III. Long Answer Type Questions

Question 1. Discuss the benefits of international business.
Answer: The benefits of international business to nations are as follows:

1. Earning of Foreign exchange: International business helps a country to earn foreign exchange. It can use it for meeting its payments abroad.
2. Better utilization of resources: It is based on the principle of comparative cost advantage. It implies that produces what your country can produce more efficiently, and trade the surplus production so generated with other countries to procure what they can produce more efficiently. When countries produce on these principles, it increases their resource utilization.
3. Improving Growth Prospects and Employment Potentials: Producing solely for the purpose of domestic consumption severely restricts a country's prospects for growth and employment.
4. Increased Standard of Living: In the absence of international trade of goods and services, it would not have been possible to enjoy the standard of living it is enjoying now.

The benefits of international business to firms are as follows:

1. Prospects for higher profits: International business proves more profitable as compared to domestic business. When prices in domestic market are lower, business firms can earn higher profits by selling their products in foreign countries.
2. Increased Capacity Utilization: Many firms set up production capacities for their products which are in excess of demand in the domestic market by planning overseas expansion and procuring orders from foreign customers. It allows them to make better use of their surplus capacity.
3. Prospects for growth: Business firms find it very irritating when there is fall in demand or saturation point comes in domestic market. Such firms can grow considerable prospects of their growth by entering into international business.
4. Way out to intense competition in domestic market: When competition in domestic market is very intense, internationalization seems to be the only way for significant growth. Highly competitive domestic market motivates many firms to enter into international business.
5. Improved Business Vision: The growth of international business of many companies is important for their survival and goodwill. Vision to become international is expression of urge to grow and the need to diversify and to take benefit of strategic advantages of internationalisation.

Question.2. Discuss the scope of international business.
Answer. There are many ways in which the firm's operate international major forms of business operations which constitute international business are given below:

1. Merchandise exports and imports: Merchandise means which

are tangible. That can be seen and touched. It is also known as trading goods. It excludes trading services.
2. Exports and Imports of Services: Service exports and imports involve trade in intangibles. It is because of the intangible aspect of services that trade in services is termed as intangible trade.
3. Licensing and Franchising: Permitting another party in a foreign country to produce and sell goods under a firm's trademarks, patents or copyright for which a payment is made which is called royalty is another way of entering into international business. For example, McDonalds'.
4. Foreign Investments: Foreign investment is another way to operate internationally. It involves investment of funds abroad in exchange for financial return. It may take two forms:
    1. Direct Investment: It takes place when a company directly invests in property like plant and machinery in foreign countries with a view to undertaking production and marketing of goods and services in these companies.
    2. Portfolio Investment: It is an investment that a company makes into another company by way of acquiring shares or providing loans to the latter.

Question 3. Licensing and franchising are suitable in different situations. Explain how?
Answer:
Yes, it is right to say that licensing and franchising are suitable in different situations. For a company looking to expand, franchising and licensing are often appealing business models. In a franchising model, the franchisee uses another firm's successful business model and brand name to operate what is effectively Em independent branch of the company. The franchiser maintains a considerable degree of control over the operations and processes used by the franchisee, but also helps with things like branding and marketing support that aid the franchise. The franchiser also typically ensures that branches do not cannibalize each other's revenues.
Under a licensing model, a company sells licenses to other (typically smaller) companies to use intellectual property (IP), brand, design or business programs. These licenses are usually non-exclusive, which means they can be sold to multiple competing companies serving the same market. In this arrangement, the licensing company may exercise control over how its IP is used but does not control the business operations of the licensee.
Both models require that the franchisee/licensee make payments to the original business that owns the brand or intellectual property. There are laws that govern the franchising model and define what constitutes franchising; some agreements end up being legally viewed as franchising even if they were originally drawn up as licensing agreements. It can be clarified from the differences given below:

Basis	Franchising	Licensing
Governed by	Securities Law	Contract Law
Registration	Required	Not required
Territorial rights	Offered to franchisee	Not offered; licensee can sell similar licenses and products in same area
Support and training	Provided by franchiser	Not provided
Royalty payments	Yes	Yes
Use of trademark/Logo	Logo and trademark retained by franchiser and used by franchisee	Can be licensed
Examples	McDonalds, Subway, 7-11, Dunkin Donuts	Microsoft Office
Control	Franchiser exercises control over franchisee.	Licensor does not have control over licensee.

Question 4. Discuss meaning, merits and demerits of contract

manufacturing.
Answer: Contract manufacturing refers to type of international business where a firm enters into contract with some local manufactures in foreign countries to get certain components of goods produced as per their specifications. It is also called outsourcing. It can take three forms: Getting produced certain parts of final products which will be used for the production of final products later; assembly of components into final products; and complete manufacture of the products like garments.
Merits of Contract manufacturing

1. Less investment: It helps international firms in production of goods at massive scale without making any investment in setting up production facilities. Therefore, it is more suitable for small and medium size manufacturers who can't undertake 100% or even 50% investment.
2. Less risky: It is less risky as there is little investment involved. Moreover, local manufacturers who have been given specific product design and quality standards do not deviate from them.
3. Low cost: If goods are contracted in low labour and material cost country, then it also gives benefit of low cost. For example, in India labour is very cheap and therefore it has become a favorite destination for contract manufacturing.
4. Better capacity utilization: Local producers benefit get from contract manufacturing because it allows them to make better use of their idle production capacity.
5. An opportunity for local producers to become international: Local producer also gets an opportunity to get involved in international business.

Disadvantages of Contract Manufacturing

1. Deviations from Product design and quality Specifications: Local firms might not follow product design and quality standards causing serious product quality problems for international firm.
2. Loses control over Manufacturing Process: Local manufacturer in the foreign country loses control over manufacturing process.
3. No authority to sell output: The local firm cannot sell the output according to his will. It has to sell the goods to international firm at pre-determined prices.

Question 5. State the important changes being observed in composition of India's external trade since 2007-08.
Answer: Till 1980's exports were mainly of primary goods, viz. agricultural commodities and raw materials, such as minerals. Over time, the role of manufactures including engineering goods has been increasing. Share of manufactured goods is 66 % of total exports, of which engineering goods contribute 27 % of the value of goods exported. Composition of India's external trade since 2007-08 is shown below:
India's Exports and Imports (US$ billion).

	2007-08	% share	2010-11	% share
Exports				
(1) Primary Products	27.55	16.91	35.35	13.89
(a) Agricultural and allied	18.43	11.31	24.69	9.70
(b) Ores and minerals	9.11	5.59	10.66	4.19
(2) Manufactured Goods	102.97	63.21	168.09	66.07
(a) Leather and Manufactures	3.50	21.48	3.78	1.48
(b) Chemicals and related items	21.19	13.00	28.79	11.31
(c) Engineering goods	19.42	11.92	23.31	9.16
(d) Textiles and products	19.42	11.92	23.31	9.16
(e) Gems and jewellery	19.67	12.07	40.79	16.03
(f) Handicrafts	0.50	0.30	0.23	0.09
(3) Petroleum products	28.36	17.40	41.91	16.47
Total exports Imports	162.90		254.40	
(1) Bulk imports	112.74	44.83	150.48	42.60
(a) Petroleum	79.64	31.67	106.06	30.08
(2) Non-bulk Imports	138.69	55.16	202.08	57.31
(a) Capital goods	70.11	27.88	71.62	20.31
(b) Mainly export related	20.76	8.25	49.63	14.07
Total Imports	251.43		352.57	

Source: *RBI, Annual Report, 2010-11, Appendix Table 17, p. 186.*

Question 6. "Wholly owned subsidiary is a more investing, more risky and less return giving venture." Do you agree? Substantiate your answer.
Answer: I agree to the statement partially. Wholly owned subsidiary is a more investing, more risky and more return giving venture. In this the parent company acquires the full control over the foreign company by purchasing its 100% equity capital. It can be established in two ways: first as a green field venture, in which an altogether a new firm is set up to start operations in a foreign existing firm in foreign country and using it for manufacturing and promoting its products in home country.
Merits of Wholly Owned Subsidiaries

1. Complete control over operations: The parent firm is able to exercise full control over its operations in foreign countries because it has 100% equity holding in the company.
2. No need to disclose technology: It is less risky as 100% investment is made by parent company and hence there is no need to disclose technology to local producers.

Demerits of Wholly Owned Subsidiaries

1. 100% Investment and hence require more funds: The parent company needs to make 100% equity investment and therefore requires huge funds.
2. More risky: It is more risky as parent company has 100% equity investment; it has to bear all the losses, if any.
3. Government rules and regulations: Some countries do not allow establishing 100% wholly owned subsidiaries in their countries.

Question 7. How is home trade different from external trade?
Answer: Internal trade takes place between the geographical boundaries of a nation, whereas international trade takes place between different nations.

1. In the trade of any nation, the volume of its internal trade will be more than that of external trade. Internal trade accounts for about 95% of the total volume of the trade of a country, whereas foreign trade accounts for only about 5% of the total volume of the trade of a country.
2. Though both internal trade and international trade are based on the principle of specialization or division of labour, regional specialization within a country leads to internal trade or inter-regional trade, whereas country wise specialization leads to international trade.
3. In the case of home trade, there is much scope for the operation of forces of demand and supply. But, in the case of

foreign trade, there is not much scope for the full operation of the forces of demand and supply.

4. The number of documents of trade required for home trade is less than the required for foreign trade.
5. Home trade is subject to regulations and laws of only one country, whereas foreign trade is subject to regulations and laws of two or more countries.
6. Home trade is, generally, free from restrictions, whereas foreign trade is subject to a number of restrictions.
7. The cost of transport in home trade is much less than that in foreign trade.
8. The interval between the dispatch of goods by the seller and the receipt of the same by the buyer in home trade is not much.
9. Goods are subject to greater risk in foreign trade than in home trade.
10. As goods are subject to more risks in foreign trade, in the case of international trader, goods are, generally, insured against the risks.
11. Home trade involves the currency of only one country whereas foreign trade involves the currencies of two or more countries.

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