disadvantageous in both cases. But still there is a possibility for trade. Burma has fewer disadvantages in tea than wheat. So it is its comparative advantage. If India concentrates in wheat it is capable of producing more than two fold wheat, but in tea it can produce only two fold than Burma. Although India has an absolute advantage in the production of both tea and wheat, India has a comparative advantage only in the production of wheat. This is because its advantage in wheat is comparatively greater than its advantage in tea. In this situation India can concentrate on wheat and Burma on tea and both can benefit from trade.

4. **Factor Endowment (Heckscher-Ohlin)Theory**

This theory was the contribution of two Swedish Economists Eli Heckscher (in 1919) and Bertili Ohlin in (1993). It is also known Hecksher and Ohlin Theory. (H O Theory)/ Factor proportion/ Factor endowment theory: They argued that comparative advantage arises from differences in national factor endowments. According to this theory, countries which are rich in labour will export labour intensive goods and the countries which have plenty of capital will export capital intensive goods. Here the comparative advantage comes from difference in national factor endowments. The factor endowment means the assets or resources of the country like land, labour, capital. Each nation has its own factor endowments or assets. The more the factor endowments the lower will be the cost of produce of the country. The theory of two Swedish economists states that the countries would use locally available resources (or endowments) intensely and export goods. These countries will import goods wherein the resources are scarce. Heckscher-Ohlin theory has plus points in comparison to Ricardo's theory. These are:

1. International business is beneficial to all trading countries and companies.
2. Pattern of international business is based on difference in factor endowments and not on productivity.

Example: China exporting manufactured goods due to cheap and disciplined labour and India exporting BPO services due to availability of highly skilled labour.

Limitations of Heckscher Ohlin's (H-O) Theory

The following are the criticism leveled against the H O Thoery:

1. **Unrealistic Assumptions:** Besides the usual assumptions of two countries, two commodities, no transport cost, etc. Ohlin's theory also assumes no qualitative difference in factors of production, identical production function, constant return to scale, etc. All these assumptions makes the theory unrealistic one.
2. **Restrictions**: Ohlin's theory is not free from constrains. His theory includes only two commodities, two countries and two factors. Thus it is a restrictive one.
3. **One-Sided Theory**: According to Ohlin's theory, supply plays a significant role than demand in determining factor prices. But if demand forces are more significant, a capital abundant country will export labour intensive good as the price of capital will be high due to high demand for capital.
4. **Static in Nature**: Like Ricardian Theory the H-O Model is also static in nature. The theory is based on a given state of economy and with a given production function and does not accept any change.

5. **Consumers' Demand ignored**: Ohlin forgot an important fact that commodity prices are also influenced by the consumers' demand.
6. **Leontief Paradox:** American economist Dr. Wassily Leontief tested H-O theory under U.S.A conditions. He found out that U.S.A exports labour intensive goods and imports capital intensive goods, but U.S.A being a capital abundant country must export capital intensive goods and import labour intensive goods than to produce them at home. This situation is called Leontief Paradox which negates H-O Theory.

There are four major components of the HO model:

1. Factor Price Equalization Theorem,
2. Stolper-Samuelson Theorem,
3. Rybczynski Theorem, and
4. Heckscher-Ohlin Trade Theorem.

Factor Price Equalization Theorem: Among the four main results of the HO theory, FPE is the most fragile theorem. If any of the eight assumptions is violated, it will not hold. However, perhaps this is the single most important finding in trade theory; it shows how trade affects income distribution of the global economy. It states that international trade will bring about equalization in the returns to homogeneous factors across countries.

Stolper-Samuelson Theorem: The theorem intends to show that the change in commodity prices change the distribution of real incomes between capital and labor. It states that the international trade will reduce the income of the scarce factor of production and increase the income of the abundant factor of the country. This is because when trade promotes nations will export commodities which are intensive in its abundant and cheap factor. This will earn more income to that factor. Since imports are on the scarce factor the income will flow to abroad leading to a net decline in its earnings.

Rybczynski Theorem: It states that at constant commodity prices, an increase in the quantity of one factor increases the production of the commodity intensive in this factor and reduces the output of the other commodity which is intensive in the constant factor. For example if labour force increase in a country and it turns to be more profitable to employ them , then naturally the country intensify the production of labour intensive commodities at the cost of capital intensive commodity.

Heckscher-Ohlin Trade Theorem: It maintains a country will produce and export those commodities in which its abundant factor is intensively used and import those commodities in which the relatively scarce factor is immensely used.

Leontief's Paradox

In 1953, Wassily Leontief published a study named, "Domestic production and foreign trade: the American capital position re-examined" where he tested the validity of the Heckscher- Ohlin theory. Using data available from the 1947 input-output (I-O) model of the US economy, Leontief calculated the K and L requirements for the production of $1 million of US exports and $1 million of US production in import-competing industries. He found that the former required a higher proportion of L than the latter. The study showed that the U.S was more abundant in capital compared to other countries; therefore the U.S would export capital- intensive goods and import labour-intensive goods. Leontief found out that the U.S's export was less capital intensive than import. Hecksher-Ohlin's theory of factor endowments stressed that a country should produce and export goods that require resources (factors) that are abundant in the home country. Leontief tested the Hecksher-Ohlin theory in the U.S. and found that it was not applicable in the U.S.

5. Country Similarity Theory

The country similarity theory was forwarded by Prof. Staffan B Linder a Swedish Economist. It is also called income preference similarity theory from international trade in recent years. It is seen that rich countries trade with rich countries. It is also fact that above 70 per cent of international business goes on between developed countries. It is also interesting to see how large portion of international trade takes place Inter MNC and Intra MNC. The country similarity theory negates the Heckscher-Ohlin factor endowment theory. The Heckscher-Ohlin theory base is that the incentives to international trade are largest among nations of radically different factor endowments. Linder takes a different view. He divides international trade in two categories:

(a) Primary that is natural resources like minerals and

(b) Manufactured goods.

Linder explains that factor endowments are applicable in natural or primary products. The manufactured mostly are consumed within the country and hence, driven by internal demand patterns. Manufactured goods are traded globally to developed nations. The trade growth to similar nations is attributable to the following.

- Similar demand preferences between the two countries. This increases trade.
- Consumers in the two countries like similar quality, features and sophistication.
- High income group countries like to purchase sophisticated capital goods or luxury goods.
- Developing or low per capita income countries purchase 'necessary goods' such as food, clothing or bicycles.
- The poor countries with identical demands trade in poor countries.

Even in international trade it is seen that 'birds of the same feather flock together'. This is country similarity theory simplified.

6. New Trade Theory

Countries do not necessarily trade only to benefit from their differences but they also trade so as to increase their returns, which in turn enable them to benefit from specialization. International trade enables a firm to increase its output due to its specialization by providing a much larger market that result in enhancing its efficiency. The theory helps explain the trade patterns when markets are not perfectly competitive or when the economies of scale are achieved by the production of specific products. Decrease in the unit cost of a product of a product resulting from large scale production is termed as economies of scale. Since fixed costs are shared over an increased output, the economy of scale enable a firm to reduce it's per unit average cost of production and enhances its price competitiveness.

The new trade theory emphasizes on the two types of economies of scale discussed here.

a. Internal Economies of Scale

Companies benefit by the economies of scale when the cost per unit of output depends upon their size. The larger the size, the higher are the economies of scale. Firms that enhance their internal economies of scale can decrease their price and monopolize the industry, creating imperfect market competition. This in turn results in the lowering of market prices due to the imperfect market competition. Internal economies of scale may lead a firm to specialize in a narrow product line to produce the volume. Necessary to achieve cost benefits from scale economies. Industries requiring massive investment in R & D and creating manufacturing facilities, such as branded software by Microsoft, microprocessors by Intel or AMD, and aircrafts by Boeing or Airbus, need to have a global market base so as to achieve internal economies of scale and compete effectively.

b. External Economies of Scale

If the cost per unit of output depends upon the size of the industry, not upon the size of an individual firm, it is referred to as external economies of scale. This enables the industry in a country to produce at a lower rate when the industry size is large compared to the same industry in another country with a relatively smaller industry size. The dominance of a particular country in the world market in a specific products sector with higher external economies of scale is attributed to the large size of a country's industry that has several small firms, which interact to create a large, competitive critical mass rather than a large sized individual firm. However, external economies of scale do not necessarily lead to imperfect markets but may enable the country's industry to achieve global competitiveness.

7. Product Life Cycle Theory

Vernom gave the theory of international product life cycle model. The theory he addresses the stages of production of a product and 'know-how' (knowledge how to make). A product is found by its Research and Development activities by a parent company. The product is then pushed for production to its subsidiary company overseas. The product is then pushed for production to its subsidiary company overseas. Thereafter, the product is marketed to anywhere in the world to produce and market. The product and manufacturing know how goes where it's cost of production is lowest. International product life cycle has 4 stages:

a. New Product Development

b. Maturing Stage

c. Standardized Product

d. Declining Stage.

New product initially will have high premium and sell to those who are willing to pay. As production exceed exports start. In mature stage of product life cycle increasing export takes place. In standardized stage the technology is known to many. Production shifts to low cost countries. The original manufacturer tries to differentiate the product or bad the product to retain his market.

8. Theory of Competitive Advantage

Michael Porter of Harvard Business School conducted a research project in 1990 regarding success of few countries in International business and failure of few countries. The reasons of failure or success were governments and the private industries in those countries.

The factors can help or unhelpful trade conditions and thereby competitiveness. Porter theory note four attributes.

1. Factor Endowments. It includes inputs in production such as skilled labour, infrastructure, and raw materials for the industry.
2. Demand conditions: - The customer demands for quality product in home country. If domestic buyers demand quality then only quality products will be made.
3. Related supporting industries: - How the organisation is supported by its vendors makes a company effective in quality and delivery schedules. The supporting industries can provide cost effective inputs and provide developed products.
4. Strategy of the firm structure and rivalry: - How the organization plans its strategies. How it meets its marketing challenges and how the competition is met depend on culture, risk taking by the organisation.

Porter stated the above four attributes and proposed a diamond matrix to show interrelationships. Porter also stressed importance of government policies and actions in international business.

8. **Theory of Reciprocal Demand**

Theory of reciprocal demand was introduced by J.S. Mill. Comparative advantage explains the pattern of trade. It also furnishes a strong argument for trade gains and tells much about readjustment of production and the basic laws that determine the real rate of exchanges between the exportable and importable goods. But to explain the actual pattern of production, or the exact terms at which one country's products exchange for those of another, we also need detailed knowledge of demand and supply. This was firstly verbalized by John Stuart Mill through the 'reciprocal demand theory' and then put into graphic form by Alfred Marshall and F.Y. Edgeworth using the 'offer curves'.

Mill firstly revealed the mechanism of how to determine the rate of exchange in international market and how to distribute the total gains from trade between the two traders by detailing specific relationship between them. That is the two participants of trade in Ricardian model must establish a specific relationship with each other, this is the reciprocal demand relationship. It is this reciprocal demand that actually determines the prevailing terms of trade and how much gains obtained by a particular country. The reciprocal demand can be defined as the demand for imports in terms of the export of the country.

In other words John Stuart Mill had resolved the problem of how to exactly reach the rate of exchange in international market. Comparative advantage and law of reciprocal demand by John Stuart Mill constitute the two basic building blocks of the classical theory of international trade. Mill argued, acquisition of imports from abroad is the purpose of trade while exports are just means of payment for imports**.** In order to import some useful commodities from abroad exports of a country should have a real demand in the other countries. So a country should produce both for itself and for consumers in the other countries. Otherwise its exports could not be sold in international market and consequently the country could not import any commodities at all.

Protectionism Vs Free trade

According to Don Boudreaux, free trade is nothing more than a system of trade that treats foreign goods and services no differently than domestic goods and services Protectionism, on the other hand, is a system of trade that discriminates against foreign goods and services in an attempt to favour domestic goods and services.

Barriers to Trade

A tariff is a duty or tax imposed by the government of a country upon the traded commodity as it crosses the national boundaries. Tariff can be levied both upon exports and imports. The tariff or duties imposed upon the goods originating in the home country and scheduled for abroad are called as the export duties. Countries, interested in maximising their exports generally avoid the use of export duties. Tariffs have, therefore, become synonymous with import duties.

Tariff Barriers

Tariff is a customs duty or a tax on products that move across borders. The most important of tariff barriers is the customs duty imposed by the importing country. A tax may also be imposed by the exporting country on its exports. However, governments rarely impose tariff on exports, because, countries want to sell as much as possible to other countries.

Specific tariff

It is the fixed amount of money per physical unit or according to the weight or measurement of the commodity. Such duties can be levied on goods like wheat, rice, fertilisers, cement, sugar, cloth etc. The determination of the value of the traded goods may be difficult as there are several variants of price such as demand price, supply price, market price, contract price, invoice price, free on board price, cost, insurance, freight price etc.

Cost, Insurance and Freight and Free on Board are international shipping agreements used in the transportation of goods between a buyer and a seller. CIF is considered a more expensive option when buying goods. FOB contracts relieve the seller of responsibility once the goods are shipped.

Ad Valorem Tariffs

'Ad Valorem' is the Latin word that means 'on the value.' When the duty is levied as a fixed percentage of the value of the traded commodity, it is called as valorem tariff. Such duties are levied on the products the value of which is disproportionately higher compared to their physical characteristics such as weight or measurement. Eg: 15% tariff levied by Japan on U.S. automobiles.

Compound Tariff:

The compound tariff is a combination of specific and ad valorem tariff. The structure of compound tariff includes specific duty on each unit of the commodity plus a percentage of ad valorem duty. The compound tariffs not only impart a greater elasticity to revenues but also assure a more effective protection to the home industries.

Revenue Tariff:

The tariff, which is imposed primarily for generating more revenues for the government is called as the revenue tariff.

Protective Tariff:

The tariff may be imposed by the government to protect the home industries from the cut-throat competition from the foreign produced goods.

Retaliatory Tariffs:

If a foreign country has imposed tariffs upon the exports from the home country and the latter imposes tariffs against the products of the former, the tariffs resorted to by the home country will be regarded as the retaliatory tariffs.

Countervailing Tariffs:

If the foreign country has been exporting large quantities of its products in the market of the home country on the strength of export subsidies, the home country can neutralise the 'unfair advantage' enjoyed by foreign products through imposing duties upon them as they enter the territory of the home country.

NON-TARIFF BARRIERS

A non tariff barrier is any barrier other than a tariff, that raises an obstacle to free flow of goods in overseas markets. Non-tariff barriers, do not affect the price of the imported goods, but only the quantity of imports. Some of the important non-tariff barriers are as follows:

1. **Quota System:** Under this system, a country may fix in advance, the limit of import quantity of a commodity that would be permitted for import from various countries during a given period.
2. **Product Standards:** Most developed countries impose product standards for imported items. If the imported items do not conform to established standards, the imports are not allowed. For instance, the pharmaceutical products must conform to pharmacopoeia standards.
3. **Domestic Content Requirements:** Governments impose domestic content requirements to boost domestic production. For instance, in the US bailout package (to bailout General Motors and other organisations), the US Govt. introduced 'Buy American Clause' which means the US firms that receive bailout package must purchase domestic content rather than import from elsewhere.
4. **Product Labelling:** Certain nations insist on specific labelling of the products. For instance, the European Union insists on product labelling in major languages spoken in EU. Such formalities create problems for exporters.
5. **Packaging Requirements:** Certain nations insist on particular type of packaging materials. For instance, EU insists on recyclable packing materials, otherwise, the imported goods may be rejected.
6. **Consular Formalities:** A number of importing countries demand that the shipping documents should include consular invoice certified by their consulate stationed in the exporting country.
7. **State Trading:** In some countries like India, certain items are imported or exported only through canalising agencies like MMTC. Individual importers or exporters are not allowed to import or export canalised items directly on their own.
8. **Preferential Arrangements:** Some nations form trading groups for preferential arrangements in respect of trade amongst themselves. Imports from member countries are given preferences, whereas, those from other countries are subject to various tariffs and other regulations.

9. 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.

10. Other Non-Tariff Barriers: There are a number of other non – tariff barriers such as health and safety regulations, technical formalities, environmental regulations, embargoes, etc.

Balance of payment

Balance of Payment Account is a summary of international transactions of a country for a given period' (i.e., financial year). It records inflow and outflow. It is constructed on double entry system of accounting. If receipts are larger than payments, there is surplus in BOR Similarly, if payments are larger than receipts, there is deficit in BOP. It represents a summation of country's current demand and supply of the claims on foreign currencies and of foreign claims on its currency. There are two main accounts in the BoP – the current account and the capital account.

- BOP of a country reveals its financial and economic status.
- BOP statement can be used as an indicator to determine whether the country's currency value is appreciating or depreciating.
- BOP statement helps the Government to decide on fiscal and trade policies.
- It provides important information to analyze and understand the economic dealings of a country with other countries.

Current Account

The current account is used to monitor the inflow and outflow of goods and services between countries. This account covers all the receipts and payments made with respect to raw materials and manufactured goods. It also includes receipts from engineering, tourism, transportation, business services, stocks, and royalties from patents and copyrights. When all the goods and services are combined, together they make up to a country's Balance Of Trade.

There are various categories of trade and transfers which happen across countries. It could be visible or invisible trading, unilateral transfers or other payments/receipts. Trading in goods between countries are referred to as visible items and import/export of services (banking, information technology etc) are referred to as invisible items. Unilateral transfers refer to money sent as gifts or donations to residents of foreign countries. This can also be personal transfers like – money sent by relatives to their family located in another country.

Capital Account

All capital transactions between the countries are monitored through the capital account. Capital transactions include the purchase and sale of assets (non-financial) like land and properties. The capital account also includes the flow of taxes, purchase and sale of fixed assets etc by migrants moving out/in to a different country. The deficit or surplus in the current account is managed through the finance from capital account and vice versa.

There are 3 major elements of capital account:

- Loans & borrowings – It includes all types of loans from both the private and public sectors located in foreign countries.
- Investments – These are funds invested in the corporate stocks by non-residents.
- Foreign exchange reserves – Foreign exchange reserves held by the central bank of a country to monitor and control the exchange rate does impact the capital account.

The IMF divides it as the current account, the capital account, and the financial account.

Balance of Trade

It refers to the difference between the monetary value of a country's imports and exports over a given time period. A positive trade balance indicates a trade surplus while a negative trade balance indicates a trade deficit. It is an important component in determining a country's current account.

Balance of trade= Value of exports- Value of imports.

Value of exports is the value of goods and services that are sold to buyers in other countries.

Value of imports is the value of goods and services that are bought from sellers in other countries.

Whether a positive or negative balance of trade is beneficial for an economy depends on the countries involved, the trade policy decisions, the duration of the positive or negative balance of trade and the size of the trade imbalance among other things. Economists generally agree that neither surpluses or deficits are inherently bad or good for the economy.

Difference between Balance of Payment and Balance of Trade

1. Meaning: Balance of payment is the difference between the payments and total receipts of a specified economy during a certain period of time, balance of trade is the difference between imports and exports of a given economy during a certain period of time.

2. Scope: Balance of trade captures all visible and non-visible economic transactions in the world. On the other hand, balance of trade captures the value of goods on all exports and imports.

3. Economic View: While balance of trade gives an overall view on the strength of a particular economy, the balance of trade gives a partial view, based on the imports and exports.

4. Capital Transfers: Balance of payments includes capital transfers while balance of trade does not include capital transfers.

5. Transactions: While balance of payment records transactions that have taken place relating to goods and services transactions, balance of trade records transactions that have occurred in relation to only goods.

6. Mode of Calculation: Balance of payment is computed by summing up the reserve balance, current accounts balance, and capital accounts balance. On the other hand, balance of trade is derived by subtracting the value of imports from the value of exports.

7. Net Effect: In balance of payment, the net effect is always zero. However, in balance of trade, the net effect is either positive, negative or zero.

Disequilibrium in Balance of Payment

(i) Economic Factors: Imbalance between exports and imports, Large scale development expenditure which causes large imports, High domestic prices which lead to imports, Cyclical fluctuations (like recession or depression) in general business activity, New sources of supply and new substitutes.

(ii) Political Factors: Experience shows that political instability and disturbances cause large capital outflows and hinder Inflows of foreign capital.

(iii) Social Factors: Changes in fashions, tastes and preferences of the people bring disequilibrium in BOP by influencing imports and exports; High population growth in poor countries adversely affects their BOP because it increases the needs of the countries for imports and decreases their capacity to export.

Remedial measures

(i) Export promotion: Exports should be encouraged by granting various bounties to manufacturers and exporters. At the same time, imports should be discouraged by undertaking import substitution and imposing reasonable tariffs.

(ii) Import: Restrictions and Import Substitution are other measures of correcting disequilibrium.

(iii) Reducing inflation: Inflation (continuous rise in prices) discourages exports and encourages imports. Therefore, government should check inflation and lower the prices in the country.

Orientation in Overseas business

EPRG Framework consist of four types of orientation towards internationalisation of business operations **–**

- **Ethnocentrism**
- **Polycentrism**
- **Regiocentrism**
- **Geocentrism**.

These orientations reflect the objectives of a company towards international operations and to lead to different management strategies and planning procedures.

Ethnocentric Orientation: Orientation towards international operations by a company, which consider export market has no difference with domestic market and hence applies domestic market techniques with overseas market. Ethnocentric approach will better suit small firms just entering international operations. When company is small and is not in position to invest heavily in overseas operations, it is better for it to identify countries which have characteristic similar those of home country and export to them. This approach appears most appropriate when overseas sales volume is insignificant in comparison to the total sales of the firm.

Polycentric Orientation: Orientation towards international operations by a company, which consider each market differ from other and hence applies different technique in different market. Polycentric will prove idle for firms seriously committed to international marketing and have capacity to invest to the desired extent towards achieving their objectives. The major advantage of this type of orientation is that it will be the most effective way of motivating the management, since the management in each country is given a free hand in framing policies and implementing them. Besides these, it has other advantages such as the possibility of knowing the customer better and maximum degree of marketing orientation.

Regiocentric Orientation: Orientation towards international operations by a company, which recognises the common features in countries belonging to a particular geographical region and hence applies the same strategy in all the countries in a particular region.

Geocentric Orientation: Orientation towards international operations by a company, which consider the whole world as one market and hence develop global strategies which are applied in domestic market also.

Internationalization

It is the process of expanding a business from the domestic market into international markets across the globe. There are several reasons an organization may want to internationalize. In general, the reasons for internationalization fall into three primary categories:

- **Market seeking**: Looking for markets to expand into and sell products throughout the year and opportunities to sell products in a region which would not typically have access
- **Economic**: Increasing profits and saving on expenses
- **Strategic**: Expanding the size of the company and working to reduce the potential risks of staying in only one market.

Factors Restricting Internationalization of Business

1. Sovereign political entities:

2. Legal system

3. Monetary systems

4. Mobility of factors of production

5. Market considerations

Global Companies in the World

With a market value of 961.3 billion U.S. dollars, Apple led the ranking of the world's largest companies in 2018. Some of the most recognizable companies in the world, Amazon, Alphabet (Google), Microsoft, and Face book followed closely behind, rounding out the top five. Apple also led the way in 2018 as the world's most profitable company, with a net income of 59.4 billion U.S. dollars. Market value and market capitalization are two terms frequently heard when discussing the profitability and viability of companies. Put simply, market capitalization, or market cap, is the worth of a company based on stock price; an important metric when determining value for potential trading opportunities.

Ranking of the companies rank 1 to 100	Market value in billion U.S. dollars
Apple	961.3
Microsoft	946.5
Amazon.com	916.1
Alphabet	863.2
Berkshire Hathaway	516.4
Facebook	512
Alibaba	480.8
Tencent Holdings	472.1
JPMorgan Chase	368.5
Johnson & Johnson	366.2

India's Foreign Trade Policy

The Indian government's Foreign Trade Policy (FTP) 2015-2020 announced on April 1, 2015 is primarily focused on increasing India's exports of goods and services to raise India's share in world exports from 2 to 3.5 percent. The FTP consolidated most of India's existing export subsidies and other incentives into two main export incentive schemes

1. The Manufactured Goods Exports Incentive Scheme (MEIS)- for export of specified goods to specified markets.
2. The Service Exports Incentive Scheme (SEIS)- for increasing exports of notified services. FTP 2015-20 provides a framework for increasing exports in line with the 'Make in India' programme.

For grant of rewards under MEIS, the countries have been categorized into 3 Groups. Measures have been adopted to nudge procurement of capital goods from indigenous manufacturers under the EPCG scheme by reducing specific export obligation to 75 per cent of the normal export obligation.

Measures have been taken to give a boost to exports of defence and hi-tech items. E-Commerce exports of handloom products, books/periodicals, leather footwear, toys and customised fashion garments through courier or foreign post office would also be able to get benefit of MEIS (for values up to INR 25,000).

Manufacturers, who are also status holders, will now be able to self-certify their manufactured goods in phases, as originating from India. 108 MSME clusters have been identified for focused interventions to boost exports.

'Niryat Bandhu Scheme' has been galvanised and repositioned to achieve the objectives of 'Skill India'.

Trade facilitation and enhancing the ease of doing business are the other major focus areas in this new FTP.

One of the major objectives of new FTP is to move towards paperless working in 24x7 environments. The existing foreign trade policy 2015-20 which was valid upto 31 March 2020 is extended up to 31 March 2021 amid the outbreak of coronavirus pandemic and the lockdown to contain its spread.

Foreign Trade Policy- Highlights India

periods	**Policy measures**
1990-1991	1. New import export policy was formulated 2. services exports were encouraged 3. replenishment rates were modified to encourage higher value added products.
1992-93	1. EXIM Policy for 5 years 1992-97 was implemented. 2. since 1992 imports were regulated through a limited negative list.
1994-95	Under the duty exemption scheme and the export promotion of capital goods

	scheme third party exports were given benefits.
1995-96	1.Quantitative restrictions were phased out in the form of licensing and other discretionary controls. 2. controls on imports were liberalized with only small list of items in the negative list.
1997-98	EXIM Policy 1997-2002 constituted
1998-1999	In the wake of Asian crisis on India's exports several measures were announced. 1. Exports under all export promotion schemes were exempted from special additional duty. 2. Simplification of bond furnishing procedures for exporters. 3. Tax holidays foe EPZ to 10 years.
1999-2000	1.Import of 894 items were made license free and another 414 items were allowed to be imported against special import license. 2. Free trade zones replaced export processing zones. 3.Green card for exporters exporting 50 % of their production. 4. Golden status certificates for exports and trading houses.
2001-02	1.Quantitative restrictions removed from 714 tariff lines 2.Setting up of special economic zones
2002-03	Agricultural exports promoted
2006-07	Efforts were made to make India hub of gems and jewellery by accelerating their exports.
2008-09	Continued emphasis on special economic zones Exports duty on iron ore fines was eliminated
2009-10	New Foreign trade policy introduced for 2009-14.
2010-11	1. 27 new markets added under the focus market scheme with incentive of duty credit. 2. The zero duty export promotion capital goods scheme and status holder incentive scrip scheme introduced in 2009 is extended to other sectors.
2015-16	New Foreign trade policy introduced for 2015-20
2020-21	Foreign trade policy 2015-20 extended by one year and made valid up to 31 March 2021.

Model Questions

Short answer

1. Define international trade
2. What is mercantilism
3. Define factor endowment
4. What is known as reciprocal demand.
5. Discuss Leontiff paradox
6. What is free trade
7. Define non tariff barriers
8. What is advelorem tariff
9. Define polycentric orientation
10. What is known as protective tariff

Paragragh Questions

1. What are the scope of international trade
2. Explain the reasons for international trade in an integrated world
3. Discuss the theory of absolute advantage
4. Eloberate the theory of comparative cost advantage
5. What are the limitations of H O theory
6. Explain country similarity theory in international trade
7. What are the peculiarities of product life cycle theory
8. Distinguish balance of payment and balance of trade
9. Explain the factors restricting internationalisation of business
10. Discuss the important schemes of present foreign trade policy

Essay Questions

1. Explain the theories in international trade
2. What are the barriers to free trade
3. Discuss the components of balance of payment
4. Explain the orientations in international business
5. Discuss the provisions of foreign trade policy 2015-21

MODULE II

INTERNATIONAL BUSINESS ENVIRONMENT

Introduction:

International business is an enormously relevant facet of the modern economy, and will only become more integrated into core business strategy as technology continues to progress. International business is simply the summation of all commercial transactions that take place between various countries (crossing political boundaries). This is not exclusively limited to the domain of business, as NGOs, governments, and coops also operate across country borders with a variety of objectives (aside from simple profitability).

From a business perspective, the primary incumbent in an international business environment is the multinational enterprise (MNE), which is a company that pursues strategic success in global production and sales (i.e. operating within a number of country borders). The number of examples of this type of firm is constantly growing. From fast food chains like McDonald's to auto manufacturers like Honda to Smartphone designers like Samsung, the number of international players in most markets is constantly on the rise.

The important components of international business environment are summarised below.

Political Environment

The political environment refers to the type of the government, the government relationship with a business, & the political risk in the country. Doing business internationally, therefore, implies dealing with a different type of governments, relationships, & levels of risk. There are many different types of political systems, **for example**, multi-party democracies, one-party states, constitutional monarchies, dictatorships (military & non-military). Therefore, in analysing the political-legal environment, an organization may broadly consider the following aspects:

- The Political system of the business;
- Approaches to the Government towards business i.e. Restrictive or facilitating;
- Facilities & incentives offered by the Government;

- Legal restrictions for instance licensing requirement, reservation to a specific sector like the public sector, private or small-scale sector;
- The Restrictions on importing technical know-how, capital goods & raw materials;
- The Restrictions on exporting products & services;
- Restrictions on pricing & distribution of goods;
- Procedural formalities required in setting the business

Economic Environment

The economic environment relates to all the factors that contribute to a country's attractiveness for foreign businesses. The economic environment can be very different from one nation to another. Countries are often divided into three main categories: the more developed or industrialized, the less developed or third world, & the newly industrializing or emerging economies. Within each category, there are major variations, but overall the more developed countries are the rich countries, the less developed the poor ones, & the newly industrializing (those moving from poorer to richer).

These distinctions are generally made on the basis of the gross domestic product per capita (GDP/capita). Better education, infrastructure, & technology, healthcare, & so on are also often associated with higher levels of economic development. Clearly, the level of economic activity combined with education, infrastructure, & so on, as well as the degree of government control of the economy, affect virtually all facets of doing business, & a firm needs to recognize this environment if it is to operate successfully internationally. While analyzing the economic environment, the organization intending to enter a particular business sector may consider the following aspects:

- An Economic system to enter the business sector.
- Stage of economic growth & the pace of growth.
- Level of national & per capita income.
- Incidents of taxes, both direct & indirect tax.
- Infrastructure facilities available & the difficulties thereof.
- Availability of raw materials & components & the cost thereof.
- Sources of financial resources & their costs.
- Availability of manpower-managerial, technical & workers available & their salary & wage structures.

Technological Environment

The technological environment comprises factors related to the materials & machines used in manufacturing goods & services. Receptivity of organizations to new technology & adoption of new technology by consumers influence decisions made in an organization. As firms do not have any control over the external environment, their success depends on how well they adapt to the external environment. An important aspect of the international business environment is the level, & acceptance, of technological innovation in different countries.

The last decades of the twentieth century saw major advances in technology, & this is continuing in the twenty-first century. Technology often is seen as giving firms a competitive advantage; hence, firms compete for access to the newest in technology, & international firms transfer technology to be globally competitive. It is easier than ever for even small business plan to have a global presence thanks to the internet, which greatly grows their exposure, their market, & their potential customer base. For the economic, political, & cultural reasons, some countries are more accepting of technological innovations, others less accepting. In analyzing the technological environment, the organization may consider the following aspects:

- Level of technological development in the country as a whole & specific business sector.
- The pace of technological changes & technological obsolescence.
- Sources of technology.
- Restrictions & facilities for technology transfer & time taken for the absorption of technology.

Cultural Environment

The cultural environment is one of the critical components of the international business environment & one of the most difficult to understand. This is because the cultural environment is essentially unseen; it has been described as a shared, commonly held body of general beliefs & values that determine what is right for one group, according to Kluckhohn & Strodtbeck. National culture is described as the body of general beliefs & the values that are shared by the nation.

Beliefs & the values are generally seen as formed by the factors such as the history, language, religion, geographic location, government, & the education; thus firms begin a cultural analysis by seeking to understand these factors. The most well-known is that developed by Hofstede in1980. His model proposes four dimensions of cultural values including individualism, uncertainty avoidance, power distance & masculinity. Individualism is the degree to which a nation values & encourages individual action & decision making.

Uncertainty avoidance is the degree to which a nation is willing to accept & deal with uncertainty. Power distance is the degree to which a national accepts & sanctions differences in power. This model of cultural values has been used extensively because it provides data for a wide array of countries. Many academics & the managers found that this model helpful in exploring management approaches that would be appropriate in different cultures.

- While analyzing social & cultural factors, the organization may consider the following aspects:
- Approaches to society towards business in general & in specific areas;
- Influence of social, cultural & religious factors on the acceptability of the product;
- The lifestyle of people & the products used for them;
- Level of acceptance of, or resistance to change;
- Values attached to a particular product i.e. the possessive value or the functional value of the product;
- Demand for the specific products for specific occasions;
- The propensity to consume & to save

Demographic Environment

Demographic factors are an uncontrollable factor in the business environment and extremely important to managers. Demography is the study of people’s vital statistics, such as their age, gender, race and ethnicity, and location. Demographics help companies define the markets for their products and also determine the size and composition of the workforce. You’ll encounter demographics as you continue your study of business.

Demographics are at the heart of many business decisions. Businesses today must deal with the unique shopping preferences of different generations, which each require marketing approaches and goods and services targeted to their needs. For example, the more than 75 million members of the millennial generation were born between 1981 and 1997. In 2017 they surpassed baby boomers as America’s largest generation.

The marketing impact of millennials continues to be immense. These are technologically savvy and prosperous young people, with hundreds of billions of dollars to spend. And spend they do—freely, even though they haven't yet reached their peak income and spending years. Other age groups, such as Generation X—people born between 1965 and 1980—and the baby boomers—born between 1946 and 1964—have their own spending patterns. Many boomers nearing retirement have money and are willing to spend it on their health, their comforts, leisure pursuits, and cars. As the population ages, businesses are offering more products that appeal to middle-aged and senior markets.

Opportunities and threats of Indian Companies in International market

Global market is not a new place for India if Periplus Maris Erythraei, a Greek travel manuscript written in the 1st century CE, is to be believed. The manuscript details that there used to be extensive trade between Romans and the Indians, the leading economic powers in that era. However, some factors such as continuously changing political scenario in India, dominance of Britain over world trade in medieval period, advent of Industrialization etc. pushed India from the position of a significant world trader to a small participant.

India is progressing well to gain the lost glory, gaining steam after independence in 1947 and accelerating even more after Economic Reforms of 1991. It is striving hard to be among the leading exporter of the world. Indian participation in global trade has increased manifolds in last two decades; though taking it to its true potential demands a thorough strategic planning and arduous execution, as most of the low hanging fruits have already been plucked. The opportunities and threats can be summarised as below

- **Talent crunch -** Companies need strong talent pool which can take leadership position both in global market as well as in India, as and when required. This talent pool can be in-house trained as companies like Aditya Birla Group, Tata Group, Infosys, TCS etc. are doing or like some startups hire experts from related or unrelated Industries in India as well as abroad to nurture their global aspirations. Still most of the companies have not been able to come out with solution to this challenge and are struggling as success to them is largely dependent upon hiring and retaining highly skilled technology professionals, sales professionals and management professionals.
- **Cultural Impact –** McKinsey in their study found that managing a global business is a major challenge as it makes different set of people with different cultural orientations to

work together, and orienting them for a common goal with standard process is very difficult. To achieve global success a company needs to localize while pushing for the common goal.

- **Strong Vision and Credentials -** The exposure to big projects in India in comparison to global scale is limited. Only few companies like L&T, GMR, PunjLLoyd, etc. have been able to complete global scale projects, still there is a long way to go. Companies need to put forward a strong vision for future and plan for their global footprint by leveraging their Indian experience, e.g. Suzlon aspires to be a global leader in providing wind power solutions. This will help in making a strong brand having proven credentials, even PSU's like ONGC; ISRO etc. are following the same model and have been comparatively successful in becoming a recognizable global brand.
- **Liquidity Shortage:** Leading Indian researcher CRISIL has opined in their study that Indian companies will face depressed credit profiles over the coming months due to weaker demand for their products and liquidity problems. A shortage of liquidity leads to an underutilization of capacity and thereby significantly lower volumes. Further, shortage of liquidity hits companies expansion plans, options to put new technologies for cost reduction and quality improvement.
- **Regulatory Matters:** Legislations pertaining to anti-outsourcing, restrictions on immigrations are gaining momentum in certain countries and may hamper growth plans of many IT and other companies having outsourcing as their main business model or requiring Indian experts to run their plants in other countries. Tightening visa process, increasing rejections for visa and work permit applications, increasing minimum wage requirement may hamper growth prospect in major markets.
- **Integrating acquisitions**: Managing operations in diverse international locations is very critical as post-acquisition challenges include cultural, financial and technology integration risks. These challenges if not addressed adequately could result in failure to achieve the strategic objectives and the resultant synergy expectations. Lijee's analysis found that Indian companies are struggling with their Chinese acquisitions.
- **Slow Global Economic growth**: Due to significant slowdown in established markets of Europe and USA, companies are aggressively pushing for market share, significantly impacting margins. In 2012, Global GDP fell to 3.2% compared to 4% in 2011. The IMF projects growth at 3.25% in 2013, increasing to 4.0% in 2014. GDP growth in emerging markets and developing countries is placed at 5.3% in 2013, increasing to 5.7% in 2014.

US GDP is expected to grow 1.9% in 2013, rising sharply to 3.0% in 2014. Europe will remain a laggard, with growth projected at -0.3% this year, and inching to just over 1% in 2014. This all brings a huge challenge for Indian companies to strategize their growth plans and optimize their resources to meet competitive challenges.

- **Fluctuating exchange value**: Un-hedged trade and financial exposure creates potential to adversely impact company's projects and overall profitability. Further, volatility and uncertainty in foreign exchange rates creates complexity and challenges the margins.

Modes of entry

The decision of how to enter an overseas market will be a crucial part of entry in International business. Different methods will be appropriate in different markets or for different types of product. The decision of how to enter the foreign market can have a significant impact on the results

Exports

Imports are an inflow of goods into the markets of home country for consumption, in contrast, export means selling of goods to foreign countries. In short, imports mean inflow whereas export means outflow of goods in any form. In economics, Export goods or services are provided to foreign consumers by domestic producers. As such, exports mean physical exports of any goods. However, its scope has been widened to include 'services' exports. As such, it now includes goods and services. Exporting commonly requires coordination among four players:

- Exporter
- Importer
- Transporter
- Government

Contractual Mode

In this type there is a contractual agreement with a foreign company to either use your technology or intellectual property or entire business system in the foreign market place. The foreign company operates largely on its own. In the case of contract manufacture, the foreign company simply manufacturers the goods to your specification and you will normally keep control over marketing. In this mode the user bys certain rights of transacted property from the other party, normally the owner of the business, and in exchange paid royalty fees. The following are the types of contractual mode:

- licensing;
- franchising
- leasing; and
- turnkey projects

Licensing

Licensing is defined as "the method of foreign operation whereby a firm in one country agrees to permit a company in another country to use the manufacturing, processing, trademark, patent know-how or some other skill provided by the licensor". The licensee pays a fee in exchange for the rights to use the intangible property/trademark. Coca Cola is an excellent example of licensing. Licensing involves little expenses and involvement. The only cost is signing the agreement and policing its implementation.

Reasons for Licensing

- **Licensing is lower cost and can be done quickly:** For expanding business operation through franchising, licensing is substantially less expensive.
- **Business goals often can be met:** It is often possible to draft a license agreement that achieves the goals of the licensor and does not violate the various franchising laws.
- **Existing Businesses as Potential Licensees**: Existing businesses often buy a license and add the product or service to that existing business; this allow the licensee to keep his 'bread winner' business going while he tests the licensing operations and thus reduces the risk on the acquiring the license.
- **Much Less Work on Daily Basis:** The day-to-day business operation of a licensor is customarily much less work and complex than the business of being a franchisor.
- **Avoid Complex Government Regulation:** There is little or no government regulation in licensing, and there is substantial and complex government regulation in franchising.
- **Licensing More Effective in Difficult Economic Times**: In a time when America's work force is being down sized, in many businesses the market for selling licenses is correspondingly expanding, because these displaced people need a way to replace their lost 'living wages'. Additionally, there are more qualified and desirable people available on the market to become licensees, which makes business expansion quicker and more effective. In essence, the market for selling licenses in many businesses is actually expanding in difficult economic times.

Advantages

- Good way to start foreign operations and open the door to low risk manufacturing relationships.
- Linkage of parent and receiving partner interest means both get most out of marketing effort
- Capital not tied up in foreign operation, and
- Options to buy into partner exist or provision to take royalties in stock.

Disadvantages

- limited form of participation - to length of agreement, specific product, process or trandemark;
- potential returns from marketing and manufacturing may be lost;
- partner develops know-how and so licence is short;
- licensees become competitors - overcome by having cross technology transfer deals; and
- requires considerable fact finding, planning, investigation and interpretation.

Franchising

Franchising is a system of business that has grown steadily in the last 50 years and is estimated to account for more than one-third of the world's retail sales. Franchises range from the ubiquitous McDonalds to lawn mowing services such as Mr.Green, valet services, medical and dental services, to book keeping services and even to services helping us to prepare our tax forms. Franchising is not restricted just to fast food outlets and gardening contractors. There are now franchises for mentoring managers and sports people and franchises for internet shopping.

'Franchising' is a term which can be applied to just about any area of economic endeavour. Franchising encompasses products and services from the manufacture, supply for manufacture, processing, distribution and sale of goods, to the rendering of services, the marketing of those services, their distribution and sale.

Franchising may be defined as a business arrangement which allows for the reputation, (goodwill) innovation, technical know-how and expertise of the innovator (franchisor) to be combined with the energy, industry and investment of another party (franchisee) to conduct the business of providing and selling of goods and services.

Types of Franchises: In practical terms there are two types of franchises:

- **Intentional Franchises**: The first type is the situation where someone wants to expand their business and decides to intentionally use the franchising mechanism to do it and comply with the registration laws.

- **Unintentional Franchises:** The second type is the predicament, where in the effort to expand the business, franchises are inadvertently created (sometimes called "hidden franchises"). These hidden franchises are often spawned from a poorly advised and drawn distribution agreement, license agreement, and other marketing formats.

The problem is that both types of franchises have to be registered in the appropriate jurisdictions and the consequences of failing to do so is may involve civil penalties and/or criminal punishment. There have been many entrepreneurs that have served substantial prison terms for selling unregistered or improperly registered franchises.

Leasing

A lease is a contract conferring a right from one person (called a tenant or lessee) to possess property belonging to another person. Leases may be over any type of property whether tangible or intangible. Leases for intangible property could include use of a computer program (similar to a license, but with different provisions), or use of a radio frequency (such as a contract with a cell-phone provider). Export of machinery, equipment, are also permitted to be made on lease, hire. etc., basis under agreement with the overseas lessee against collection of hire charges and ultimate reimport of the goods exported. Exporters who wish to export goods on such terms may approach, through an authorised dealer in foreign exchange (bank), the concerned regional office of RBI providing information for leasing of other country machineries or properties.

Turnkey Projects

A turkey project provides a deliverable to the customer that is fully tested and ready to use upon delivery. Export of engineering goods on deferred payment terms and execution of turnkey projects and civil construction contracts abroad are collectively referred to as "project exports." It is otherwise called as Build-Operate-Transfer (BOT). This can be a tremendous advantage to the customer, since it eliminates the need for the customer to manage the project. Projects that are time and resource-intensive can seriously impair a company's ability to continue with normal business while executing the project, since many key people are necessary engaged in working on the project. Therefore, hiring an outside contractor to handle the project in its entirety preserves the company's time and resources for its business. Since full responsibility for the project rests upon the contractor, the number of interfaces is reduced to the one point of contact instead of a multitude of subcontractors. This gives the customer much greater visibility into the project process, as well as leaving the task of coordinating all the subcontractors to the one responsible primary contractor.

Turnkey projects tend to have short project execution times, rapid return on investment, and minimal delays. They have historically been highly regarded, but there are a number of aspects that must be considered when implementing them for optimal success. Since the owner or company commissioning the project turns all responsibilities for design and construction to the outside consultant, the owner must be capable of providing clear performance specifications to the contractor.

Foreign direct investments

Foreign Direct Investment is any form of investment that earns interest in enterprises which function outside of the domestic territory of the investor. FDI would be a direct investment by a corporation in a commercial venture in another country. A key to separating, this action from involvement in other ventures in a foreign country is that the business enterprise operates completely outside the economy of the corporation's home country.

FDI occurs with the purchase of the "physical assets or a significant amount of ownership (stock) of a company in another country in order to gain a measure of management control." FDI is when an individual or business owns 10 percent or more of a foreign company. If an investor owns less than 10 percent, the International Monetary Fund defines it as part of his or her stock portfolio. In 2018, global foreign direct investment was $1.2 trillion. In India FDI is permitted through two routes.

Automatic Route

Under the Automatic Route, the non-resident investor or the Indian company does not require any approval from Government of India for the investment.

Government Route

Under the Government Route, prior to investment, approval from the Government of India is required. Proposals for foreign investment under Government route, are considered by respective Administrative Ministry

FDI Policy effective from August 17, 2017- Highlights

Prohibited Sectors

Lottery Business including Government/private lottery, online lotteries, Gambling and Betting including casinos, Chit Funds, Nidhi Company, Trading in Transferable Development Rights (TDR), Real Estate Business or Construction of farm houses, Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes, Sectors not open to private sector investment- atomic energy, railway operations (other than permitted activities mentioned under the Consolidated FDI policy)

Sectors where 100% FDI Permitted through Automatic Route:

Horticulture, Aquaculture & Animal Husbandry, Scheduled Air transport services, Tea, coffee, rubber plantations, Mining and Exploration of metal and non-metal ores including diamond, gold, silver, Direct to Home (DTH), Cable Networks (Multi System operators (MSOs) operating at National or State or District level and undertaking up gradation of networks towards digitalization and addressability), Mobile TV, Industrial parks, E Commerce Activities, White Label ATM Operations

Permitted through Automatic & Government Route

Telecommunication Services- 100%, automatic up to 49% and Government route beyond 49%,

Single Brand product retail trading- 100%, automatic up to 49% and Government route beyond 49%,

Private Sector Banking- 74%, automatic up to 49% and Government route beyond 49%.

Government Route

Multi Brand Retail Trading- 51% Government

Banking-Public Sector - 20% Government

Partly permitted through Automatic Route

Insurance Company(ii) Insurance Brokers(iii) Third Party Administrators(iv) Surveyors and Loss Assessors(v)Other Insurance Intermediaries appointed under the provisions of Insurance Regulatory and Development Authority Act, 1999- 49% Automatic.

Infrastructure companies in Securities Markets, namely, stock exchanges, commodity exchanges, depositories and clearing corporations, in compliance with SEBI Regulations-49% Automatic,

Pension Sector Banking Companies - 49% Automatic Route.

FDI	**FPI**
Active investment	Passive investment
High Degree of Control	Very low Degree
Long term	Short term
Investment in physical assets	Financial assets
Entry and exit is difficult	Easy
Results in transfer of funds, technology & other resources	Results in Capital flows
More than 10%	Less than 10%

Types of FDI

1. Platform FDI: The Platform FDI is simply known as a foreign direct investment from a source country into a destination country (and for the purpose of exporting to a third country). This results in the impact of foreign direct investment on economic growth in the retail sector of these countries.

2. Horizontal FDI: The Horizontal FDI is said to arise when a firm duplicates its home country-based activities (at the same value chain stage) in a host country through FDI.

3. Vertical FDI: It take place when a firm (through FDI), moves upstream (or downstream) in different value chains. What we are saying is that, when firms perform value-adding activities in several phases following a vertical pattern in that host country.

4. **Conglomerate FDI**: The investment is made to acquire an unrelated business abroad. It is the most surprising form of FDI, as it requires overcoming two barriers simultaneously – one, entering a foreign country and two, working in a new industry.

Theories of FDI

These are the three categories of theories

1).Traditional theories

2).Modern theories and

3).Radical theories

Traditional theories are based on neo-classical economic and explain FDI in terms of location-specific advantages.

Modern theories emphasise the fact that product and factor markets are imperfect both domestically and internationally and that considerable transactional costs are involved in market solutions. Also they acknowledge that managerial and organisational functions play an important role in undertaking FDI.

The radical theories, these take a more critical view of Multinational National Corporation (MNCs).

1). Traditional theory

a) Capital arbitrage theory: The theory states that direct investment flows from countries where profitability is low to countries where profitability is high. It means therefore that capital is mobile both nationally and internationally. But sometimes implication is that countries with abundant capital should export and countries with less capital should import. If there was a link between the long-term interest rate and return on capital, portfolio investment and FDI should be moving in the same direction.

b) International trade theory-the country will specialise in production of, and export those commodities which make intensive use of the country's relatively abundant factor.

2). Modern theory

a) Product-cycle theory:

New products appear first in the most advanced economy in respond to demand conditions. The maturing product stage is described by standardisation of the product, increased economies of scale, high demand and low price. The standardised product stage is reached when the commodity is sold entirely on price basis.

b) The internalisation theories of FDI:

The theory explain that why the cross-border transactions of intermediate products are organised by hierarchies rather than determined by market forces.

3).The Radical Theory

a) The electric theory of FDI

The theory tries to offer a general framework for determining the extent and pattern of both foreign-owned production undertaken by a country's own enterprises, and that of domestic production owned or controlled by foreign firm. Assert that, the electric theory of international production enlarges the theoretical framework by including both home-country and host-country characteristics as international explanatory factors. It argues that the extent, form, and patterns of international production are determined by the configuration of three sets of advantages as perceived by the enterprises. First Ownership (O) advantage 2nd Location (L) and 3rd

Internalization (I) advantage in order for the firm to transfer its ownership advantages across national boundary

b) Diamond Porter Theory

This is the theory which shows four conditions which is important for competitive superiority: demand conditions; factor conditions; related and supporting conditions and the firm strategy, structure and rivalry. Demand conditions whereby the company start up production at near the observed market for example an Italian ceramic tile industry after World War II: At that time there were post-war housing boom and consumers wanted cool floors because the climate was hot.

FDI- Cost and benefits

The unprecedented growth of multinationals is due to the concept of globalisation which has no boundaries or limits. Usually within country's economy there are flows of goods, capital and technology. This leads to high competition in the industry and naturally companies tend to expand their business in order to survive in the global arena. The countries use Foreign Direct Investment as a key to internationalise their business. In order to understand the full meaning of FDI, let us see the definition. FDI is defined as "the acquisition abroad of physical assets, such as plant and equipment, with operational control ultimately residing with the parent company in the home country". In the past 25 years, FDI is growing at a much faster rate than trade and both of these have grown faster than world output. There are many factors contributing to the development of FDI.

Some of them are Internet, technological advancement, flexible rules and regulations of the country and lesser communication costs. FDI stimulates competition, capital, technological and managerial skills which has a positive effect on both host and home country's economic growth. The importance given to FDI by other country is astounding. One such example is US which has a separate department called 'Bureau of Economic Analysis'. The department monitors FDI inflows and outflows and introduce FDI attraction schemes for successful results.

Benefits of FDI to the host country

There are three main benefits to the host country derived out of FDI. They are resource transfer effects, employment effects and balance of payment effects. Whenever a company invests in a foreign firm, the resources are capital, technology and managerial skills. In terms of capital, the host country will have a higher financial status than the home country. The change in technology and managerial skills will have a drastic effect on the operations carried out by the company. In the host country due to FDI, it creates many employment opportunities through which the citizens of that particular country would be benefited. The balance of payments keeps tracks of FDI inflow and outflows through two types of accounts, current account and capital account. The current account is a record of a country's export and import of goods and the capital account maintain purchase or sale details of assets by the country. By using FDI, the country can achieve a current account surplus (where exports are greater than imports) and reduce current account deficit (where imports are greater than exports).

Costs of FDI to the host country

The negative effects are termed as 'costs'. There are also significant effects which affects the host country. When a foreign firm establishes with the superior technological skills which can produce quality items at cheaper rates, it adversely affects the domestic producers. Balance of payments are also affected by inward FDI by two sources. When there is a initial capital inflow there must be subsequent capital outflow and this will be recorded as debits on capital account. The second source is due to import of goods from other countries which will be recorded as debits in current account. The foreign firm can alter the economic stability of a country as they will be focussing only on the profit. Eventually all the inhabitants of the country will have an emotional outbreak to apparent loss of national sovereignty.

Benefits of FDI to the home country

The benefit to the home country also includes the factors similar to that of host country. In terms of balance of payments, what is debit to host country is credit to home country. The outward FDI also leads to creation of new job market with great expertise and necessary skills. Reverse resource transfer effect takes place whenever resources like managerial skills are transferred back to the home country. The profit of the foreign firm goes back to the home country unlike domestic producers which contributes to their country. The home country is exposed to create new market share and it is liable to create many in the future.

Costs of FDI to the home country

Due to FDI, the home country is mainly affected by capital and employment. Suppose a country 'A' decides to invest in country 'B', using its capital and technology there will be an addition of financial position to the host country than home country. Even in future, if the country 'A' wants to make any advancement, much focus will be given to the company in country 'B' and implement changes. As a result the production in home country decreases and it sometimes result in shutting down all its operations and completely concentrate on the host country. This badly affects the home country's economy and employment.

There are many ways in which FDI benefits the recipient nation:

- Increased Employment and Economic Growth,
- Human Resource Development
- Development of Backward Areas
- Provision of Finance & Technology
- Increase in Exports
- Exchange Rate Stability
- Stimulation of Economic Development
- Improved Capital Flow
- Creation of a Competitive Market

FDI- Recent trends

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment.

The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others.

Market size

According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDI equity inflows in India in 2019-20 (till August) stood at US$ 19.33 billion, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results. The net foreign direct investment stood at US$ 1.8 billion in August 2019 and US$ 3.8 billion in July 2019. India invited US$ 2.73 billion of foreign investment in month of August 2019 as compared to US$ 2.54 billion in previous year.

Data for Q1 2019-20 indicates that the telecommunications sector attracted the highest FDI equity inflow of US$ 4.22 billion, followed by service sector - US$ 2.79 billion, computer software and hardware – US$ 2.24 billion, and trading – US$ 1.13 billion. Most recently, the total FDI equity inflows for the month of June 2019 touched US$ 7.28 billion. During Q1 2019-20, India received the maximum FDI equity inflows from Singapore (US$ 5.33 billion), followed by Mauritius (US$ 4.67 billion), Netherlands (US$ 1.35 billion), USA (US$ 1.45 billion), and Japan (US$ 0.47 billion).

Investments/ developments

India emerged as the top recipient of greenfield FDI Inflows from the Commonwealth, as per a trade review released by The Commonwealth in 2018.

Some of the recent significant FDI announcements are as follows:

- In October 2019, French oil and gas giant Total S.A. have acquired a 37.4 per cent stake in Adani Gas Ltd for Rs 5,662 crore (US$ 810 million) making it the largest Foreign Direct Investment (FDI) in India’s city gas distribution (CGD) sector.
- In August 2019, Reliance Industries (RIL) announced one of India's biggest FDI deals, as Saudi Aramco will buy a 20 per cent stake in Reliance's oil-to-chemicals (OTC) business at an enterprise value of US$ 75 billion.
- In October 2018, VMware, a leading software innovating enterprise of US has announced investment of US$ 2 billion in India between by 2023.

- In August 2018, Bharti Airtel received approval of the Government of India for sale of 20 per cent stake in its DTH arm to an America based private equity firm, Warburg Pincus, for around $350 million.
- In June 2018, Idea's appeal for 100 per cent FDI was approved by Department of Telecommunication (DoT) followed by its Indian merger with Vodafone making Vodafone Idea the largest telecom operator in India
- In February 2018, Ikea announced its plans to invest up to Rs 4,000 crore (US$ 612 million) in the state of Maharashtra to set up multi-format stores and experience centres.
- Kathmandu based conglomerate, CG Group is looking to invest Rs 1,000 crore (US$ 155.97 million) in India by 2020 in its food and beverage business, stated Mr Varun Choudhary, Executive Director, CG Corp Global.
- International Finance Corporation (IFC), the investment arm of the World Bank Group, is planning to invest about US$ 6 billion through 2022 in several sustainable and renewable energy programmes in India.

Government Initiatives

In August 2019, government permitted 100 per cent FDI under the automatic route in coal mining for open sale (as well as in developing allied infrastructure like washeries). In Union Budget 2019-2020, the government of India proposed opening of FDI in aviation, media (animation, AVGC) and insurance sectors in consultation with all stakeholders. 100 per cent FDI is permitted for insurance intermediaries.

As of February 2019, the Government of India is working on a road map to achieve its goal of US$ 100 billion worth of FDI inflows. In February 2019, the Government of India released the Draft National E-Commerce Policy which encourages FDI in the marketplace model of e-commerce. Further, it states that the FDI policy for e-commerce sector has been developed to ensure a level playing field for all participants.

Government of India is planning to consider 100 per cent FDI in Insurance intermediaries in India to give a boost to the sector and attracting more funds. In December 2018, the Government of India revised FDI rules related to e-commerce. As per the rules 100 per cent FDI is allowed in the marketplace-based model of e-commerce. Also, sales of any vendor through an e-commerce marketplace entity or its group companies have been limited to 25 per cent of the total sales of such vendor.

In September 2018, the Government of India released the National Digital Communications Policy, 2018 which envisages increasing FDI inflows in the telecommunications sector to US$ 100 billion by 2022. In January 2018, Government of India allowed foreign airlines to invest in Air India up to 49 per cent with government approval. The investment cannot exceed 49 per cent directly or indirectly. No government approval will be required for FDI up to an extent of 100 per cent in Real Estate Broking Services.

Note: Conversion rate used as on August 2019, Re 1 = US$ 0.014056

References: *Media Reports, Press Releases, Press Information Bureau, Press Trust of India*

Problems and prospects of foreign companies in Indian market

India is one of the fastest growing economies in the world. India holds the potential to skyrocket your sales figures and realizing this, the liberalisation in 1991 lead to a massive influx of large foreign companies into the country. Also, the economy has been growing at the rate of 8.2% p.a. However, despite favourable market conditions, countless foreign brands failed to survive in India. Be it the General Motors exit or the closure of Royal Bank of Scotland, there were a number of reasons for their failure in India.

Before assessing the top 3 challenges faced by a foreign company, a preliminary examination of your India rationale is of utmost importance. First, identifying why India matters to your business and revalidating it through careful market assessment. Second, estimate the level of investments and time required to establish a sustainable presence. Once you have thought this through, you are equipped to handle at least some of the obstacles this country might hurl at you. This year, India’s ranking for the “ease of doing business” index went up 30 positions to #100.

The FDI regime has been progressively liberalised during the course of the 2000s. A number of restrictions on foreign investment have been removed and procedures have been simplified. India’s positive economic outlook and regulatory reforms have made it an attractive market for foreign investors. Despite this advancement, foreign companies cringe at the numerous regulatory, financial, bureaucratic, and cultural complexities, which will be discussed in this article. Understanding and preparing for these challenges is the key to success in India.

Legal Challenges

India has elaborate legal systems and overloaded courts. So, foreign companies have to jump through several hoops to secure licenses and approvals required to start business in India. Citizens and foreigners both wait for months, at times extending to years, to collect the 100+ approvals needed to start up their business. This is partly because bureaucracy is still flying high, and occasionally followed by corruption. However, the difficulties of navigating India's bureaucratic hurdles and red tapism are often outweighed by the benefits enjoyed upon a successful market entry. Foreign companies may not enjoy the experience of dealing with redundant complexities and interacting with government authorities but nevertheless, follow the rules! Indian government representatives also have a reputation of getting back to you whenever you do not.

As a foreign company looking to setup base in India, it is equally important to invest in hard and soft infrastructure. Thus, collaborating with local business partners – technically, financially and legally, could help you mitigate initial risks and save you blood and sweat. A certain company called 'Larive International' puts Dutch companies in contact with counterparts from emerging markets as India, and other Asian countries as China, Myanmar, Thailand and Vietnam. In other words, by leveraging on local soft power you are setting up an infrastructure for success.

Choosing a Right Entity

A Foreign Company setting up operations in India has got following Options:

As an Indian Company

- Wholly Owned Subsidiary – Foreign Companies may set up subsidiaries in India and it is treated as an Indian resident and an Indian Companies for Indian regulation.

- Joint Venture with local Indian Partner – It is a strategic alliance with Indian local Partner subject to Foreign Investment restrictions and regulations.
- Limited Liability Partnership - distribution of profits. The FDI policy for LLPs has been notified recently making this a possible viable entity form for Indian business operations of foreign investors. This has less compliance challenges as compared to other entities.

As a Foreign Company

- Liaison Office - A liaison office is not allowed to undertake any business activities other than liaison activities in India and cannot, therefore, earn any income in India.
- Branch Office – With Prior approval of RBI, foreign Companies can set up branch office in India. However, branch offices are restricted from conducting manufacturing activities in India.
- Project Office – Foreign Companies can set up Project offices in India to execute certain specific projects, this works as a temporary or site office for foreign companies.

Tax Regime:

Apart from sourcing cheap raw materials, labour and operational excellence, there is another factor that impact a huge impact on a foreign company and its product prices – Taxes. According to the World Bank, it takes about 214 hours per year for preparation and payment of taxes in India. Such is the complexity of India's tax structure. The Corporate Income Tax (CIT) charged on foreign companies is a massive 40% plus surcharge and education cess. A surcharge of 2% is applicable on foreign companies with income exceeding Rs. 1,00,00,000, or a surcharge of 5% if the income exceeds Rs. 10,00,00,000. The rate of education cess is 2% and secondary and higher education cess is 1%. Rules surrounding taxes can be tricky and so companies may end up making erroneous tax payments without the guidance of specialised professionals.

On 1st July 2017, an indirect tax came into effect on the manufacture, sale and consumption of goods and services throughout India known as the – Goods and Services Tax (GST). Much to our plight, a World Bank report stated that the GST tax reform is one of the most complex and is the highest rate in Asia and second highest among a sample of 115 countries that have a GST system. The Government of India provides certain direct tax incentives in the form of tax holiday, deductions, etc, to new industrial undertakings, R&D activities, promotion of specified areas, exports, etc. The Corporates are taxed being an Indian Company are taxed at 30% and Foreign Companies at 40%. Indian has signed various Double tax avoidance agreements with various countries so that tax payers can avoid paying double taxes on their income earned from the source country as well residence country. This is done to promote mutual economic relations, trade and investment.

To claim this benefit, one needs to know whether the country one resides in or earns income in has a DTAA with India. One has to file Form 10F, a tax residency certificate and self declaration in the prescribed format to the entity responsible for deducting tax at source. Much awaited Goods and Service Tax was implemented in India and has simplified the tax structure, improved credit chain thereby eliminating cascading effect of taxation.

There are other multiple advantages to foreign companies under Special Economic Zones with the SEZ scheme, the Government of India aims to create hassle free environment for exports, supported by an integrated simplified infrastructure and a package of incentives to attract foreign and domestic investment. The Government has taken many measures to revive the investors' interest in SEZs by liberalizing various norms such as minimum land area requirements, transfer/sale of ownership, etc.

India has adequate copyright laws, and in July 2018, India acceded to the WIPO Internet Treaties, namely the WIPO Copyright Treaty (WCT) and WIPO Performances and Phonograms Treaty (WPPT). However, enforcement is weak, and piracy of copyrighted materials is widespread. Indian law provides no statutory protection of trade secrets. When experiencing an infringement, it is important to collect as much evidence as possible. Companies facing counterfeiting have different choice of actions in India.

Dispute Resolution

The litigation process in India is based on common law. It is largely based on English common law because of the long period of British colonial influence during the British Raj. The Indian Arbitration and Conciliation Act, 1996 the governing arbitration statute in India and it is based on the Model Law on International Commercial Arbitration adopted by the United Nations Commission on International Trade Law (UNCITRAL) in 1985. Meanwhile, there are various domestic institutions such as the Indian Council of Arbitration (ICA), the Delhi International Arbitration Centre (DAC), the Indian Merchant Chamber (IMC) in Mumbai, and the Nani Palkhivala Arbitration Centre (NPAC) in Chennai. Most recently, these have been joined by the Mumbai Centre for International Arbitration (MCIA).

Model Questions

Short answer

1) Define contractual mode in international trade
2) What is licensing
3) Define franchising
4) What is known as a turnkey project
5) Discuss automatic route in FDI Policy
6) Who is a foreign portfolio investor
7) Define FDI
8) What is DTAA
9) Expand WIPO
10) What is known as a wholly owned subsidiary in international business

Paragraph Questions

1) How the technological environment affects international business
2) Explain the relevance of environment in international business
3) Discuss the advantages of licensing mode
4) What are the prohibited sectors of FDI in India
5) What are the theories of FDI
6) Explain the difference between FDI and FPI
7) What are the cost and benefits of FDI
8) Elaborate the recent trends in Foreign direct investment in India
9) Explain the prospects of foreign companies in Indian market
10) Discuss the legal challenges existing in India for international companies

Essay Questions

1. Explain the components of international business environment
2. What are the modes of entries available for a domestic company to be an international company
3. Discuss the opportunities for Indian companies in international market
4. Explain the role of Government in ensuring right environment in a country for attracting global companies
5. Discuss the provisions of existing FDI Policy

MODULE III

STRATEGY DEVELOPMENT IN INTERNATIONAL BUSINESS

Introduction

International business evolves continuously based on the changing developments in the world order. Economic, social, political changes are very frequent in the twenty fast century which requires adoption of right strategies on right time. Liberal policies adopted earlier by countries are now changing and economic nationalism has started emerging and different kind of strategies are necessary. Globalization continues to influence world economies, as reduced tariffs, enhanced communications, and increased capital mobility have allowed companies to connect to global financial markets and expand their businesses internationally. However, successful expansion into new foreign markets demands that companies adopt international business strategies that best fit their needs and capabilities. International business involves dealing with foreign stakeholders, employees, consumers, and governments, and therefore, business managers need to consider many factors when conducting business in global markets, such as competition, supply chain management and pricing strategy. In order to successfully expand their consumer base and increase profitability through internationalization, companies need to spend the necessary time and resources to understand global market opportunities and choose the proper international business strategies.

Global expansion plans

Expansion of business across borders takes in different forms and popular versions are discussed below.

Exporting and Licensing

Exporting goods from a corporation's home country to other nations can be a solid starting point for global expansion. Exporting allows companies to introduce their brands and products to foreign markets with minimal or no direct investment in each country. Service businesses can find this option more challenging unless they perform services over the internet. Licensing agreements allow foreign companies to sell or represent your brands in their home markets, achieving the same kind of product introduction that exporting provides, but with a different set of risks. While exporting and licensing can open doors around the world, corporations must take further steps to truly achieve global expansion goals.

Strategic Partnerships

Strategic partnerships allow corporations to take advantage of the expertise and experience of existing corporations in foreign markets. A strategic partnership or international joint venture involves a greater direct investment than exporting, making it a logical next step in global expansion. International partnerships can leverage local brand equity as a way to introduce foreign goods with built-in credibility. In return, your company can add value to the partnership by providing exclusive distribution rights for goods previously unavailable in a specific market. An international strategic partnership presents the challenge of splitting managerial control between two companies. In general, it is wise to allow the partner in the sales market a greater degree of operational control to fully leverage the local experience of its managers.

Wholly-Owned Subsidiaries

Rather than partnering with foreign companies, a globally expanding corporation may choose to purchase new companies outright, keeping the existing management and infrastructure intact to maintain the targets' familiar presence in the marketplace. This tactic includes quite a bit more risk than an international partnership, but with greater potential reward. Wholly-owned subsidiaries provide the benefit of full ownership of an enterprise while mitigating some of the risk inherent in introducing foreign brands to different cultures. Currency-exchange rates and different financial reporting and valuation methods can make international acquisitions especially challenging, but the rewards can be great for expanding corporations who find the right acquisition targets.

Multinational Expansion

In addition to acquiring subsidiaries, corporations can build their own facilities around the world, serving customers directly with their existing brands. Multinational companies locate production facilities, regional headquarters, service and sales outlets, and training facilities all around the world, rather than concentrating on their home countries. In effect, multinationals give up the concept of a home country in favor of a truly global outlook on management, sourcing, production and marketing. Having already exported, licensed or sold products through wholly-owned subsidiaries can provide an added measure of brand leverage before taking this step in a new country, but a company may also choose to skip these options entirely and move straight into multinational expansion.

International business locations

As companies seek ways to streamline operations, enhance growth, and increase profitability, they need to determine the advantages of establishing business in a foreign location, whether that means expanding or upgrading a growing business, diversifying their reach and global footprint, or creating an international headquarters. Setting up a business in a different country can hold tremendous benefits when it comes to financial resources, as well as labour and workforce issues, such as quality of life. However, determining which location an international business should choose can be overwhelming. Here are the top things to consider when determining the best location for a company.

Factors influencing locations

There are many things to consider when choosing a location for your business venture, whether setting up an office or a shop for the first time, or looking to expand into new areas.

1. Accessibility

Does your business rely on frequent deliveries? If so, it’s important to consider local transport links, particularly main roads and motorways. Property rental and purchase prices are often steeper in higher density, more commercialised areas, so there are certainly cost benefits to seeking a more out of town location, providing your daily business operations won’t be hampered by poor transport links. Equally, if you rely on high customer footfall, then ensuring your location is accessible by car, bus and even train will all be important considerations. Don’t forget your employees too, as a good location is often a critical factor in recruiting the right people into your business, particularly if they have been offered several jobs and need to evaluate the pros and cons of each.

2. Security

Believe it or not, your location can increase your odds of being affected by crime, which in turn can influence your insurance premiums, as well as the additional security measures you made need to take to keep your premises safe. It’s fair to say that in business, we all make decisions based on information, intuition and probability mixed in with a little luck. But knowing the chances of crime in the areas you are considering is an important part of the decision making process. We recently analysed released statistics from the UK government crime report and compared this to population data to help businesses make an informed decision about where to set up a new shop, office or warehouse. This report conveniently provides a quick snapshot of how safe a particular area is - simply enter your postcode here for your stats summary. Knowing the risks of potential criminal activity can help you better prepare and take adequate precautions.

3. Competition

Your proximity to other competing businesses could be crucial to your success. Could they provide a benefit to your business or cause a hindrance? Establishing which competitors are in your area and their offering could help guarantee you choose the right location for your business. If there is too much competition then it may be a warning sign to expand your horizons to a new location. There are exceptions to this such as car dealerships who want to be near each other as customers compare and choose the best car deal, hence their close proximity. Likewise, if you have an element of your offering that is unique or offers some kind of new innovation, then choosing an area that already has a ripe market could be the ideal way to pick up customers very quickly and establish a presence in a new area in a relatively short time frame.

4. Business Rates

Cash flow is critical as it determines the viable ability for a business to survive and pay its bills. Therefore, it is important to research the average Business Rates including rent, utility bills and taxes in the area to ensure you can afford the premises. Simple hidden costs such as deposits and whether you need to pay to park need to be snuffed out before committing to a location. Estimating the living cost of the location will prevent a commitment outside your means.

5. Skill base in the area

Find out the skill base in the area - can it fulfil your needs? Take into account employment rates as well. If you rely on skilled workers it is best to go to where there is a healthy bank of talent. Employees are often a business’s biggest asset thus choosing a location that’s lacking in required talent may be the start of your business’s downfall. Some recruitment agencies will happily send you CVs on spec to gauge the market, only charging if you subsequently decide to interview and hire someone. Alternatively, posting a free job via an online jobsite will quickly show you the calibre of employees in a particular area.

6. Potential for growth

Will the premises be able to accommodate business growth or a spike in demand? Moving premises is a big upheaval and can be time consuming and costly. A decision needs to be made as to whether the premise you are choosing is a short-term location or if you would like to stay there for the long haul. Consequently, a location’s flexibility could be a very important factor regarding the premises’ suitability for your business needs.

Whilst a perfect business location is different for every business, covering these crucial areas will certainly give you the best chance of beating the odds and keeping your business on track for future success

Factors restricting locations

The world political and economic order has seen a return to volatility, nationalism, protectionism, and trade wars. The world economy is looking set for a bumpy time, and individual country situations and bilateral relationships are becoming less predictable, creating new challenges for organisations that wish to do business internationally. There are still great rewards for businesses investing and operating around the world, and many ways in which technology, in particular, is helping to make it easier. However, in terms of rules and regulations, from labour laws to tax, accounting, and fiduciary duties, we see an increase in fragmentation of rules and their complexity and an increase in the sanctions for failing to manage that complexity.

The factors driving complexity include:

- **Reporting requirements.** These are becoming more stringent to drive greater transparency and investor confidence, while tackling money laundering, tax evasion, and other crimes. Over 80% of the jurisdictions where TMF Group operates have committed to exchanging information under the Common Reporting Standard developed by the Organisation for Economic Co-operation and Development.
- **Legislative changes.** These are becoming more frequent. Their intention is often positive; for example, to bolster an economy or make a country more attractive for investment. Some are not likely to be simplifying, such as the yet-to-be-defined UK rules that will apply post-Brexit. Regardless of their intent or the politics behind them, they all require work by companies to stay compliant.
- **Labour laws.** Legislators, often in response to local political pressures, create difficulty for firms looking to operate globally. Where we operate, specific reporting requirements and impediments to hiring staff before a business has been incorporated as a legal entity are major hurdles for firms.
- **Penalties for noncompliance.** Penalties imposed by the authorities are seen as disproportionately high in many jurisdictions. With serious breaches, reputation and even survival are threatened, as exemplified by multibillion-dollar fines applying to banks caught up in money laundering and market abuse cases.
- **Accounting and tax requirements.** Local authorities often now prescribe their own reporting formats. For example, some Greek islands operate as independent provinces for

compliance and tax. VAT refunds are subject to different treatments, depending on the tax office. In Greece, we have seen individual cases of dividends being taxed at rates varying by more than 10%.

Value chain analysis

A supply chain and value chain are similar in nature, but the value chain takes a few more things into consideration, like product design, research and development, and advertising. One of the goals of value chain analysis is to ensure the product is placed in the customers' hands as seamlessly as possible. The final result of a value chain analysis should be a more competitive, efficient business.

As competition increases for high-quality products, low costs and excellent customer service, businesses must continually assess the value they create. One of the most valuable tools, the value chain analysis, breaks down each process of a business and creates opportunities for innovation.

To conduct a value chain analysis, a business should begin by identifying each part of its production process, noting steps that can be eliminated and other possible improvements. In doing so, businesses can determine where the best value lies with customers, and expand or improve said value, resulting in either cost savings or enhanced production. At the end of the process, customers can enjoy high-quality products at lower costs

A value chain is the full range of activities – including design, production, marketing and distribution – businesses conduct to bring a product or service from conception to delivery. For companies that produce goods, the value chain starts with the raw materials to make their products, and consists of everything added before the product is sold to consumers.

Porter's value chain framework

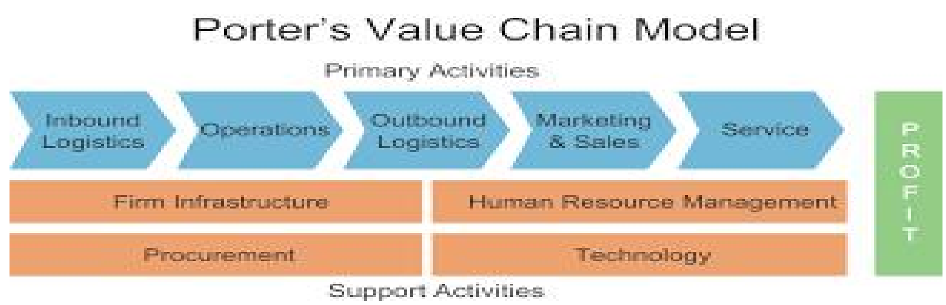
Harvard Business School's Michael E. Porter was the first to introduce the concept of a value chain. Porter, who also developed the Five Forces Model to show businesses where they rank in competition in the current marketplace, discussed the value chain concept in his book Competitive Advantage: Creating and Sustaining Superior Performance (Free Press, 1998). "Competitive advantage cannot be understood by looking at a firm as a whole," Porter wrote. "It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering and supporting its product. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation."

In his book, Porter splits a business's activities into two categories: primary and support. Primary activities include the following:

- **Inbound logistics** includes the receiving, storing and distributing of raw materials used in the production process.
- **Operations** is the stage at which the raw materials are turned into the final product.
- **Outbound logistics** is the distribution of the final product to consumers.
- **Marketing and sales** involve advertising, promotions, sales-force organization, distribution channels, and pricing and managing the final product to ensure it targets the appropriate consumer groups.
- **Service** is the activities needed to maintain the product's performance after it has been produced, including installation, training, maintenance, repair, warranty and after-sale services.

The support activities help the primary functions and comprise the following:

- **Procurement** is how the raw materials for the product are obtained.
- **Technology development** can be used in the research and development stage, in how new products are developed and designed, and in process automation.
- **Human resource management** includes the activities involved in hiring and retaining the proper employees to help design, build and market the product.
- **Firm infrastructure** refers to an organization's structure and its management, planning, accounting, finance and quality-control mechanisms.



Source: Strategicmanagementinsight.com

Eg: Starbucks: A prime example of creating value for customers is Starbucks. Through its operations, it creates connections throughout the world, guarantees high-quality flavours and works to build a sustainable future. Starbucks invests in coffee communities, sharing agronomy practices and our coffee knowledge. Starbucks' value chain, like many others, is complex, but ensures value that will impress customers and keep them invested in the company. Starbucks begins by tasting a variety of coffees that use beans from locations such as Latin America, Africa, Arabia, Asia and the Pacific (inbound logistics). The company spends time visiting coffee growers and building lifelong relationships. Starbucks creates partnerships all over the world to ensure the best coffee for its customers. Its coffee is sold in stores worldwide (operations, outbound logistics) and allows customers to enjoy high-quality flavours at home or in a local Starbucks.

Risk analysis

Every country presents its own investment opportunities. Before expanding your company overseas, however, be aware of the additional risks of the foreign trade market. In general, the risks of conducting international business can be segmented into four main categories: country, political, regulatory and currency risk. Just as there are reasons to get into global markets, and benefits from global markets, there are also risks involved in locating companies in certain countries. Each country may have its potentials; it also has its woes that are associated with doing business with major companies. Some of the risks in international business are:

Strategic Risk: The ability of a firm to make a strategic decision in order to respond to the forces that are a source of risk. These forces also impact the competitiveness of a firm. Porter defines them as: threat of new entrants in the industry, threat of substitute goods and services, intensity of competition within the industry, bargaining power of suppliers, and bargaining power of consumers.

Operational Risk: This is caused by the assets and financial capital that aid in the day-to-day business operations. The breakdown of machineries, supply and demand of the resources and products, shortfall of the goods and services, lack of perfect logistic and inventory will lead to inefficiency of production. By controlling costs, unnecessary waste will be reduced, and the process improvement may enhance the lead-time, reduce variance and contribute to efficiency.

Political Risk: The political actions and instability may make it difficult for companies to operate efficiently in these countries due to negative publicity and impact created by individuals in the top government. A firm cannot effectively operate to its full capacity in order to maximize profit in such an unstable country's political turbulence. A new and hostile government may replace the friendly one, and hence expropriate foreign assets which is evident nowadays due to changing relationship between world leading nations especially China and US.

Country Risk: The culture or the instability of a country may create risks that may make it difficult for multinational companies to operate safely, effectively, and efficiently. Some of the country risks come from the governments' policies, economic conditions, security factors, and political conditions. Solving one of these problems without all of the problems (aggregate) together will not be enough in mitigating the country risk and suggest a refined approach.

Technological Risk: Lack of security in electronic transactions, the cost of developing new technology, and the fact that these new technology may fail, and when all of these are coupled with the outdated existing technology. It may create a dangerous effect in doing business in the international platform and hence technological knowhow is necessary in a quickly changing environment.

Environmental Risk: Air, water, and environmental pollution may affect the health of the citizens, and lead to public outcry of the citizens. These problems may also lead to damaging the reputation of the companies that do business in that area.

Economic Risk: This comes from the inability of a country to meet its financial obligations. The changing of foreign-investment or/and domestic fiscal or monetary policies. The effect of exchange-rate and interest rate make it difficult to conduct international business and also to diversify the business to unknown markets.

Financial Risk: This area is affected by the currency exchange rate, government flexibility in allowing the firms to repatriate profits or funds outside the country. The devaluation and inflation will also impact the firm's ability to operate at an efficient capacity and still be stable. Most countries make it difficult for foreign firms to repatriate funds thus forcing these firms to invest its funds at a less optimal level.

Terrorism Risk: These are attacks that may stem from lack of hope; confidence; differences in culture and religious philosophy, and/or merely hate of companies by citizens of host countries. It leads to potential hostile attitudes, sabotage of foreign companies and/or kidnapping of the employers and employees.

The benefits in international business exceed the risks, firms should take a risk assessment of each country and to also include intellectual property, red tape and corruption, human resource restrictions, and ownership restrictions in the analysis, in order to consider all risks involved before venturing into any of the countries for doing their operations and also for subsequently expanding business.

Cost benefit analysis

It can be explained as a procedure for estimating all costs involved and possible profits to be derived from a business opportunity or proposal. It takes into account both quantitative and qualitative factors for analysis of the value for money for a particular project or investment opportunity. Benefits to costs ratio and other indicators are used to conduct cost benefit analysis which is seen as an important tool in investment decisions and also many related decisions of business significance.

The objective is to ascertain the soundness of any investment opportunity and provide a basis for making comparisons with other such proposals. All positives and negatives of the project are first quantified in monetary terms and then adjusted for their time-value to obtain correct estimates for conduct of cost-benefit analysis. Most economists also account for opportunity costs of the investment in the project to get the costs involved.

The earliest evidence of the use of cost benefit analysis in business is associated with a French engineer, Jules Dupuit, who was also a self-taught economist. In the mid-19th century, Dupuit used basic concepts of what later became known as cost benefit analysis in determining tolls for a bridge project on which he was working. Dupuit outlined the principles of his evaluation process in an article written in 1848, and the process was further refined and popularized in the late 1800s by British economist Alfred Marshall, author of the landmark text, Principles of Economics (1890).

Cost benefit analysis is the foundation of the decision-making process across a wide variety of disciplines. In business, government, finance, and even the non-profit world, cost benefit analysis offers unique and valuable insight when:

- Developing benchmarks for comparing projects
- Deciding whether to pursue a proposed project
- Evaluating new hires
- Weighing investment opportunities
- Measuring social benefits
- Appraising the desirability of suggested policies
- Assessing change initiatives
- Quantifying effects on stakeholders and participants

Steps in Cost Benefit analysis

While there is no "standard" format for performing a cost benefit analysis, there are certain core elements that will be present across almost all analyses. Use the structure that works best for your situation or industry, or try one of the resources and tools listed at the end of this article. We'll go through the five basic steps to performing a cost benefit analysis in the sections below, but first, here's a high-level of overview:

1. Establish a framework to outline the parameters of the analysis
2. Identify costs and benefits so they can be categorized by type, and intent
3. Calculate costs and benefits across the assumed life of a project or initiative
4. Compare cost and benefits using aggregate information
5. Analyse results and make an informed, final recommendation.

Green Field Investment

A Greenfield investment (GI) refers to a type of foreign direct investment where a company establishes operations in a foreign country. In a greenfield investment, the company constructs new facilities (sales office, manufacturing facility etc.) cross-border from the ground up. A Greenfield investment is a form of market entry commonly used when a company wants to achieve the highest degree of control over foreign activities. It can be compared to other foreign direct investments such as the purchase of foreign securities or the acquisition of a majority stake in a foreign company in which the parent company exercises little to no control over daily business operations. Apart from potential tax breaks or subsidies in establishing a Greenfield investment, the overarching goal of such an investment is to achieve a high level of control over business operations and to avoid intermediary costs.

Advantages of a Greenfield Investment

There are numerous advantages of a Greenfield investment, including:

- High level of control over business operations
- High quality control over the manufacturing and sale of products and/or services
- High control over brand image and staffing
- Economies of scale and economies of scope can be achieved in terms of marketing, research and development, and production
- Bypassing trade restrictions
- Creating jobs for the economy where the Greenfield investment is taking place

Disadvantages of a Greenfield Investment

There are numerous disadvantages of a Greenfield investment, including:

- An extremely high-risk investment – a Greenfield investment is the riskiest form of foreign direct investments
- Potentially high market entry cost (barriers to entry)
- Government regulations that may prevent foreign direct investments
- High fixed costs involved in establishing a Greenfield location

Eg: **Toyota Motor Corp. in Mexico**

In 2015, Toyota Motor Corporation announced plans to establish a new manufacturing facility in Mexico through an investment of about US$1 billion. Slated to open in 2019, the facility is expected to produce up to 200,000 units per year in conjunction with the currently established Tijuana plant. The rationale behind Toyota’s greenfield investment is to improve competitiveness in North America – specifically the United States. In addition, the low labor cost and the close proximity to US markets offer the Japanese automaker an attractive country to establish a manufacturing facility.

Strategic Alliance

A Strategic Alliance is a term used to describe a variety of cooperative agreements between different firms, such as shared research, formal joint ventures, or minority equity participation. The modern form of strategic alliance is becoming increasingly popular and has three distinguishing characteristics.

1. These are frequently between firms in industrialized nations.

2. The focus is often on creating new products and/or technologies rather than distributing existing ones.

3. They are often only created for short term durations.

Advantages of a Strategic Alliance

Technology Exchange: This is a major objective for many strategic alliances. The reason for this is that many breakthroughs and major technological innovations are based on interdisciplinary and/or inter-industrial advances. Because of this, it is increasingly difficult for a single firm to possess the necessary resources or capabilities to conduct their own effective R & D efforts. This is also perpetuated by shorter product life cycles and the need for many companies to stay competitive through innovation. Some industries that have become centers for extensive cooperative agreements are:

- Telecommunications
- Electronics
- Pharmaceuticals
- Information technology
- Specially chemicals

Global Competition: There is a growing perception that global battles between corporations be fought between teams of players aligned in strategic partnerships. Strategic alliances will become key tools for companies if they want to remain competitive in this globalized environment, particularly in industries that have dominant leaders, such as cell phone manufactures, where smaller companies need to ally in order to remain competitive.

Industry Convergence: As industries converge and the traditional lines between different industrial sectors blur, strategic alliances are sometimes the only way to develop the complex skills necessary in the time frame required. Alliances become a way of shaping competition by decreasing competitive intensity, excluding potential entrants, and isolating players, and building complex value chains that can act as barriers.

Economies of Scale and Reduction of Risk: Pooling resources can contribute greatly to economies of scale, and smaller companies especially can benefit greatly from strategic alliances in terms of cost reduction because of increased economies of scale. In terms on risk reduction, in strategic alliances no one firm bears the full risk, and cost of, a joint activity. This is extremely advantageous to businesses involved in high risk/cost activities such as R & D. This is also advantageous to smaller organizations whom are more affected by risky activities.

Alliances as an Alternative to Merger: Some industry sectors have constraints to cross-border mergers and acquisitions; strategic alliances prove to be an excellent alternative to bypass the constraints. Alliances often lead to full-scale integration if restrictions are lifted by one or both countries.

Disadvantages of Strategic Alliances

The Risks of Competitive Collaboration: Some strategic alliances involve firms that are in fierce competition outside the specific scope of the specific scope of the alliance. This creates the risk that one or both partners will try to use the alliance to create an advantage over the other. The benefits of this alliance may cause unbalance between the parties, there are several factors that may cause this asymmetry:

- The partnership may be forged to exchange resources and capabilities such as technology. This may cause one partner to obtain the desired technology and abandon the other partner, effectively appropriating all the benefits of the alliance.
- Using investment initiative to erode the other partner's competitive position. This is a situation where one partner makes and keeps control of critical resources. This creates the threat that the stronger partner may strip the other of the necessary infrastructure.
- Strengths gained by learning from one company can be used against the other. As companies learn from the other, usually by task sharing, their capabilities become strengthened, sometimes this strength exceeds the scope of the venture and a company can use it to gain a competitive advantage against the company they may be working with
- Firms may use alliances to acquire its partner. One firm may target a firm and ally with them to use the knowledge gained and trust built in the alliance to take over the other.

Global strategic partnerships

In a global strategic partnership, two or more firms from different countries work as a team. They pool their resources or skills to provide better products or services. Furthermore, they reach a broader audience through collaboration. Firms engage in global strategic partnerships because they believe the partnership will lead to synergy, which means increased economic benefits.

Through collaboration, two firms may reach a wider audience than they could by working alone. Each firm relies on the other's reputation in its primary area of operation. Customers may not even realize the firm in their home country has teamed up with an outside firm --- they only know they're receiving a wider range of services or better products. Alternatively, if the firms each have a strong reputation around the world, creating a high-profile partnership may signal that their offerings have dramatically improved.

a) Creating a Separate Entity

In a global strategic partnership, two or more parties might create a separate legal entity that they co-own: This is called an equity joint venture. Each party might own the same percentage of the company, or they might divide the ownership so that one partner owns the majority of the company. For example, two parties could own 50 percent each, or four parties could own 25 percent each; alternatively, one party could own 60 percent and the other could own 40 percent. These percentages reflect how much each party has invested in the company. Further, the percentages determine how much say each party has in the company's decisions and how much profit they receive. This type of ownership arrangement has largely replaced the traditional hierarchical structure in which one firm acts as a parent company that controls the others. However, the firms must agree on how to organize the decision-making process to avoid confusion.

b) Starting a Cooperative Joint Venture

Rather than create a separate legal entity, the firms could simply partner for a designated period of time: This is called a cooperative joint venture. Through this partnership, they can take advantage of marketing conditions that increase demand for a service they can offer together. Firms also pursue research and exploration together through this type of agreement. The parties draw up a contract outlining each party's responsibilities and how much of the profits each party receives. The limited time frame of this partnership makes sense because of dynamic and unpredictable international marketing conditions, say Mitchell P. Koza, et al., in "The Strategic Assembly of Global Firms." Demand changes quickly, and one company might wish to partner with another before long to adapt to the changing market.

c) Investing in a Global Strategic Partnership

Each firm in the partnership might invest funds, as well as labour, knowledge, facilities, equipment and land. Alternatively, one party might grant the use of its land for the partnership's activities. Because these resources don't each come with a specific price tag, the firms must agree on the value of the resources to determine how much each party has invested.

Model Questions

Short answer

1) Define outbound logistics.
2) What is competitive collaboration.
3) Define operational risk.
4) What is known as technological know how.
5) Discuss strategic alliance.
6) Discuss country risk.
7) Define industry convergence.
8) What is multinational expansion.
9) Explain value chain.
10) What is known as a brown field investment?

Paragraph Questions

1) Explain strategic partnerships in international business.
2) Explain the relevance of strategy development in international business.
3) Discuss the advantages of greenfield investment.
4) What is meant by value chain analysis.
5) What are the factors restricting location selection in international business.
6) Explain the value chain analysis.
7) What are the disadvantages of strategic alliances.
8) Discuss the concept cost benefit analysis.
9) Explain the accessibility dimensions in location selection.
10) Discuss the legislative changes happened in India which affects the strategy formation of foreign companies.

Essay Questions

1. Explain the global expansion plans adopted by foreign companies
2. What are the factors influencing location selection in international trade
3. Discuss the Porter's value chain framework
4. Explain the term risk analysis in the context of international business
5. Discuss the steps in creating global strategic development plans.

MODULE IV

INTERNATIONAL ECONOMIC INSTITUTIONS AND INTEGRATIONS

Economic integration

It is an arrangement among nations that typically includes the reduction or elimination of trade barriers and the coordination of monetary and fiscal policies. Economic integration has been one of the main economic developments affecting international trade in the last years. Countries have wanted to engage in economic cooperation to use their respective resources more effectively and to provide large markets for member-countries of the resulting integrated areas.

Levels of economic integrations

Preferential Trade Area: Preferential Trade Areas exist when countries within a geographical region agree to reduce or eliminate tariff barriers on selected goods imported from other members of the area. This is often the first small step towards the creation of a trading bloc. Agreements may be made between two countries (bi-lateral), or several countries (multi-lateral). Preferential Trade Agreements (PTAs) or Generalized System of Preferences (GSP) is a special status given in trade by various countries.

Free Trade Area: Free Trade Areas (FTAs) are created when two or more countries in a region agree to reduce or eliminate barriers to trade on all goods coming from other members. The North Atlantic Free Trade Agreement (NAFTA) is an example of such a free trade area, and includes the USA, Canada, and Mexico.

Customs Union: A customs union involves the removal of tariff barriers between members, together with the acceptance of a common (unified) external tariff against non-members. Countries that export to the customs union only need to make a single payment (duty), once the goods have passed through the border. Once inside the union goods can move freely without additional tariffs. Tariff revenue is then shared between members, with the country that collects the duty retaining a small share.

Common Market: A *common market* is the most significant step towards full economic integration. In the case of Europe, the single market is officially referred to as the 'internal market'. The key feature of a common market is the extension of free trade from just tangible goods, to include all economic resources. This means that all barriers are

eliminated to allow the free movement of goods, services, capital, and labour. There may also be common policies affecting key industries, such as the Common Agricultural Policy and Common Fisheries Policy.

Economic union: Economic union is a term applied to a trading bloc that has both a common market between members, and a common trade policy towards non-members, although members are free to pursue independent macro-economic policies. The European Union (EU) is the best known Economic union, and came into force on November 1st 1993, following the signing of the Maastricht Treaty (formally called the *Treaty on European Union.)*

Monetary Union: Monetary union is the first major step towards macro-economic integration, and enables economies to converge even more closely. Monetary union involves scrapping individual currencies, and adopting a single, shared currency, such as the Euro for the Euro-17 countries, and the East Caribbean Dollar for 11 islands in the East Caribbean. This means that there is a common exchange rate, a common monetary policy, including interest rates and the regulation of the quantity of money, and a single central bank, such as the European Central Bank or the East Caribbean Central Bank.

Fiscal Union: A fiscal union is an agreement to harmonise tax rates, to establish common levels of public sector spending and borrowing, and jointly agree national budget deficits or surpluses. The majority of EU states agreed a fiscal compact in early 2012, which is a less binding version of a full fiscal union.

Economic and Monetary Union: Economic and Monetary Union (EMU) is a key stage towards compete integration, and involves a single economic market, a common trade policy, a single currency and a common monetary policy.

The Association of Southeast Asian Nations

ASEAN, was established on 8 August 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration (Bangkok Declaration) by the Founding Fathers of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand. Brunei Darussalam then joined on 7 January 1984, Viet Nam on 28 July 1995, Lao PDR and Myanmar on 23 July 1997, and Cambodia on 30 April 1999, making up what is today the ten Member States of ASEAN.

ASEAN has negotiated a free trade agreement among member states and with other countries such as China, as well as eased travel in the region for citizens of member countries. In 2015, it established the ASEAN Economic Community (AEC), a major milestone in the organization's regional economic integration agenda. The AEC envisions the bloc as a single market with free flow of goods, services, investments and skilled labour, and freer movement of capital across the region.

ASEAN's first summit meeting, held in Bali, Indonesia, in 1976, resulted in an agreement on several industrial projects and the signing of a Treaty of Amity and Cooperation and a Declaration of Concord. ASEAN summit meetings which have been scheduled to occur semi-annually and conferences for foreign ministers are held annually. Relations between ASEAN and other countries are conducted through ASEAN Plus Three, an annual meeting of the heads of state of ASEAN members and the leaders of China the Republic of Korea, and Japan; ASEAN Plus Six, which includes ASEAN Plus Three and Australia, India, and New Zealand; and the East Asia Summit, a meeting of ASEAN Plus Six and Russia and the United States.

SAARC

The South Asian Association for Regional Cooperation (SAARC) was established with the signing of the SAARC Charter in Dhaka on 8 December 1985. SAARC comprises of eight Member States: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. The Secretariat of the Association was set up in Kathmandu on 17 January 1987.

NAFTA

The North American Free Trade Agreement (NAFTA) is a treaty entered into by the United States, Canada, and Mexico; it went into effect on January 1, 1994. NAFTA was created to eliminate tariff barriers to agricultural, manufacturing, and services; to remove investment restrictions; and to protect intellectual property rights. Small businesses were among those that were expected to benefit the most from the lowering of trade barriers since it would make doing business in Mexico and Canada less expensive and would reduce the red tape needed to import or export goods.

The Arguments for Regional Economic Integration

The economic case for integration has been largely presented in the previous chapters. Free trade and movement of goods, services, capital, and factors of production allow for the most efficient use of resources. That is positive sum game, as all countries can benefit. Regional economic integration is an attempt to go beyond the limitations of WTO. While it is hard for 100 countries to agree on something, (e.g. the United Nations) it is much more likely that only a few countries with close proximity and common interests will be able to agree to even fewer restrictions on the flows between their countries.

The political case for integration has two main points: (1) by linking countries together, making them more dependent on each other, and forming a structure where they regularly have to interact, the likelihood of violent conflict and war will decrease. (2) By linking countries together, they have greater influence and are politically much stronger in dealing with other nations.

In the case of the EU, both a desire to decrease the likelihood of another world war and an interest in being strong enough to stand up to the US and USSR were factors in its creation.

International Economic Institutions

World Trade Organisation

WTO began life on 1 January 1995 but its trading system is half a century older. Since 1948, the General Agreement on Tariffs and Trade (GATT) had provided the rules for the system. Whereas GATT had mainly dealt with trade in goods, the WTO and its agreements now cover trade in services, and in traded inventions, creations and designs (intellectual property). The World Trade Organization (WTO) is an intergovernmental organization which regulates international trade. The WTO officially commenced on 1 January 1995 under the Marrakesh Agreement, signed by 123 nations on 15 April 1994, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948.

The World Trade Organization's predecessor, the General Agreement on Tariffs and Trade (GATT), was established after World War II in the wake of other new multilateral institutions dedicated to international economic cooperation – notably the Bretton Woods institutions known as the World Bank and the International Monetary Fund. A comparable international institution for trade, named the International Trade Organization was successfully negotiated. The ITO was to be a United Nations specialized agency and would address not only trade barriers but other issues indirectly related to trade, including employment, investment, restrictive business practices, and commodity agreements. But the ITO treaty was not approved by the U.S. and a few other signatories and never went into effect.

The WTO is run by its member governments. The decisions are taken by consensus. The highest authority is the ministerial conference where all countries are members and meet once in two years. Ministerial Conferences were held in these places. Astana, Kazakhstan (MC12)-2020, Buenos Iris-Dec 2017, Nirobi-2015, Bali- 13, Geneva- 11, Geneva 09, Hongkong- 05, Cancun- 03, Doha-01, Seattle- 99, Geneva- 98, Singapore- 1996.

Fact File

Location: Geneva, Switzerland, established on 1 January 1995, created by Uruguay Round negotiations (1986-94) based on Dunkel Draft, Marakesh Agreement, Membership: 164 countries as on 4 October 19, Head: Roberto Azevêdo (6th Director-General)

WTO Structure

The WTO members accounts for about 95% of world trade. Around 30 are negotiating members. Decisions are made by the entire membership. This is typically by consensus. The WTO's agreements have been ratified in all members' parliaments. The WTO's top level decision-making body is the Ministerial Conference which meets at least once in every two years. Below this is the General Council meets several times a year in the Geneva. The General Council also meets as the Trade Policy Review Body and the Dispute Settlement Body.

At the next level, the Goods Council, Services Council and Intellectual Property (TRIPS) Council report to the General Council. Numerous specialized committees, working groups and working parties deal with the individual agreements and other areas such as the environment, development, membership applications and regional trade agreements.

Doha Development Agenda (DDA)

At the Fourth Ministerial Conference in Doha, Qatar, in November 2001 WTO member governments agreed to launch new negotiations. The negotiations take place in the **Trade Negotiations Committee** and its subsidiaries, which are usually, either regular councils or committees meeting in "**special sessions**", or specially-created **negotiating groups**. This agenda still exists due to lack of consensus between different nations on issues like tariffs on industrial commodities, agricultural tariffs, subsidies etc.

The contentious issues includes Negotiations between Developed nations and Developing nations, TRIPs vs Public Health like epidemic outbreak, Agricultural subsidies reduction by developed nations, Differential preferential special treatment to developing nations where it gives more time in implementing major international agreements, Child labour issues will be discussed in ILO Only, Environmental concerns comes under WTO/ Industrial Goods duty reduction are the benefits for developed nations.

Functions

1. Administering trade agreements.
2. Forum for trade negotiation
3. Handling trade disputes
4. Monitoring national trade policies (Foreign Trade Policy of India)
5. Technical assistance and training for developing countries
6. Cooperation with other international organisations (World Bank Group, IMF)

Principles of WTO

The WTO establishes a framework for trade policies; it does not define or specify outcomes. That is, it is concerned with setting the rules of the trade policy games. Five principles are of particular importance in understanding both the pre-1994 and the WTO.

1. **Non-Discrimination:** It has two major components: the most favoured nation (MFN) rule, and the national treatment policy. Both are embedded in the main WTO rules on goods, services and intellectual property, but their precise scope and nature differ across these areas. The MFN rule requires that a WTO member must apply the same conditions on all trade with other WTO members, i.e., a WTO member has to grant the most favourable conditions under which it allows trade in a certain product type to all other WTO members. National treatment means that imported goods should be treated no less favourably than domestically produced goods (at least after the foreign goods have entered the market) and was introduced to tackle non-tariff barriers to trade (e.g. technical standards, security standards discriminating against imported goods).

2. **Reciprocity:** It reflects both a desire to limit the scope of free-riding that may arise because of the MEN rule, and a desire to obtain better access to foreign markets. A related point is that for a nation to negotiate, it is necessary that the gain from doing so be greater than the gain available from unilateral liberalization; reciprocal concessions intend to ensure that such gains will materialise.

3. **Binding and Enforceable Commitments:** The tariff commitments made by WTO members in a multilateral trade negotiation and on accession are enumerated in a schedule (list) of concessions. These schedules establish 'ceiling bindings': a country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. If satisfaction is not obtained, the complaining country may invoke the WTO dispute settlement procedures.

4. **Transparency:** The WTO members are required to publish their trade regulations to maintain institutions allowing for the review of administrative decisions affecting trade, to respond to requests for information by other members, and to notify changes in trade policies to the WTO. These internal transparency requirements are supplemented and facilitated by periodic country-specific reports (trade policy reviews) through the Trade Policy Review Mechanism (TPRM). The WTO system tries also to improve predictability and stability, discouraging the use of quotes and other measures used to set limits on quantities of imports.

5. **Safety Values:** In specific circumstances, governments are able to restrict trade. There are three types of provisions in this direction: articles allowing for the use of trade measures to attain noneconomic objectives; articles aimed at ensuring 'fair competition'; and provisions permitting intervention in trade for economic reasons. Exceptions to the MFN principle also allow for preferential treatment of developing countries, regional free trade areas and customs unions.

WTO Agreements

1. Agreement on Agriculture

This agreement covers various issues relating to production and trade of agricultural commodities in the international market. Broadly there are two areas of contention exists between the developing, emerging and under developing nations in resolving various matters related to the sale of agricultural commodities in the international market. They are Market access and domestic support. Market access consists of various trade restrictions confronting imports and Domestic support covers issues like subsidies and other incentivising programmes run by different national governments.

2. Agreement on Textiles and Clothing

It allows the countries to charge extra tariff or create quotas for the import of textiles and clothing. The Agreement on Textiles and Clothing no longer exists. It is the only WTO agreement that had self-destruction built in.

3. Agreement on Standards and safety

Article 20 of the General Agreement on Tariffs and Trade (GATT) allows governments to act on trade in order to protect human, animal or plant life or health, provided they do not discriminate or use this as disguised protectionism. It allows countries to set their own standards. But it also says regulations must be based on science. They should be applied only to the extent necessary to protect human, animal or plant life or health.

4. Agreement on TRIPs

The areas covered by the TRIPS Agreement includes

1.Copyright and related rights
2.Trademarks, including service marks
3.Geographical indications
4.Industrial designs
5.Patents
6.Layout-designs (topographies) of integrated circuits
7.Undisclosed information, including trade secrets

5. The General Agreement on Trade in Services

Mode 1 Services: results in Cross border supply. Eg: Business Process Outsourcing.

Mode 2 Services: consuming abroad like education in London and tourism in Toronto.

Mode 3 Services: Commercial presence. Eg: Foreign investment through Foreign Direct investment

Mode 4 Services: Movement of natural persons. Movement of persons especially professionals like Software engineers, Doctors, Chartered Accountants from countries where salary packages are more attractive.

Services represent the fastest growing sector of the global economy and account for two thirds of global output, one third of global employment and nearly 20% of global trade.

6. Information Technology Agreement

Mobile phones, hardware, electronic equipment's come under this and tariff like import duty should be nil or zero. Singapore Ministerial Conference Introduced this pluri lateral agreement (Optional agreement).

The General Agreement on Tariffs and Trade

It was a free trade agreement between 23 countries that eliminated tariffs and increased international trade. It was the first worldwide multilateral free trade agreement. It was in effect from January 1, 1948 until January 1, 1995. It ended when it was replaced by the more robust World Trade Organization.

Purpose

The purpose of GATT was to eliminate harmful trade protectionism. That had sent global trade down 65 percent during the Great Depression. GATT restored economic health to the world after the devastation of the depression and World War II.

Three Provisions

GATT had three main provisions. The most important requirement was that each member must confer most favoured nation status to every other member. All members must be treated equally when it comes to tariffs. It excluded the special tariffs among members of the British Commonwealth and customs unions. It permitted tariffs if their removal would cause serious injury to domestic producers.

Second, GATT prohibited restriction on the number of imports and exports. The exceptions were:

- When a government had a surplus of agricultural products.
- If a country needed to protect its balance of payments because its foreign exchange reserves were low.
- Emerging market countries that needed to protect fledgling industries.

In addition, countries could restrict trade for reasons of national security. These included protecting patents, copyrights, and public morals.

The third provision was added in 1965. That was because more developing countries joined GATT, and it wished to promote them. Developed countries agreed to eliminate tariffs on imports of developing countries to boost their economies. It was also in the stronger countries' best interests in the long run. It would increase the number of middle-class consumers throughout the world.

Member Countries

The original 23 GATT members were Australia; Belgium; Brazil; Burma, now called Myanmar; Canada; Ceylon, now Sri Lanka; Chile; China; Cuba; Czechoslovakia, now Czech Republic and Slovakia; France; India; Lebanon; Luxembourg; Netherlands; New Zealand; Norway; Pakistan; Southern Rhodesia, now Zimbabwe; Syria; South Africa; the United Kingdom and the United States. The membership increased to more than 100 countries by 1993.

Pros

For 47 years, GATT reduced tariffs. This boosted world trade 8 percent a year during the 1950s and 1960s. That was faster than world economic growth. Trade grew from $332 billion in 1970 to $3.7 trillion in 1993. By increasing trade, GATT promoted world peace. In the 100 years before GATT, the number of wars was 10 times greater than the 50 years after GATT. Before World War II, the chance of a lasting trade alliance was only slightly better than 50/50.

By showing how free trade works, GATT inspired other trade agreements. It set the stage for the European Union. Despite the EU's problems, it has prevented wars between its members. GATT also improved communication. It provided incentives for countries to learn English, the language of the world's largest consumer market. This adoption of a common language reduced misunderstanding. It also gave less developed countries a competitive advantage. English gave them insight into the developed country's culture, marketing, and product needs.

Cons

Low tariffs destroy some domestic industries, contributing to high unemployment in those sectors. Governments subsidized many industries to make them more competitive on a global scale. U.S. and EU agriculture were major examples. In the early 1970s, the textile and clothing industries were exempted from GATT. When the Nixon Administration took the U.S. dollar off the gold standard in 1973, it lowered the value of the dollar compared to other currencies. That further lowered the international price of U.S. exports.

By the 1980s, the nature of world trade had changed. GATT did not address the trade of services that allowed them to grow beyond any one country's ability to manage them. For example, financial services became globalized. Foreign direct investment had become more important. As a result, when U.S. investment bank Lehman Brothers collapsed, it threatened the entire global economy. Central banks scrambled to work together for the first time to address the 2008 financial crisis. They were forced to provide the liquidity for frozen credit markets.

Like other free trade agreements, GATT reduced the rights of a nation to rule its own people. The agreement required them to change domestic laws to gain the trade benefits. For example, India had allowed companies to create generic versions of drugs without paying a license fee. This helped more people afford medicine. GATT required India to remove this law. That raised the price of drugs to a level out of reach for many Indians.

Basis for Comparison	GATT	WTO
Meaning	GATT can be described as a set of rules, multilateral trade agreement that came into force, to encourage international trade and remove cross-country trade barriers.	WTO is an international organization that came into existence to oversee and liberalize trade between countries.
Institution	It does not have any institutional existence, but have a small secretariat.	It has permanent institution along with a secretariat.
Participant nations	Contracting parties	Members
Commitments	Provisional	Full and Permanent
Application	The rules of GATT are only for trade in goods.	The rules of WTO includes services and aspects of intellectual property along with the goods.
Agreement	Its agreement is originally multilateral, but plurilateral agreements are added to it later.	Its agreements are purely multilateral.
Domestic Legislation	Allowed to continue	Not allowed to continue
Dispute ettlement System	Slow and ineffective	Fast and effective

TRIPs (Trade related intellectual Property Rights)

1. Copyright and Related Rights

Copyright protects literary works and other forms of works that constitute expression of ideas. Term of protection for copyright is not less than up to 50 years from date of end of calendar year of making of such a work.

2. Trademark

Any sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, is called a trademark. Such signs, in particular words including personal names, letters, numerals, figurative elements and combinations of colours as well as any combination of such signs, are eligible for registration as trademarks. For initial registration, and each renewal of registration of a trademark a term of protection is no less than seven years. The registration of a trademark is renewable indefinitely.

3. Geographical Indications

Geographical Indications are used to protect those goods whose quality, reputation or other characteristics are essentially because of their geographical origin. The term of protection for Geographical Indication is eternal.

4. Patents

Any invention whether products or processes, in all fields of technology, provided that they are new, involve an inventive step and are capable of industrial application. The term of protection available is usually twenty years counted from the filing date of the patent application.

5. Industrial Designs

Member nations have to provide for the protection of independently created industrial designs that are new or original. Member nations may provide that designs are not new or original if they do not significantly differ from known designs or combinations of known design features. The term of protection for industrial designs is 10 years from the creation of the industrial design.

6. Undisclosed Information

It is also known as trade secret. It is secret in the sense that it is not generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question. It has commercial value because it is secret.

7. Integrated Circuits: - The TRIPs Agreement provides protection to the layout designs (topographies) of integrated circuits for a period of 10 years. But the protection shall lapse after 15 of the creation of the layout design.

Salient Features

The three main features of the Agreement are:

- **Standards:** In respect of each of the main areas of intellectual property covered by the TRIPS Agreement, the Agreement sets out the minimum standards of protection to be provided by each Member. Each of the main elements of protection is defined, namely the subject-matter to be protected, the right to be conferred and permissible exceptions to those rights, and the minimum duration of protection. The Agreement sets these standards by requiring, first, that the substantive obligations of the main conventions of the WIPO, the Paris Convention for the Protection of Industrial Property (Paris Convention) and the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention) in their most recent versions, must be complied with.
- **Enforcement:** The second main set of provisions deals with domestic procedures and remedies for the enforcement of intellectual property rights. The Agreement lays down certain general principles applicable to all IPR enforcement procedures. In addition, it contains provisions on civil and administrative procedures and remedies, provisional measures, special requirements related to border measures and criminal procedures, which specify, in certain amount of detail, the procedures and remedies that must be available so that right holders can effectively enforce their rights.
- **Dispute Settlement:** The Agreement makes disputes between WTO Members about the respect of the TRIPS obligations subject to the WTO's dispute settlement procedures.

The TRIPS Agreement is a minimum standards agreement, which allows Members to provide more extensive protection of intellectual property if they so wish. Members are left free to determine the appropriate method of implementing the provisions of the Agreement within their own legal system and practice.

Indian Patent laws

Introduction

Indian Patent Law is defined by various provisions of The Patents Act, 1970, which has been amended since introduction. Under this law, patent rights are granted for inventions covering a new and inventive process, product or an article of manufacture that are able to satisfy the patent eligibility requirements of having novelty, inventive step, and are capable of industrial application.

Indian Patents Act

The Indian Patent Act, 1970 strikes a balance between the rights of the applicant and his obligation to the society granting the rights. Some salient features of the Act include, product and process patent, term of patent as 20 years, patent examination conducted on request, fast track mechanism for quick disposal of appeals, pre-grant and post-grant opposition allowed, protection of biodiversity and traditional knowledge, and, publication of applications after 18 months of date of filing of patent application.

Patent Law Development

The patent law in India has gone through multiple rounds of amendments and has developed into a strong regime as per present version. The Patents (Amendment) Act, 2005 and the Patent (Amendment) Rules 2005 came into force on 1st Jan 2005. The period for grant of patent has shortened considerably allowing the publication of the application. The new procedure for filing is as under:

(a) Application made under FORM 1 (for Indian as well as PCT patent)

(b) If the process starts with filing a 'Provisional Specification' then Complete Specification has to be filed within 12 months. No extension of time is allowed under any circumstances.

(c) Request for early publication vide FORM 9 can be made to the controller (Optional)

(d) After publication, pre-grant opposition is invited from the public.

(e) Simultaneously, request for examination can be made within 48 months of the priority date.

(f) A First Examination Report (FER) is furnished wherein any objections are communicated to the patentee or his authorized patent agent or patent lawyer. These have to be responded within 6 months from the date of the communication.

(g) Once objections are removed and the application found to be in order, the patent is granted under Section 43.

(h) Then with the seal of the patent office, the date on which it is granted is entered in the register of patents.

If any changes or amendments are substantive in the patent that has been granted, then that shall be advertised by the controller.

Pharmaceutical and Biotech Patents

Pharmaceutical and Biotech patents are registered in India after undergoing stringent examination process. In Section 3, which specifies inventions that are not patentable, under clause (d) where new use of the existing substance, process, the machine results in a new product or at best one new outcome, can be patented. Also, the provisions of the patent law allow patenting of product in chemicals, biotechnology, food processing, drugs and pharmaceuticals, not just the process.

Patent Rules Amendment – 2016

The Patent (Amendment) Rules, 2016 came into force on 16th May 2016. The category of Startups as patent applicant has been introduced, wherein Startup has been defined in the Rules as an entity (private limited company/partnership/LLP) where: (a) More than five years have not been completed from the date of its incorporation/registration, and, (b) The turnover (any financial year of the past five years) is not above 25 crores.

For the purposes of leaving and serving of documents, a patent agent has to file, leave, make or give all documents through electronic transmission including scanned copies of documents that are required to be submitted in original. There is also a provision of return of fee, and when an application filed is partially or completely transferred to any person other than a natural person or startup, the difference in the scale of fees is paid by the new applicant along with the request for transfer. In such a scenario, where the fee was paid more than once during the online filing process, then such amount will be refunded, and an applicant can claim a refund of the 90% of fees paid for a request for examination or expedited examination, by filing a request for withdrawal of a patent application before the issuance of the First Examination Report.

Expedited Patent Examination

The patent law provides mechanism for expedited patent examination of a patent application, wherein when the applicant wishes to advance the process of application, such request can be filed vide FORM 18A by electronic transmission within 48 months from the date of priority on one of the following grounds:

(a) India is the competent International Searching Authority or International Preliminary Examining Authority in the International Application;

(b) The applicant is a startup.

As a practice guideline, the patent examiner shall make a report within one month but not exceeding two months. Following which, the Controller shall dispose of the same within one month and issue First Examination Report to the applicant or his agent within 15 days.

By way of this patent amendment, the time to insert application in order for the grant has been reduced from twelve months to six months starting from the date of issuance of the First Examination Report. Also, the deadline to file power of attorney is three months from the date of filing of patent application.

Patent Rules Amendment 2018

The Patents (Amendment) Rules, 2018 were published on 4th of December, 2018. As per these rules, for International applications, documents will be allowed to be submitted only via electronic submission. The transmittal fee has been removed while filing international patent applications through e-PCT. In addition, the preparation of the certified copies of the priority documents and re-transmission through WIPO DAS has been made free. The patent applicants are eligible for filing a request for expedited examination extended to contain female applicants, applicants eligible for PPH program participation, small entities and government undertakings substituting as applicants. In addition, the pre-grant opposition has to be decided by a bench comprising of two members, and a third member will be assigned to the bench to arrive at a final decision, where there are different opinions on the issue.

Patent Rules Amendment 2019

The Patent (Amendment) Rules, 2019 were published on 17th September 2019. As per rule 6(1A), the mandatory filing requirement of the original documents has been waived off and filing the scanned copies of any original documents would be sufficient. Also, as per rule 7, which is applicable for startups also, every time a document requiring a fee is to be filed, both the ‘small entity’ and ‘startup’ applicants are required to submit Form 28

Trade Related Investment Measures

WTO prohibits investment restricting measures that discriminates foreign investment. The argument of WTO is that such investment restricting steps are violating trade itself (WTO is an institution formed to promote trade). Historically countries impose measures that restrict foreign investment (called as investment measures and WTO term this as Trade Related Investment Measures). Under TRIMs, the WTO names the list of investment measures that discriminates foreign investment and hence violates the basic WTO principle of National Treatment. These measures include – local content requirement, domestic employment, technology transfer requirement etc

The Agreement on TRIMs of the WTO is based on the belief that there is strong connection between trade and investment. Restrictive measures on investment are trade distorting. Several restrictive measures on investment are prohibiting trade and hence are not allowable. According to the TRIMs provision, countries should not adopt the *investment measures* which restrict and distort trade. The objective of TRIMs is to ensure fair treatment of investment in all member countries. As per the TRIMs Agreement, members are required to notify the WTO Council for Trade in Goods of their existing TRIMs that are inconsistent with the agreement.

Investment measures are those steps used traditionally against foreign investment by host countries. Here, the TRIMs instruct that WTO members may not apply any measure that discriminates against foreign investment that violates basic WTO principles (like the MFN). WTO gives a list of prohibited investment measures or TRIMs like local content requirement, export obligation, technology transfer requirement etc. that violates trade. Few exemptions to developing countries are also provided under TRIMs. The Committee on TRIMs monitors the operation and implementation of the TRIMs Agreement and offers consultation for member countries.

The European Union (28 Countries)

The predecessor of the EU was the European Economic Community (EEC), created in 1958 (Treaty of Rome), and initially increasing economic cooperation between six countries: Belgium, Germany, France, Italy, Luxembourg and the Netherlands. Since then, 22 other members joined. Name change from the European Economic Community (EEC) to the European Union (EU) happened in 1993. The European Union is the largest trade block in the world. It is the world's biggest exporter of manufactured goods and services, and the biggest import market for over 100 countries.

The Euro

The euro is the official currency for 19 of the 28 EU member countries. A long preparatory path of over 40 years led to the introduction of the euro in 2002. The European Central Bank and the European Commission are in charge of maintaining its value and stability, and for establishing the criteria required for EU countries to enter the euro area. The European Commission and the European Central Bank jointly decide whether the conditions are met for euro area candidate countries to adopt the euro. After assessing the progress made against the convergence criteria, the two bodies publish their conclusions in respective reports. The euro was launched on 1 January 1999: for the first three years it was an ‘invisible’ currency, only used for accounting purposes and electronic payments. Coins and banknotes were launched on 1 January 2002, and in 12 EU countries the biggest cash changeover in history took place.

Convergence Criteria

What is measured:	Price stability	Sound and sustainable public finances	Durability of convergence	Exchange rate stability
How it is measured:	Harmonised consumer price inflation	Government deficit and debt	Long-term interest rate	Exchange rate developments in ERM II

Convergence criteria:	A price performance that is sustainable and average inflation not more than 1.5 percentage points above the rate of the three best performing Member States	Not under excessive deficit procedure at the time of examination	Not more than 2 percentage points above the rate of the three best performing Member States in terms of price stability	Participation in ERM II for at least 2 years without severe tensions, in particular without devaluing against the euro

International Monetary Fund

The IMF was conceived in July 1944 at the United Nations Bretton Woods Conference in New Hampshire, United States. The 44 countries in attendance sought to build a framework for international economic cooperation and avoid repeating the competitive currency devaluations that contributed to the Great Depression of the 1930s. The IMF's primary mission is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries and their citizens to transact with each other.

- **Membership:** 189 countries
- **Headquarters:** Washington, D.C.
- **Executive Board:** 24 Directors each representing a single country or groups of countries
- **Total quotas:** SDR 477 billion (US$661 billion)
- **Committed amounts under current lending arrangements:** SDR 152 billion (US$210 billion), of which SDR 96 billion (US$133 billion) has not been drawn.
- **The largest borrowers:** Argentina, Ukraine, Greece, Egypt
- **Surveillance consultations:** 132 consultations in 2014, 124 in 2015 and 132 in 2016.
- **Primary aims:**
    - Promote international monetary cooperation;
    - Facilitate the expansion and balanced growth of international trade;
    - Promote exchange stability;
    - Assist in the establishment of a multilateral system of payments; and
    - Make resources available (with adequate safeguards) to members experiencing balance-of-payments difficulties.

The IMF's primary purpose is to ensure the stability of the international monetary system. Most resources for IMF loans are provided by member countries, primarily through their payment of quotas. Quota subscriptions are a central component of the IMF’s financial resources. Each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy. The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries’ official reserves. Decision making at the IMF was designed to reflect the relative positions of its member countries in the global economy. The Board of Governors (Decision making body) meets once a year at the IMF–World Bank Annual Meetings. The day-to-day work of the IMF is overseen by its 24-member Executive Board which represents the entire membership and supported by IMF staff.

- Low-income countries may borrow on concessional terms through facilities available under the Poverty Reduction and Growth Trust- Zero Percent interest.
- For emerging and advanced market economies in crises, IMF assistance has been provided through Stand-By Arrangements (SBAs) to address short-term or potential balance of payments problems.
- The Standby Credit Facility (SCF) *serves a similar purpose for low-income countries.*
- *The* Extended Fund Facility (EFF) and the corresponding Extended Credit Facility (ECF) *for low-income countries are the Fund’s main tools for medium-term support to countries facing protracted balance of payments problems.*
- Members with already strong policies can use the Flexible Credit Line (FCL) or the Precautionary and Liquidity Line (PLL).
- The Rapid Financing Instrument (RFI) and the corresponding Rapid Credit Facility (RCF) for low-income countries provide rapid assistance to countries with urgent balance of payments need, including from commodity price shocks, natural disasters, and domestic fragilities.
- The currency value of the SDR is determined by summing the values in U.S. dollars, based on market exchange rates, of a basket of major currencies (the U.S. dollar, Euro, Japanese yen, pound sterling and the Chinese renminbi). The SDR currency value is calculated daily (except on IMF holidays or whenever the IMF is closed for business) and the valuation basket is reviewed and adjusted every five years.
- Ms. Kristalina Georgieva from Bulgaria, is Managing Director and Chairman of the Executive Board from October 1, 2019

International Liquidity and SDRs

The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. So far SDR 204.2 billion (equivalent to about US$291 billion) have been allocated to members, including SDR 182.6 billion allocated in 2009 in the wake of the global financial crisis. The value of the SDR is based on a basket of five currencies—the U.S. dollar, the euro, the Chinese renminbi, the Japanese yen, and the British pound sterling.

The role of the SDR

The SDR was created as a supplementary international reserve asset in the context of the Bretton Woods fixed exchange rate system. The collapse of Bretton Woods system in 1973 and the shift of major currencies to floating exchange rate regimes lessened the reliance on the SDR as a global reserve asset. Nonetheless, SDR allocations can play a role in providing liquidity and supplementing member countries' official reserves, as was the case with the 2009 allocations totalling SDR 182.6 billion to IMF members amid the global financial crisis.

The SDR serves as the unit of account of the IMF and some other international organizations. The SDR is neither a currency nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. SDRs can be exchanged for these currencies.

SDR Value

The SDR value in terms of the U.S. dollar is determined daily based on the spot exchange rates observed at around noon London time, and posted on the IMF website. The SDR was initially defined as equivalent to 0.888671 grams of fine gold—which, at the time, was also equivalent to one U.S. dollar. After the collapse of the Bretton Woods system, the SDR was redefined as a basket of currencies.

The SDR basket is reviewed every five years, or earlier if warranted, to ensure that the SDR reflects the relative importance of currencies in the world's trading and financial systems. The reviews cover the key elements of the SDR method of valuation, including criteria and indicators used in selecting SDR basket currencies and the initial currency weights used in determining the amounts (number of units) of each currency in the SDR basket. These currency amounts remain fixed over the five-year SDR valuation period but the actual weights of currencies in the basket fluctuate as cross-exchange rates among the basket currencies move. The value of the SDR is determined daily based on market exchange rates. The reviews are also used to assess the appropriateness of the financial instruments comprising the SDR interest rate (SDRi) basket.

During the last review concluded in November 2015, the Board decided that the Chinese renminbi (RMB) met the criteria for inclusion in the SDR basket. Following this decision, the Chinese RMB joined the US dollar, euro, Japanese yen, and British pound sterling in the SDR basket, effective October 1, 2016.

Currency	**Weights determined in the 2015 Review**	**Fixed Number of Units of Currency for a 5-year period Starting Oct 1, 2016**
U.S. Dollar	41.73	0.58252
Euro	30.93	0.38671
Chinese Yuan	10.92	1.0174
Japanese Yen	8.33	11.900
Pound Sterling	8.09	0.085946

World Bank

The World Bank Group has set two goals for the world to achieve by 2030:

- End extreme poverty by decreasing the percentage of people living on less than $1.90 a day to no more than 3%
- Promote shared prosperity by fostering the income growth of the bottom 40% for every country

President of World Bank is David Malpass. The World Bank Group comprises five institutions managed by their member countries. Established in 1944, the World Bank Group is headquartered in Washington, D.C. We have more than 10,000 employees in more than 120 offices worldwide.

The World Bank Group consists of five organizations:

- The International Bank for Reconstruction and Development

  The International Bank for Reconstruction and Development (IBRD) lends to governments of middle-income and creditworthy low-income countries.

- The International Development Association

The International Development Association (IDA) provides interest-free loans — called credits — and grants to governments of the poorest countries. Together, IBRD and IDA make up the World Bank.

- The International Finance Corporation

The International Finance Corporation (IFC) is the largest global development institution focused exclusively on the private sector. They help developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments.

- The Multilateral Investment Guarantee Agency

The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 to promote foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people's lives. MIGA fulfils this mandate by offering political risk insurance (guarantees) to investors and lenders.

- The International Centre for Settlement of Investment Disputes

The International Centre for Settlement of Investment Disputes (ICSID) provides international facilities for conciliation and arbitration of investment disputes.

IMF and World Bank- Differences

International Monetary Fund	**World Bank**
• oversees the international monetary system • promotes exchange stability and orderly exchange relations among its member countries • assists all members--both industrial and developing countries--that find	• seeks to promote the economic development of the world's poorer countries • assists developing countries through long-term financing of development projects and programs • provides to the poorest developing

themselves in temporary balance of payments difficulties by providing short- to medium-term credits • supplements the currency reserves of its members through the allocation of SDRs (special drawing rights); to date SDR 21.4 billion has been issued to member countries in proportion to their quotas • draws its financial resources principally from the quota subscriptions of its member countries • has at its disposal fully paid-in quotas now totaling SDR 145 billion (about $215 billion) • has a staff of 2,300 drawn from 182 member countries	countries whose per capita GNP is less than $865 a year special financial assistance through the International Development Association (IDA) • encourages private enterprises in developing countries through its affiliate, the International Finance Corporation (IFC) • acquires most of its financial resources by borrowing on the international bond market • has an authorized capital of $184 billion, of which members pay in about 10 percent • has a staff of 7,000 drawn from 180 member countries

Model Questions

Short answer

1) Define free trade area.
2) What is a customs union.
3) Expand NAFTA.
4) What is known as the agreement on safety and standard in WTO.
5) What is a copyright.
6) Discuss geographical indication.
7) Define SDR.
8) What is the role of International Finance Corporation.
9) Expand MIGA.
10) What is known as extended fund facility of IMF .

Paragraph Questions

11. Explain the role of ASEAN in international trade.
12. Explain the arguments for regional integration.
13. Discuss the Doha Development Agenda of WTO.
14. Critically evaluate the role WTO in ensuring free trade .
15. What are the provisions in GATS.
16. Explain the levels of economic integration.
17. What are the principles of WTO.
18. What are the differences between WTO and GATT.
19. Explain the status of EU as a powerful regional trade block.
20. Discuss the significance of IMF in international liquidity.

Essay Questions

1. Explain the WTO Agreements existing now.
2. What are the functions of World Bank.
3. Discuss the role of IDA as an arm of World Bank in the development of world economy
4. Explain the benefits accrued for India by being part of WTO.
5. Discuss the components of TRIPs agreement of WTO.

MODULE V

FUNCTIONAL STRATEGIES IN INTERNATIONAL BUSINESS

The third level of strategic planning is functional strategies, which are derived from the tactical strategies. Each functional area or department is assigned the specific goals and objectives it must achieve to support the higher-level strategies and planning. Functional strategies specify outcomes to be achieved from the daily operations of specific departments or functions. Functional strategies reflect that strategic and tactical objectives typically require the involvement of multiple functional areas, such as departments, divisions, and branches. Thus, the tactical plan is divided into the tasks and objectives of each functional area.

Functional business strategies seek to improve implementation of business and corporate strategies. Functional strategies include marketing strategies and human resources strategies. Often, they concern specifics such as resource allocation, operating expense efficiencies and product improvement. The functional strategy level is immediately concerned with fashioning and implementing strategies that improve function in specific departments. Functional strategies in strategic management are usually a part of overall corporate strategy prepared for various functional areas of its organizational structure. It helps managers in focusing company's activities to its major functional areas of activity.

Role of Functional Strategy

- It assists in the overall business strategy, by providing information concerning the management of business activities.
- It explains the way in which functional managers should work, so as to achieve better results.

Functional Strategy states what is to be done, how is to be done and when is to be done are the functional level, which ultimately acts as a guide to the functional staff. And to do so, strategies are to be divided into achievable plans and policies which work in tandem with each other. Hence, the functional managers can implement the strategy. Most common functional strategies used in management are: financial strategy, marketing strategy, production strategy, human resources strategy (Personnel strategy) and research and development strategy.

Key Variables of Functional Level Strategy

1. **Alignment**

Functional level strategies should always align with the business level strategies and corporate level strategies above them. For example, if your corporate strategy is to improve market share and your business strategy is to improve brand identification, you wouldn't want one of your functional strategies to be for the marketing department to update their computer systems. Those goals are out of alignment.

2. **Progress**

When trying to measure your progress, it can be easy to include too much information and become inundated with data. It's vital to keep in mind what your business level strategies and corporate level strategies are and only measure the aspects that help you determine if you're progressing toward those goals.

3. **Existing Resources**

Every functional level strategy that you put in place should utilize the existing resources — both equipment and personnel — that each department has to offer. Put another way, you don't want to base your marketing department strategy on resources they don't have. Doing so could seriously undermine the broader goals above it (at the business and corporate levels).

4. **Integration**

In addition to vertical alignment, functional level strategies should also be integrated horizontally within and among departments. For example, coordinate purchasing, inventory, and shipping within your operations department, and those activities with any new processes in the production department. That way, actionable items in one department don't put a speed bump in the actionable items of another department.

International Production Strategy

International production strategy deals with production of goods and services in international locations and markets. It involves strategic management process which has to take into consideration local production market (labour and capital) and international customer requirements. The foundation for international production is no different to domestic production. But there are certain aspects which make international exposure a challenge for an organization. The very 1st difference is international business environment where not just economics but also international quality standards have to be maintained. The 2nd aspect is the international stint makes the company more aware of its surroundings thus making it more competitive.

An organization has to design it strategic objectives which cover following points:

- Meeting international quality standards
- Forecasting demand and production design
- Profitability
- Minimum production cost
- Adaptation to modern available technology

Organization needs to consider the following point while developing international production strategies:

Production/Factory Location: The choice of location for the production facility depends on its proximity near to the market and cost of production (labor) in that particular environment.

Factory design, layout and quality standards: Organization need to standardize design and layout across their production location as to minimize production planning process, provide flexibility in sharing technical knowledge and manpower.

External vendor and procurement: Organization needs to finalize the vendors to provide raw material as well important components required to complete the final product. Also procurement schedule has to be finalized as not to hurt production

International financing Strategy

Financial Strategy consists of all the areas of financial management, i.e. planning, acquiring, utilizing and controlling the financial resources of the company are covered under a financial strategy. This includes raising capital, creating budgets, sources and application of funds, investments to be made, assets to be acquired, working capital management, dividend payment, calculating the net worth of the business and so forth.

A company's finance department typically decides on the capital structure, i.e. the mix of debt and equity funds to finance business operations. A functional strategy provides guidance reviewing operational income, evaluating various funding options and deciding on the capital structure mix that gives the lowest cost of capital.

International human resource Strategy

Human resource strategy covers how an organization works for the development of employees and provides them with the opportunities and working conditions so that they will contribute to the organization as well. This also means to select the best employee for performing a particular task or job. It strategizes all the HR activities like recruitment, development, motivation, retention of employees, and industrial relations.

International marketing Strategy

Marketing involves all the activities concerned with the identification of customer needs and making efforts to satisfy those needs with the product and services they require, in return for consideration. The most important part of a marketing strategy is the marketing mix, which covers all the steps a firm can take to increase the demand for its product. It includes product, price, place, promotion, people, process and physical evidence.

For implementing a marketing strategy, first of all, the company's situation is analysed thoroughly by SWOT analysis. It has three main elements, i.e. planning, implementation and control. There are a number of strategic marketing techniques, such as social marketing, augmented marketing, direct marketing, person marketing, place marketing, relationship marketing, Synchro marketing, concentrated marketing, service marketing, differential marketing and demarketing.

Marketing strategy involves decisions related to pricing, selling, advertising and distributing a product. The aim could be to increase market share, venture into newer markets, penetrate existing markets, launch new products or deal with distributors/ competitors.

Internationalisation

International business is the process of carrying on business activities beyond national boundaries. It refers to any business activity which involves the transfer of resources, goods, services, knowledge, skills or information across national boundaries. These activities may pertain to the production of physical goods or to the provision of services such as banking, finance, insurance, education, construction etc. The activities that comprise international business are referred to as international transactions and mainly take the form of international trade and international investment. Firms engaged in international business activities however big or small are called international firms or multinational/transnational enterprises (MNE/TNE). The scenario of international business is categorized into five stages as discussed below.

Stages of internationalisation

- Domestic company
- international company
- Multinational company
- Global company
- Transnational company

Domestic Company

Domestic company limits its operations, mission and vision to the national political boundaries. This company focuses its view in the domestic market opportunities, domestic supplier, domestic financial companies, domestic customers etc. These companies analyse the national environment of the country. These companies analyse the national environment of the country, formulate the strategies to exploit the opportunities offered by the environment.

International Corporation

Some of the domestic companies, which grow beyond their production or domestic marketing capacities, think of internationalizing their operations. These companies believe that the practices adopted in domestic business, the people and products of domestic business are superior to those of other countries.

These companies select the strategy of locating a branch in the foreign markets and extend the same domestic operations into foreign markets. In other words, these companies extend the domestic product, domestic price, promotion and other business practices to the foreign markets. Thus, the international company extends the domestic country marketing mix and business model and practices to foreign countries.

Multinational Corporations

Large corporations having investment and business in a number of countries, known by various names such as Multinational Corporations, international Corporations and Global Corporations (of firms, companies or enterprises) have become a very powerful driving force in the world's economy.

As ILO Report observes, "the essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country (referred for convenience as the 'home country') while the enterprise carries out operations in a number of other countries as well ('host countries'). Obviously, what is meant is a corporation that controls production facilities in more than one country, such facilities having been acquired through the process of foreign direct investment.

Global Corporations

Global Corporations produces in home country or in a single country and focuses on marketing these products globally or produces the products globally and focuses on marketing these products domestically. For example, Harley Davidson designs and produces super heavy weight motorcycles in the USA and markets in the global market. Designs and produces drugs in India and markets globally. Thus, Harley Davidson and Dr. Reddy's Lab are examples of global marketing focus. Gap procures products in the global countries and markets the products through its retail organization in the USA. Thus, Gap is an example for global sourcing company.

Global Corporations implement parent's company strategies wherever they operate, rather than formulating strategies separately for each market. Global Corporations develop the knowledge in various countries, but its units do not share such knowledge across globe. As such the overseas units retain the knowledge developed.

Transnational Corporations

A Transnational Corporation product, markets, invests and operates across the world. It is an integrated global enterprise that links global resources with global markets at profit. There is no pure transnational corporation. However, most of the transnational companies satisfy many of the characteristics of a global corporation. They are more or less borderless and they do not consider a particular country as their base.

International Orientations

- Ethnocentrism (home country orientation)
- Polycentricism (host country orientation)
- Regiocentrism (regional orientation)
- Geocentrism (World orientation)

Orientation of the Firm (EPRG)

Basic	Ethnocentric	Polycentric	Regiocentric	Geocentric
Culture	Home country	Host country	Regional	Global
Technology	Mass production	Batch Production	Flexible manufacturing	Flexible manufacturing
Marketing	Product development determined primarily by the needs of home country customers	Local product development based on local needs	Standardize within region, but not across regions	Global product, with local variations
Finance	Repatriation of profits to home country	Retention of profits in host country	Redistribution within regions	Redistribution globally
Personnel practice	People of home country developed for key positions everywhere in the world	People of local nationality for key positions in their own country	Regional people developed for key positions anywhere in the region	Best people everywhere in the world developed for key positions everywhere in the world.

In general, the desirability of a particular international orientation- E, P, R or G tends to depend on several factors, such as the size of the firm, the experience gained in given market, the size of the potential market, and type of the product and its cultural dependency.

Multinational Corporations

Large corporations having investment and business in a number of countries, known by various names such as Multinational Corporations, international Corporations and Global Corporations (of firms, companies or enterprises) have become a very powerful driving force in the world's economy.

As ILO Report observes, "the essential nature of the multinational enterprises lies in the fact that its managerial headquarters are located in one country (referred for convenience as the 'home country') while the enterprise carries out operations in a number of other countries as well ('host countries'). Obviously, what is meant is a corporation that controls production facilities in more than one country, such facilities having been acquired through the process of foreign direct investment. Firms that participate in international business, however large they may be, solely by exporting or by hunting technology are not multinational enterprises."

Multinational Corporation responds to the specific needs of the different country markets regarding product, price and promotion. Thus, MNC operates in more than one country, but operates like a domestic company of the country concerned.

Following are the main features of MNCs:

Location: MNCs have their headquarters in home countries and have their operational divisions spread across foreign countries to minimize the cost.

Capital Assets: Major portion of the capital assets of the parent company is owned by the citizens of the company's home country.

Board of Directors: Majority of the members of the Board of Directors are citizens of the home country.

Mode of Transfer: The MNC has considerable freedom in selecting the financial channel through which funds or profits or both are moved, e.g., parents and trademarks can be sold outright or transferred in return through contractual binding on royalty payments.

Similarly, the MNC can move profits and cash from one unit to another by adjusting transfer prices on intercompany sales and purchases of goods and services. MNCs can use these various channels, singly or in combination, to transfer funds internationally, depending on the specific circumstances encountered.

Value for Money: By shifting profits from high-tax to low-tax nations, MNCs can reduce their global tax payments. In addition, they can transfer funds among their various units, which allow them to circumvent currency controls and other regulations and to tap previously inaccessible investment and financing opportunities.

Flexibility: Some to the internationally generated claims require a fixed payments schedule; other can be accelerated or delayed. MNCs can extend trade credit to their other subsidiaries through open account terms, say from 90 to 180 days. This gives a major leverage to financial status. In addition, the timing for payment of fees and royalties may be modified when all parties to the agreement are related.

Growth of MNCs

MNCs exercise massive control over world economy. Several factors contributed for the growth of MNCs. The important among them are:

i. Market Superiorities: MNCs enjoy a number if market superiorities over the domestic companies. They include:

(a) Availability of more reliable and up to date data and information

(b) They enjoy market reputations,

(c) They face fewer difficulties in marketing the products

(d) They adopt more effective advertising and sales promotion techniques

(e) They enjoy quick transportation and warehousing facilities.

ii. Financial Superiorities:

In addition to market superiorities MNCs enjoy financial superiorities over national companies. They are:

(i) Huge financial resources at the disposal of the MNCs.

(ii) They can use the funds more effectively and economically as the excess funds from one country can be used to meet the requirements in other countries.

(iii) They can mobilize different types of resources of high quality easily,

(iv) They can have access to international banks and financial institutions.

iii. Strategic FDI: The strategic motive for making investments has been advocated as another reason for the growth of MNCs. MNCs enter foreign markets to protect their market share when this is being threatened by the potential entry of indigenous firms or multinationals from other countries.

iv. Product Innovation: MNCs, by virtue of their widespread customers tastes and preferences. Further, the MNCs with their strong R&D departments invent new products and develop the existing products. Developing countries suffer from limitations in this regard. Therefore, they invite MNCs to their countries.

v. Protecting Secrecy: MNCs prefer direct investment, rather than granting a license to a foreign company if protecting the secrecy of the product is important.

vi. **Product Life cycle Hypothesis:** It has been argued that opportunities for further gains at home eventually dry up. To maintain the growth of profits, a corporation must venture abroad where markets are not so well penetrated and where there is perhaps less competition. This hypothesis perfectly explains the growth of American MNCs in other countries where they can fully exploit all the stages of the life cycle of a product. A prime example would be Gillette, which has revolutionized the shaving systems industry.

vii. **Avoiding Tariffs and Quotas:** MNCs prefer to invest directly in a country in order to avoid import tariffs and quotas that the firm may have to face if it produces the goods at home and ship them. For example, a number of foreign automobile and truck producers opened plants in the US to avoid restrictions on-selling foreign made cars. Automobile giants like Fiat, Volkswagen, Honda and Mazda are entering different countries not with the products but with technology and money.

MNCs in India

Most of the MNCs in India had originally entered the Indian market during the colonial era. During the post-independence era, the actual number of MNCs; who entered was small. The entry was generally made through collaboration with Indian big business. At the end of 1990, there were 469 foreign companies in India. In addition, there are many Indian companies with foreign equity participation. Several Indian outfits of MNCs like Ponds, Johnson and Johnson, Lipton, Brooke-Bond, Colgate-Palmolive etc., are tin low technology consumer goods sector. Hindustan Lever, while popular in low tech consumer sector, has diversified into a high technology and export oriented sectors. Table 8 presents India's top seven MNCs among the World's 500 largest MNCs in 2015.

Role of MNCs in India

There is to distinction between an MNC and a domestic company in India. The policy regarding MNC is the same as for foreign private capital in India. MNCs are specifically covered under Foreign Exchange Management Act (FEMA). The role of MNCs operating in India is discussed below:

1. Profit Maximisation

Most of the private companies including MNCs have profit maximization as the most important objective. However, MNCs are expected to operate fairly and behave like a corporate citizen.

2. International Network of Marketing

India expects the MNCs to increase their exports and earn foreign exchange for India. But most of the MNCs transfer the foreign exchange to their parent country, just in the name of imports from their home country.

3. Diversification Policy

India expects the MNCs to diversify their activities into the untapped areas and the priority areas like core industry and infrastructure industry. But majority of the MNCs diversify into the more profitable areas. Eg: Indian Tobacco Company ventured into hotel industry.

4. Concentration in Consumer Goods

Most of the MNCs entered Indian consumer market like HLL due to the high profitability rather than capital goods market which is less profitable.

5. Techniques to achieve Public Acceptability

MNCs adopt a number of techniques to get the acceptability of the people of the country wherever they operate. For example, products of Lipton Unilever Company are more acceptable to most of the Indians. Most of the MNCs try to project themselves as it they were completely identified with the Indian culture and Indian economic policies. They also claim that they have acquired Indian nationality. It is criticized that MNCs in India use all these techniques to improve their business.

6. Existence of modern and sophisticated technology

As stated earlier, maximization of global profits is one of the major objectives of MNCs. MNCs develop modern and sophisticated technology in order to produce the products of high quality and lowest cost of production. They bring the technology to the developing world, but they do not provide the latest technology to the domestic companies of the Third World.

The Indian Government requested MNCs to provide their technology to Indian companies even before the economic liberalization in 1991 through joint ventures. But MNCs in India normally carry-out their business on their own rather than collaborating with the Indian normally carry-out their business on their own rather than collaborating with the Indian business houses. Thus, MNCs forced India to depend on them for latest technology. In view of this experience, MNCs should be allowed to invest in India through joint ventures or technical collaboration with the Indian companies.

7. Business, but not social justice

MNCs are in business but not in social service. MNCs allocate their investments according to market demand in order to maximize their profits. Wide gap between the rich and poor has been one of the characteristics of India since long back. Therefore, a section of the Indian economy enjoy higher standard of living. MNCs in India have been concentrating only on this section in designing the product, pricing and services. MNCs normally do not produce the products to cater to the needs of poor section. They leave the poor section to the local business. Thus, the more profitable business is grabbed by MNCs and they left the less profitable business to the local markets.

8. Unconcern towards social responsibilities and business ethics

It is also criticized that MNCs try to maximize their profits and do not think of discharging their responsibilities towards Indian society. Further, it is criticized that MNCs exploit the Indian natural resources indiscriminately, export the products from India to other countries and transfer the proceeds of sales to their home countries.

In addition, it is criticized that MNCs price the products exclusively based on business principles like supply and demand for products rather than the social considerations.

9. Cultural Erosion

Indian culture with regard to dressing patterns, eating habits, building and maintaining the relations, etc., are quite distinct from the rest of the world. But, it is widely criticized that the MNCs activities with regard to type of the products (mainly cigarettes, liquor, beverages like coke etc.,), advertisements and the like, erode the Indian culture.

10. Unconcern for environmental pollution and ecological balance

It is widely criticized that MNCs in India did not invest in environmental polluting controlling equipments as they normally do in their home country. This in turn resulted in environmental pollution in a number of instances in the country. Bhopal gas tragedy an also failure in paying due compensation to the victims is an example.

Further, it is criticized that the MNCs in India are also unconcerned in maintain ecological balance in the country. However, MNCs contribute to some extent for the growth of Indian economy, industry and business. These criticisms forced MNCs to Indianise their operations.

Regulation of MNCs

MNCs have been operating in India even prior to Independence, like Singer, Parry, Philips, Unit-Lever, Proctor and Gamble. They either operated in the form of subsidiaries or entered into collaboration with Indian companies involving sale of technology as well as use of foreign brand names for the final products. The entry of MNCs in India was controlled by existing industrial policy statements. MRTP Act, and FERA. In the pre-reform period the operations of MNCs in India were restricted.

New Industrial Policy 1991 and Multinational Corporations:

The New Industrial Policy 1991 removed the restrictions of entry to MNCs through various concessions.

At present MNCs in India can

i. Increase foreign equity up to 51 percent by remittances in foreign exchange in specified high priority areas. Subsequently MNCs are free to own a majority share in equity in most products.
ii. Borrow money or accept deposit without the permission of Reserve Bank of India.
iii. Transfer shares from one non-resident to another non-resident.
iv. Disinvest equity at market rates on stock exchanges.
v. Go for 100 percent foreign equity through the automatic route in Specified sectors.
vi. Deal in immovable properties in India.
vii. Carry on in India any activity of trading, commercial or industrial except a very small negative list.

Thus, MNCs have been placed at par with Indian Companies and would not be subjected to any special restrictions under FEMA.

Transfer of Technology

MNC are allowed, if not invited by the developing countries mostly due to the technological backwardness of these countries. In fact, MNCs are rich in advanced technology. They develop the technology through continuous research and development. The rich financial and other resources of the MNCs enable them to invest on R&D and develop the advanced technology. The developing economies regard the transfer of the technology from the MNCs as a useful account due to the following reasons:

a) Industrialization is in a backward state in developing countries and the resources available in developing countries are insufficient to develop the technology.
b) Developing countries are rich in mineral and natural resources. They are unable to exploit them fully due to paucity of financial resources and low level of technology.
c) Local manpower, materials, capital etc., cannot be optimally utilized by the developing countries on their own. Therefore, MNCs are invited by the developing countries to help them in exploiting the resources.

d) Developing countries would be required to import raw materials, capital equipment, technology, etc., on their own. This in turn needs large foreign exchange resources developing countries which suffer from paucity of foreign exchange resources invite MNCs in this regard.

e) Developing countries, though they produce goods and services on their own by importing technology and materials, they fail in marketing the products due to severe competition. This inability if developing countries, forces them to invite MNCs.

Model Questions

Short answer

1) Define a global corporation.
2) What is an international HR Strategy.
3) Expand ILO.
4) What is known as Strategic FDI.
5) What is a the expansion of EPRG.
6) Discuss ecological balance in the context of MNC expansions world wide.
7) Define value for money.
8) What is a domestic company.
9) Explain international marketing strategy.
10) Explain the role of TNCs in a globalised world.

Paragraph Questions

1) Explain the key variables in functional strategies in international business.
2) Explain the features of MNCs.
3) Discuss the technological transfer element in the expansion of international business.
4) Critically evaluate the financial superiority of MNCs in the Indian retail market.
5) What are the adverse effect of TNC Growth in MSMEs of India.
6) Explain the reasons for become global companies.
7) Discuss the growth pattern of MNCs worldwide after trade war between US and other nations.
8) What are the differences between production and marketing strategies.
9) Explain the role of TNCs in international cooperation between nations.
10) Discuss the significance of global companies in the employment creation in developing countries.

Essay Questions

1. Explain the functional level strategies used in international business.
2. What are the stages of internationalisation of business.
3. Discuss the orientations in followed by companies in international business
4. Explain the role of MNCs in the economic development in India.
5. Discuss the regulatory framework for MNCs in India.

Additional Readings

- International Business: Competing in the Global Marketplace Paperback – 1 July 2017 by Charles W. L. Hill (Author), K Arun.
- International Business: The Challenges of Globalization, 9th edition by John J. Wild and Kenneth L. Wild Published by Pearson (July 22nd 2019).
- International Business: Text and Cases by Francis Cherunilam.

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