III. Long Answer Type Questions

Question 1. What is international business? How is it different from domestic business?
Answer: International business refers to business which is carried on in two or more nations. It means carrying on business activities beyond national boundaries. These activities normally include the transaction of economic resources such as goods, capital, services (comprising technology, skilled labour, and transportation, etc.), and international production. It refers to that business activity that takes place beyond the geographical limits of a country. Production may either involve production of physical goods or provision of services like banking, finance, insurance, construction, trading, and so on. Thus, international business includes not only international trade of goods and services but also foreign investment, especially foreign direct investment.
Differences between International Business and Domestic Business are summarised below:

Basis	International Business	Domestic Business
Nationality of buyers and Sellers	People of different nationality participate in international business.	People of one nationality participate in domestic business. Exceptions are possible.
Nationality of other stake-holders	Employees, suppliers, customers, shareholders, partners, middlemen etc. belong to different nationality in international business.	Employees, suppliers, customers, shareholders, partners, middlemen etc. belong to same nationality in domestic business. Exceptions are possible.
Political Systems	International business is subject to political system of many nations.	Domestic business is subject to political system of one country.
Risk	Degree of risk is higher in international business.	Degree of risk is lower as compared to international business.
Mobility of factors of production	Mobility of factors of production is less across countries.	Mobility of factors of production is more within geographical boundaries of the country.
Consumer's taste and preferences	International markets are heterogeneous in terms of taste and preferences of the customer.	Domestic markets are more homogeneous in terms of taste and preferences of the consumer.
Currency	International business involves usage of foreign currency.	Domestic business makes use of domestic currency.
Business regulations and policy	International business is subject to rules laws, policies, and taxation system etc of multiple countries.	Domestic business is subject to rules, laws, policies, and taxation system etc of single country.
Differences in business systems and practices.	Business systems and policies are heterogeneous in two countries.	Business system and policies are more homogeneous within a country.

Question 2. "International business is more than international trade". Comment.
Answer: It is rightly said that international business is more than international trade. The scope of international business is much wider than international trade. International trade means exports and imports of goods which is an important component of international business but international business includes much more than this. International trade in services like travel and tourism, transportation, communication, banking, warehousing, distribution and advertising is a part of international business. International business also includes foreign direct investments, contract manufacturing, and setting up wholly owned subsidiaries

etc. which are not included in international trade. It is clear from the diagram given below:

Question 3. What benefits do firms derive by entering into international business?
Answer: The trade between two or more nations is termed as foreign trade or international trade. It involves exchange of goods and services between the trades of two countries. Foreign trade consists of import trade, export trade and entrepot trade. In the early stages of human civilization, production was confined as per consumption. Human wants were limited. Nowadays, human wants are increasing and as such no man was considered to be self-dependent. Like this no country can live in isolation and claimed the status to be self-sufficient. Because of this reason countries have trade relationships with each other. The primary objective of foreign trade is to increase foreign trade and increase the standard of living of its people. There is an increasing demand for foreign trade because of the following reasons:

1. The natural resources are unevenly distributed.
2. The presence of specialisation and division of labour.
3. Different countries have difference in economic growth rate.
4. The presence of the theory of comparative cost.

   The following are some of the advantages of foreign trade:

1. Optimum use of Resources: Foreign trade helps in the optimum use of natural resources and avoids wastages of resources.
2. Stable Price: It ensures the presence of stable price by avoiding wide fluctuations in prices. It tries to equalise the world price.
3. Availability of all types of goods: It enables a country to import those goods which it cannot produce.
4. Increased Standard of living: It ensures more production to meet the demand of the people of different countries. By increased production, it becomes possible to increase income and the standard of living of its people. It also increases the standard of living by increasing more employment opportunities.
5. Large Scale production: It ensures large production because the production is carried on to meet the demand of its people as well as world market. Large scale production also ensures a great deal of internal economies which reduces the cost of production.

Question 4. In what ways is exporting a better way of entering into international markets than setting up wholly owned subsidiaries abroad.
Answer: Exporting is a better way of entering into international markets than setting up wholly owned subsidiaries abroad in following ways:

1. Easiest Way: It is easy to enter international markets through exports as compared to wholly owned subsidiaries.
2. Less Involving: It is less involving as compared to establishing a wholly owned subsidiary because firms need not invest that much time and money.
3. Zero risk of Foreign Investment: Exporting does not require

much of investment in foreign countries. Therefore, foreign investments risks are low as compared to when a firm starts its wholly owned subsidiary in foreign country.

4. Less Costly: In a wholly owned subsidiary, 100% equity investment is to be made by foreign company. Therefore, small and medium size producers can't think of this mode of entering into international business.
5. Risk of Profit and Loss: In wholly owned subsidiary, 100% equity capital is contributed by foreign company alone. Therefore, it alone has to bear the risk of losses.
6. Government Intervention: Some countries are averse to setting up of 100% wholly owned subsidiaries by foreign companies. This form of business operations is subject to high degree of political risks.

Question 5. Discuss briefly the factors that govern the choice of mode of entry into international business.
Answer: Following factors govern the choice of mode of entry into international business,

1. Ease of entry: First and foremost factor that determines the choice of mode of entry into international business is ease of entry. A businessman wants to adopt such mode of entry into international business which is easy and less formalities requiring. Exporting, importing, licensing and franchising are better ways from this perspective.
2. Cost: Second determining factor is cost involved. For example, very less cost is involved in exporting, importing, licensing, franchising and contract manufacturing as compared to joint ventures and setting wholly owned subsidiaries.
3. Control over production: If the foreign company or producer wants full control over production activities in local country, he will prefer franchising, wholly owned subsidiary or joint venture with majority share holding. If it is not so important, he will prefer exporting, importing, contract manufacturing licensing etc.
4. Sharing of Technology: If the company has no problem in sharing of technology then it may choose joint venture or franchising. But if it does not want to share its technology and trade secrets, it will prefer wholly owned subsidiary or exporting,
5. Risk Involved: If a firm is ready to take risk, it may choose wholly owned subsidiary or joint ventures but if it is willing to minimize its loss then it should choose exporting, licensing, franchising or contract manufacturing.

Question 6. Discuss the major trends in India's foreign trade. Also list the major products that India trades with other countries.
Answer: India is 10th largest economy in the world. It is the second fastest growing economy, next only to China. But India's performance in international business is not very good. India's share in world trade in 2003 was just 0.8%. In absolute terms, there has been significant increase in imports as well as exports. Total exports have increased from 606 crores in 1950-51 to Rs. 2, 93,367 crores in 2003-04 while imports have increased from 608 crores in 1950-51 to 3, 59,108 crores in 2003-04. Exports increased 480 times while imports increased 590 times indicating that there is adverse balance of trade. India's major trading partners are USA, UK, Germany, Japan, Belgium, Hong Kong, UAE, China, Switzerland, Singapore and Malaysia.
India's major items of exports include: Textiles, garments, gems and jewellery, engineering products and chemicals, agriculture and allied products.
India's major items of imports include: Crude oil and petroleum products, capital goods, electronic goods, pearls, precious and semi precious stones, gold, silver and chemicals.

Before 1991, promotion of import substitution and discouraging of exports was government strategy. Imports consisted of machinery, equipment and intermediates in production, petroleum and petroleum-products. After green revolution, imports of fertilizer too increased.
Before 1991, India's exports consisted of agricultural products like tea, raw cotton with the diversifying industrial structure, promoted by import substitution, exports of manufactures were growing. During 1986-91, external trade formed only 13.40 % of the GDP. During the 1990-2000, this share is rising continuously.
India's foreign trade has grown to exports of $250 billion and imports of $380 billion in 2010-11. The ratio of exports plus imports to GDP has grown from 13.40 % during 1985-90 to almost three times that, being 37.7 % in 2010-11. On adding services it becomes from 22.9 % in the 1990s to 49.0 % in 2010-11.
Leading role has been played by 'invisibles' which includes both services, mainly software services, export of which has grown to $59 billion in 2010-11. It has decreased the current account deficit from $130 billion to $44. This deficit was compensated by capital account surplus of $59 billion in that year.
But it is only because of IT services and we are still lacking in manufacturing exports which can generate a large volume of employment. We have not done as well as China and Malaysia have done.

Question 7. What is invisible trade? Discuss salient aspects of India's trade in services.
Answer: Trade in services is called invisible trade. Since services are invisible, export and import of services has been named as invisible trade. In absolute terms, there has been significant increase in India's foreign trade in services. Export and import of foreign travel, transportation and insurance has largely increased during last four decades. There has been a change in composition of services exports. Software and other miscellaneous services have emerged as the main categories of India's export of services. Share of travel and transportation has declined to 29.6% in 2003-04 from 64.3% in 1995-96 while the share of software exports has increased from 10.2% in 1995-96 to 49% in 2003-04.

Table showing Percentage share of major services to total services exports

Sector/Year	1995-96	2000-01	2001-02	2002-03	2003-04
Travel	36.9	21.5	18.3	16.0	16.5
Transportation	27.4	12.6	12.6	12.2	13.1
Software	10.2	39.0	44.1	46.2	48.9
Miscellaneous	22.9	21.3	20.3	22.4	18.7

The composition of India's external trade has been changing. During 1950s and 60s exports were mainly of primary goods. Over time, the role of engineering goods has been increasing. Overall manufactured goods constitute 66 % of total exports, of which engineering goods are 27%. Textiles and textile products, garments and leather products make around 10 % of India's exports.
In nutshell, we can say that the role of the external or internationally traded goods sector has been growing steadily in Indian economy. At present imports and exports together account for upto 49 % of India's GDP which was 18% in 1990s. In India there is greater share of exports of services which are IT software services, called IT- enabled services (ITES). It contributed more than 20% of India's export earnings. India accounts for about 45% of the world's BPO services. The major Indian IT companies, TCS, Infosys and Wipro, initiated and perfected the Global Services Delivery (GSD) model. It is because India has a vast pool of software engineers and an even bigger pool of English-knowing staff. With growing competition in the market for such services, Indian companies have moved from BPO to Knowledge Process Outsourcing (KPO), which

involves providing services for R and D and to high-end consulting.

*********** END **********