MANONMANIAM SUNDARANAR UNIVERSITY

DIRECTORATE OF DISTANCE AND CONTINUING EDUCATION
TIRUNELVELI-627012, TAMILNADU

MCom - Ist YEAR

INTERNATIONAL BUSINESS

(From the Academic Year 2022-23)

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UNIT – I

INTRODUCTION

INTERNATIONAL BUSINESS

MEANING

International Business refers to the exchange of goods and services between two parties of different countries. International Business may be understood as those business transactions involve crossing of national boundaries. International Business is the process of focusing on the resources of the globe and objectives of the organization on the global business opportunities and threats in order to produce/buy/sell or exchange of goods and services worldwide.

DEFINITION OF INTERNATIONAL BUSINESS

Roger Bennet defines, International business involves commercial activities that cross national frontiers

According to John D. Daniels and Lee H. Radebaugh, International business is all business transactions-private and governmental- that involve two or more countries. Private companies undertake such transactions for profits; governments may or may not do the same in their transactions.

FEATURES

1. Large Scale Operations: In International business, all the operations are conducted on a very huge scale. Production and marketing activities are conducted on a very large scale. It first sells its goods in the local market and then the surplus goods are exported.

2. Integration of Economies: International Business integrates (combines) the economies of many countries. This is because it uses finance from one country, labour from other country and infrastructure from another country. It designs the product in one country, produces its parts in many different countries and assembles in another country and sells in many countries.

3. Dominated by developed countries and MNC's: International Business is dominated by developed countries and their multinational companies. Europe and Japan dominate the foreign trade, this is because they have high financial and other resources.

4. Benefits to Participating countries: International Business gives benefits to all participating countries. However, the developed countries get the maximum benefits, the developing countries also get benefits. They get foreign capital and technology. They get rapid industrial development. They get more employment opportunities.

5. Keen Competition: International Business has to face competition in the world market. The competition is between unequal partners. In this situation, the developed countries are in favorable position as theyproduce the superior quality goods and services, but developing countries find difficulty to face competition.

6. Special role of science and technology: International Business gives a lot of importance to science and technology. Science and Technology helps the business to have a large scale production. Developed countries use high technology. International business helps them to transfer top-end technology to the developing countries.

7. International Restrictions: International Business faces many restrictions on the inflow and outflow of capital, technology and goods. Many government do not allow international business to enter their countries. They have many trade blocks, tariff barriers, foreign exchange restrictions, etc. All this is harmful to international business.

8. Sensitive Nature: The International Business is very sensitive in nature. Any changes in the economic policies, technology, political environment has a huge impact. Therefore it must conduct marketing research to find out and study these changes. They must adjust their business activities and adopt accordingly to survive changes.

9. International Business need accurate information to make appropriate decision.

10. International Business house need not only accurate but also timely information.

11. International Business house segments their markets based on the geographic market segment.

DOMESTIC BUSINESS V/S INTERNATIONAL BUSINESS

Parameters	**Domestic business**	**International business**
Nationality of buyers and sellers	Under this, people of one nation work in their respective domestic market.	Under this, people from different nations work in the international market.
Nationality of other stakeholders	Stakeholders like suppliers, producers, employees, middlemen, etc., are of the same nation.	Stakeholders like suppliers, producers, employees, middlemen, etc., are of different nations.
Mobility of factors of production	Factors of production like capital and labour are mobile across one nation.	Factors of production like capital and labour are mobile across the different nations.
Heterogeneous customers	Usually, customers are homogeneous in the domestic market.	Customers are not homogeneous in the international market due to different religion, caste, language, etc.
Risks	Under this, a nation is subjected to the political risks within the nation.	This may be a barrier to international trade as different nations have different political risks.
Policies	It is subjected to different policies and regulations, and laws of a single nation.	It is subjected to different policies and regulations, and laws of multiple nations.
Currency	Only one currency is involved.	There is involvement of more than one currency.

ADVANTAGES OF INTERNATIONAL BUSINESS

1. Geographical Specialization

Countries across the world differ significantly in terms of natural resources, capital equipment, manpower, technology and land and so on. Some countries are rich in mineral resources hydro-electric power metallic resources, and so on while some other countries may possess advanced technique of manufacturing, efficient working population, capital equipment and so on. International business is required to exchange the surplus resources resulting from geographical specialisation for deficit resources in other countries

2. Optimum use of Natural Resources

International business operates on a simple principle that a country which can produce more efficiently and trade the surplus production with other countries has to procure what it cannot produce more efficiently. This enables the countries to optimally utilize the scarce resources available with them

3. Economic Development.

International business helps the developing countries greatly in achieving rapid economic development by importing machinery, equipment, technology, talent, and so on. For example., China, India, Brazil and South Korea which were once slower in their economic development are achieving faster economic development due to international business.

4. Generation of Employment.

International business generates employment opportunities by assisting the expansion and growth of agricultural and industrial activities. It provides direct employment to those people who are hired by export and import firms and generates indirect employment to number of intermediary firms like, clearing and forwarding agent, indent houses transport organizations, outsourcing agencies, etc.

5. Higher Standard of Living.

On account of international business, the citizens of the country can buy more varieties of goods and services which cannot be produced cost effectively within the home country. This exchange of goods and services among the countries enhances the standard of living of people.

6. Price Equilisation

International business helps to stabilize the prices of various commodities which are fluctuating on a daily basis in the world market. Whenever the price of a commodity rises sharply in a particular country, the same commodity is imported from some other foreign countries to prevent the sharp rise in prices in the home country. Thus, international business prevents violent fluctuations of prices of various commodities and helps maintain prices of various commodities at stable level in each and every country.

7. Prospects for Higher Profit.

International business helps the firms which produce goods in excess to sell them at relatively higher price to various countries in the international market. This enables them to earn higher profit.

8. Capacity Utilisation.

International business enables the firms across the country to sell their goods and services on a large scale in the international market. As a result, their machinery and equipment's are used to their full capacity. In short very prospect of selling goods in international market besides selling the goods in home market keeps the machineries, tools, equipment, and factory fully engaged all through the year.

9. International Peace.

International business makes countries across the world become inter-dependent while these countries are independent in their functioning. This facilitates the exchange of culture, ideas and mutual understanding. It develops and strengthens cultural and social relations among the people of different countries. All these collectively contribute to maintain international peace.

DISADVANTAGES OF INTERNATIONAL BUSINESS

1. Economic Dependence.

International trade is more likely to make the country too much dependent on imports from foreign countries. The former may not take any efforts to produce goods and services indigenously to substitute imported goods and thus becoming self sufficient. As a result the importing country may become economically slave to exporting country and end up becoming colony of the exporting country.

2. Inhibition of Growth of Home Industries.

International business may discourage the growth of indigenous industry. Unrestricted imports and severe competition from foreign companies may ruin the home industries altogether.

3. Import of Harmful Goods.

International business may lead to import of luxurious goods, spurious goods, dangerous goods, etc. It may harm the well-being of people.

4. Shortage of Essential Goods in Home Country.

Moreover, the export of essential commodities out of the greed of earning more foreign exchange may result in absolute shortage of these goods at home country and people may have to buy these commodities at exorbitant price in the local market.

5. Misuse of Natural Resources.

Excessive export of scarce natural resources to various countries across the world may lead to faster depletion of the resources in the exporting countries. This in turn may bring about ecological disaster in the country from which it is exported.

6. Political Exploitation.

International business may create economic dependence among the countries which may threaten their political independence. The MNCs may influence the policy decision of the government to their favour. In due course of time they may dictate terms to administrators of nation by the sheer strength of their money power. For example Britishers came to many countries as mere traders and ultimately colonized those countries and ruled them for centuries.

7. Rivalry among the Nations.

Acute competition for exports may lead to rivalry among the nations. This may lead to conflict of interest among the countries and end up in wars among them.

8. Invasion of Culture.

International business may result in invasion of country's culture. Younger generation is more likely to imitate foreign culture and buy goods and services beyond their means to gain acceptance in the affluent section of society. This will ruin the conventional lifestyle of the society.

INTERNATIONAL OPERATIONS MANAGEMENT

Operations management is the set of activities that create value in the form of goods and services by transforming inputs into outputs. Market globalization, technological development, the overcoming of international trade barriers and the boom in some undeveloped economies are modifying the economic structure of many countries and pushing companies to change their strategies and way of doing business.

International operations management is myriad of actions used by an international business to alter different kinds of resource inputs (material, labour, and so forth) into final goods and services. A suitably designed and managed operating system plays a key role in determining product and service quality, and productivity. Additionally, operations management contributes a lot in determining how quickly a firm can respond to changes or new developments in technology, consumer tastes and preferences, pricing levels, competitive threats, and so forth.

FACTORS THAT AFFECT INTERNATIONAL BUSINESS

1. Legal liabilities

Cross-country businesses have to deal with the legal framework of two or more countries.They may differ in terms of age, disability discrimination, wage rates, employment, environment, and others. Hence, it affects the working of the MNCs to abide by all the rules of all the countries. In addition, many international lending agencies could affect legal culture and working policies.

2. Political factors

The different political considerations of the countries involved in the global business either facilitate or hinder the business. The trade agreements entered between the governments of countries are the ones that are the most affected by political stability, foreign trade regulations, change of actions of the new governments, and many more.

In addition, doing businesses with countries that lack political stability will directly influence the operations of the MNCs.

3. Technological factors

Technology factors are what increases the economic growth and the social change to happen. Hence, they have both positive and negative impacts on the countries due to cross border businesses. In addition, it could threaten the existence of the local businesses to the level of extinction or increase their level to global standards.

4. Economic factors

Many economic factors that directly affect the international business includes among others:

- Fiscal policies
- Inflation rates
- Interest rates
- Income distribution
- Employment level
- Allocation of government budget
- The purchasing power of the customers
- Demand for various products
- Value of the country's currency

5. Social factors

The social environment and culture, like the peoples' customs, lifestyles have a direct impact on international business. The social factors, like education, awareness, status, and trends of the people in society, determine the consumers' behavior for purchasing goods and services.

6. Environmental factors

The external environmental factors have become significant issues for global business in the last few years due to an increase in environmental awareness. The factors like climate change, weather, temperature affects the demand pattern of many goods and services.

More demand moving towards environmentally friendly products and services of different levels in countries is also an essential factor. Many more factors that are significant affect international business, but it is only on the rise every year against all the odds.

MEANS OF ENGAGING IN INTERNATIONAL BUSINESS

Different modes or way of engaging in international business are mentioned below.

1. **Exporting**

   Exporting is the process of selling of goods and services produced in one country to other countries. Exporting is the simplest and widely used of entering foreign markets. There are three types of exporting: Direct Exporting, Indirect Exporting and Intra-Corporate Transfers

Direct Exports:- Direct exports represent the most basic mode of exporting made by a (holding) company, capitalizing on economies of scale in production concentrated in the home country and affording better control over distribution. Direct export works the best if the volumes are small. The main characteristic of direct exports entry model is that there are no intermediaries.

Advantages

- Control over selection of foreign markets and choice of foreign representative companies
- Good information feedback from target market, developing better relationships with the buyers
- Better protection of trademarks, patents, goodwill, and other intangible property
- Potentially greater sales, and therefore greater profit, than with indirect exporting.

Disadvantages

- Higher start-up costs and higher risks as opposed to indirect exporting
- Requires higher investments of time, resources and personnel and also organizational changes
- ·Greater information requirements
- Longer time-to-market as opposed to indirect exporting

Indirect exports: - Indirect exports are the process of exporting through domestically based export intermediaries. The exporter has no control over its products in the foreign market. Indirect exporting is exporting the products either in their original form or in the modified form to a foreign country through domestic company.

Advantages

· Fastmarketaccess

· Concentration of resources towards production

· Little or no financial commitment as the clients' exports usually covers most expenses associated with international sales.

· Low risk exists for companies who consider their domestic market to be more important and for companies that are still developing their R&D, marketing, and sales strategies.

· Export management is outsourced, alleviating pressure from management team

· No direct handle of export processes.

Disadvantages

· Little or no control over distribution, sales, marketing, etc. as opposed to direct exporting

· Wrong choice of distributor, and by effect, market, may lead to inadequate market feedback affecting the international success of the company

· Potentially lower sales as compared to direct exporting (although low volume can be a key aspect of successfully exporting directly). Export partners that incorrectly select a specific distributor/market may hinder a firm's functional ability.

Intra-Corporate Transfers

Intra-corporate transfers are selling of products by a company to its affiliated company in Host company. Selling of products by Hindustan Lever in India to Unilever in the USA is example of Intra-Corporate Transfers. This transaction is treated as exports in India and Imports in the USA. Those companies that seriously consider international markets as a crucial part of their success would likely consider direct exporting as the market entry tool. Indirect exporting is preferred by companies who would want to avoid financial risk as a threat to their other goals.

2. **Licensing**

An international licensing agreement allows foreign firms, either exclusively or non-exclusively to manufacture a proprietor's product for a fixed term in a specific market.

Summarizing, in this foreign market entry mode, a licensor in the home country makes limited rights or resources available to the licensee in the host country. The rights or resources may include patents, trademarks, managerial skills, technology, and others that can make it possible for the licensee to manufacture and sell in the host country a similar product to the one the licensor has already been producing and selling in the home country without requiring the licensor to open a new operation overseas. The licensor earnings usually take forms of one time payments, technical fees and royalty payments usually calculated as a percentage of sales.

3. Franchising

The franchising system can be defined as: “A system in which semi-independent business owners (franchisees) pay fees and royalties to a parent company (franchiser) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system.”

Compared to licensing, franchising agreements tends to be longer and the franchisor offers a broader package of rights and resources which usually includes: equipment, managerial systems, operation manual, initial trainings, site approval and all the support necessary for the franchisee to run its business in the same way it is done by the franchisor. In addition to that, while a licensing agreement involves things such as intellectual property, trade secrets and others while in franchising it is limited to trademarks and operating know-how of the business.

4. Turnkey projects

A turnkey project is a contract under which a firm agrees to fully design, construct and equip a manufacturing/business/services/facility and turn the project over to purchaser when it is ready for operation for remunerations.

A turnkey project refers to a project when clients pay contractors to design and construct new facilities and train personnel. A turnkey project is a way for a foreign company to export its process and technology to other countries by building a plant in that country. Industrial companies that specialize in complex production technologies normally use turnkey projects as an entry strategy.

One of the major advantages of turnkey projects is the possibility for a company to establish a plant and earn profits in a foreign country especially in which foreign direct investment opportunities are limited and lack of expertise in a specific area exists.

5. Contract Manufacturing

Some companies outsource their or part of production and concentrate on marketing operations. Nike has contracted with a number of factories in south-east Asia to produce its athletic footwear and it concentrate on marketing.

6. **Management Contract**

Some companies outsource their management activities – BPO Industry

INTERNATIONAL BUSINESS ENVIRONMENT

Introduction

A global company has to formulate strategies based on its missions, objectives and goals. Strategy formulation is a must for a global company to make decisions regarding the markets to enter, product/service range to introduce in the foreign countries.

The fundamental basis for strategy formulation is the environmental analysis. Environment provides the opportunities to the business to produce and sell a particular product. Environment sometimes poses threats and challenges to business. Business should enhance its strengths in order to face the challenges posed by theenvironment. Study of environment helps the business to formulate strategies and run the business efficiently in the competitive global markets.

MEANING OF INTERNATIONAL BUSINESS ENVIRONMENT

Environment means surrounding. International business environment means the factors/activities those surround/encircle the international business. In other words, business environment means factors that affect or influence the MNC's and transnational companies.

Factors that affect International Business include Social and Cultural factors (S), Technological Factors (T), Economic Factors (E), Political/Governmental factors (P), International factors (I) and Natural factors (N). [STEPIN]

William F. Glueck defined the term environmental analysis as, "the process by which strategists monitor the economic, governmental/legal, market/competitive, supplier/technological, geographic and social settings to determine opportunities and threats to their firms".

EXTERNAL INFLUENCE ON INTERNATIONAL BUSINESS ENVIRONMENT:

Business environmental factors are broadly divided into internal environmental factors and external environmental factors. Internal environmental factors include human resource management, trade unions, organization structure, financial management, marketing management and production management management/leadership style, etc.

External environmental factors are further divided into micro and macro external environmental factors. Micro environmental factors include competitors, customers, market intermediaries, suppliers of raw materials, bankers and other suppliers of finance, shareholders and other stakeholders of the business firm. External macro environmental factors include social and cultural factors, technological factors, economic factors, political and governmental factors, international factors and natural factors.

HUMAN ANDCULTURAL INFLUENCE ON INTERNATIONAL BUSINESS

Culture is, "the thought and behaviour patterns that member of a society learns through language and other forms of symbolic interaction – their customs, habits, beliefs and values, the common view point's which bind them together as a social entity. Cultural change gradually picking up new ideas and dropping old ones, but many of the cultures of the past have been so persistent and self contained that the impact of such sudden change has torn them apart, uprooting their people psychologically."

Characteristics:

- Culture is derived from the climatic conditions of the geographical region and economic conditions of the country.
- It is a set of traditional beliefs and values which are transmitted and shared in a given society.
- It is a total way of life and thinking patterns that are passed from generation to generation.
- It is norms, customs, art, values, etc.
- It prescribes the kind of behaviour considered acceptable in the society.
- It is based on social interaction and creation.
- Culture is acquires through learning but not inherited genetically.
- Culture is not immune to change. It goes on changing.

Cultural environment facing Business:

1. **Cultural attitude and International Business**

   Dressing habits, living styles, eating habits and other consumption patterns, priority of needs are influenced by culture. The eating habits vary widely. Similarly, dressing habits also vary from country and county based on their culture.

2. **Cultural Universe**

   Irrespective of the religion, race, region, caste, etc, all of us have more or less the same needs. These common needs are referred as "Cultural Universal". The cultural Universal enable the businessmen to market the products in many foreign countries with modifications. Example: TV's, cars, video games.

3. Communication with languages

Language is the basic medium of communication. There are more than 5000 spoken languages in the world. The same words in the same language may mean different things in the different regions of the country.

4. Time and Culture

Time has different meaning in different cultures. Asian di not need appointment to meet someone and vice-versa. But Americans, Europeans and Africans need prior appointment to meet someone and vice-versa. In Asian Countries, particularly in India, auspicious time is most important for the business, admission in a college, travel, etc.

5. **Space and Culture**

   Space between one person to another person plays a significant role in communication. But, culture determines the pace/distance between one person and another person. Americans need more distance from a third person for privacy. This is unimportant for Indians.

6. **Culture and Agreement**

The USA is very legalistic society and Americans are very specific and explicit in their terms of agreement. The opposite is true in case of Asian countries. Asians never pick up face to face confrontation. They keep quiet in case of disagreement.

7. **Culture and Friendship**

Americans develop friendship even in short time. In fact, they don't develop deep personal ties. Sometimes, people in the US complete the business and then develop friendship. People in India, Japan and China firs develop friendship through several means including eating together, presenting gifts and then transact business.

8. **Culture and Negotiation**

Americans are straightforward. Chinese negotiations are generally tough-minded and well prepared and use various tactics to secure the best deal.

9. **Culture and Superstition**

Superstitious beliefs like fortune telling, palm reading, dream analysis, phases of the sun and moon, vaastu are prominent in Asian Countries and also in some African Countries. Americans knock on wood, cross their fingers and feel uneasy when a black cat crosses their path. Even Indians feel uneasy when a cat crosses their path.

10. **Culture and Gifts**

Culture attitudes concerning the presentation of gifts vary widely across the world. In Japan and India gifts are given first, but in Europe only after a personal relationship id developed. The international businessmen should study the customs of the society in offering gifts.

SOCIAL INFLUENCE ON INTERNATIONAL BUSINESS

It consists of religious aspects, language, customs, traditions, tastes and preferences, living habits, dressing habits, etc., It also influence level of consumption. Example: The economic position of Germans and French people is more or less same, culturally different. So study of social environment helps in deciding type of market, product, etc.

The various factors of social environment effect on international business are:

1. **Religion**

   Religion is one of the important social institution on influencing the business. The religious play a vital role in normal and ethical standards in production and marketing of goods and services. Most of the religion indicates in providing truthful and honest information.

2. **Family system**

   In addition to religion, family system has impact on international business. Example: Most of Islamic countries, women play less significant role in economy and also in family with limited rights. But in Latin American countries, role of women is better compared to that of Islamic countries. But women play a dominant role in European and North American countries.

3. **Behavioural factors affecting the business**

   Human behaviour affects the business include employee behaviour, consumer behaviour and behaviour of stake holders (Holders of debentures, bonds, etc. Cultural factors also influence the human behaviour cultural differences in various countries results in variations in human behaviour from country to country. Business should consider behaviour pattern of social groups in hiring, marketing and in selecting supplier of inputs and market intermediaries.

4. **Behaviour based on group membership**

   Attitude towards female employment vary from country to country. Example: Arabian countries discourage females from seeking employment. Family membership is paramount rather than individual achievements in certain societies like India, China, etc.,

5. **Motivations and Achievements**

Economic development of a country depends on motivations of people to work hard and desired of achievement. People rank the motivational needs differently from country to country. People from poor countries are mostly motivated by compensation while their counter parts in rich countries are motivated by the higher order needs like more responsibility, recognitions and other esteem needs.

6. **Power Distance**

Power distance denotes the relationship between superior and sub-ordinates. People in low power distance prefer little consultations between superior an subordinates. Subordinates in high power distance may prefer participating in decision making among themselves excluding the superior.

7. **Individualism V/s Collectivism**

Individualism and collectivism are consequences of the culture and affects the formation of group, productivity and marketing practices.

8. **Risk taking behaviour**

Employees in countries with the highest scores of the uncertainty avoidance prefer a system and a methodological work based on rules that are not to be deviated. Employees in countries with the low scores of uncertainty avoidance prefer flexible organization and flexible work. Example: People in some countries like Norway trust most of the people and people in some other countries like Brazil are very cautious in dealing with other.

TECHNOLOGICAL INFLUENCE ON INTERNATIONAL BUSINESS

Technology is the application of knowledge. In other words, technology has a systematic application of scientific or other organized knowledge to a particular task.

Features:

a) Technology brings changes in the society, economy and politics.

b) Technology effects on entire globe.

c) Technology makes more technology possible.

Impact of technology on international business:

1. **Investments in technology**

   Advanced countries spend considerable amount on research and development for further advancement of technology. Example: German spends 50% of research and development budget on product innovation and remaining 50% on process innovation. But Japanese spend 70% on process innovation and 30% on product innovation.

2. **Technology and economic development**

   Technology is one of the significant factor, determines the level of economic development of a country. The differences between nation is mostly reflected by the level of technology. Example: India has the vast natural resources. It remain importing the products from other countries through exporting raw materials from itself due to its low level of technology.

3. **Technology and International competition**

   A few companies invent but many companies adopt scientific knowledge to generate wealth by application and communication. The invention process and global competitiveness are the two determinants of a national wealth. Example: Japan concentrates on innovation of automobiles. But Italy concentrates on innovation of textiles and leather.

4. **Technology Transfer**

   Technology and global business are interdependent. International business spread technology from advanced countries to developing countries by establishing the subsidiaries or establishing the subsidiaries joint ventures with the host countries and arranging technological transfer to the company of developing countries through technological alliances.

5. **Technology and location of plants**

   MNCs locate their manufacturing facilities based on the technology. In other words, MNCs locate their plants with high technology in advanced countries and establish the labour driven manufacturing facilities in developing countries in order to get the advantages of cheap labour.

6. **Scanning of Technological environment**

   The level of technology is not same in all the countries. Advanced countries enjoy the latest technology while the developing nations face he consequences of outdated technology. Therefore, MNCs have to understand technology and analyse it before entering foreign market.

7. **Appropriate technology**

   The technology that suit one country may not be suitable for other countries. As such the countries develop appropriate technologies which suit their climatic conditions, social conditions, conditions of infrastructure etc., Ex: Japanese automobile industry design different type of cars which suit the Indian roads.

8. **Technology and globalization**

   The industrial revolution resulted in large scale production and the recent technological revolutions leads to the production of high quality products at lower cost. These factor forced the domestic company to enter the foreign countries in order to find market for their products. Thus technology is one important cause for globalization.

9. **Information technology and globalization**

   The information technology redefined the global business through its development like internet, www sites, e-mails, information super highways and on-line transactions brought significant development to the global business.

ECONOMIC INFLUENCE ON INTERNATIONAL BUSINESS

Economic environment refers to all those economic factors which have a bearing on functioning of a business unit. Economic environment of various countries directly influences the international business. In fact, international economic environment and global business interact with each other.

The major changes include:

• Capital flow rather than trade or product flow across the globe.

• Establishment of production facilities in various countries.

• Technological revolution link the relations between the size of the production and level of employment.

• The macro economic factors of individual nations independently donot significantly control the global economies.

Impact of economic environment on international business:

1. **Economic growth**

   Business helps for the identification of peoples' needs, wants, production of goods and services and supply to the people. Thus it creates for the conversion of inputs into the outputs and enables for consumption. It leads to economic development. The high economic growth rate of the countries providing an opportunity of expanding market shares to international business firms, managers of the MNCs are interested in knowing the future economic growth rate of various countries in order to select the market either to enter or concentrate more resources to the market.

2. **Inflation**

   It is the another important factor that affects the market share of the international business firm. It affects the interest rate as the demand for money is high due to the higher prices and it also affects the exchange rate of the domestic currency in terms of various foreign currencies.

3. **Balance of payments**

   Balance of Payments position of a country is an outcome of international business and also affects the future of the international business. Export and import trade in goods and services affects the current accounts position and flow of capital affects capital accounts position. The managers of MNCs should monitor the balance of payment position of the countries.

4. **Economic Transition**

The process of liberalization provided a significant opportunities to MNCs to enter most of the countries of the world either by locating their manufacturing facilities or expanding or both. Thus MNCs are immediate and greatest beneficiaries of L, P and G of world economies.

POLITICAL INFLUENCE ON INTERNATIONAL BUSINESS

The influence of political environment on business is enormous. Political system prevailing in a country promotes, decides, encourages, directs and control the business activities of that country. PE includes factors such as characteristics and policies of political parties, the nature of constitution and Government system and the Government environment influencing the economic and business policies and regulation.

Concepts

1. Political ideology: Political ideology is the body of complex ideas, theories and objectives that constitute a sociopolitical program. Political ideologies of the people in the same country vary widely due to the variations in culture, ethic group, community groups, religious and the economic groups. These variations influence the people to form different political parties. The difference in political ideologies change the national boundaries. The IB manager should understand these ideologies of various in the countries in order to know the possible political tensions and instabilities.

2. Democracy: It refers to political arrangement in which the supreme power is vested in the hand of people.

3. Political rights and Civil liberties: It helps for evaluating the freedom of citizens.

The major indicators of political liberties include:

- conduct of elections fairly and competitively
- power and ability of the voters in casting their votes in the process of electing
- people ability in forming political parties and groups.

The major indicators of civil liberties include:

- Degree of freedom of the press
- Equality for all individuals under the law
- Freedom from extreme in difference of Govt. and corruption.

UNIT – II

INTERNATIONAL TRADING ENVIRONMENT

INTERNATIONAL TRADING ENVIRONMENT

The size, nature and total environment of trade have been with the development of human culture. The nature of ancient international trade was limited to the natural resources of the country or their specific expertise in handicrafts. The fundamental basis of international trade lies in the fact that countries are endowed by nature with different elements of productive power. In other words, factor endowments are unevenly distributed among the countries of world. This is due to geographic facts, physical features and climatic differences. Thus, international trade is inevitable where there are marked differences in the countries regarding materials, natural vegetation, climate, soils and other physical and geographical conditions. Now the scientific measures have changed the nature of international trade. Developments in the sectors of communication and transport have made the international trade convenient. Various international organisations and institutions control the functioning of international trade. Now World Trade Organisation (WTO), a new globally recognised trade organisation has strong enforcement power to promote international trade.

WORLD TRADE ORGANISATION (WTO)

World Trade Organisation, was established in 1995 as the heir organisation to the GATT (General Agreement on Trade and Tariff). GATT was founded in 1948 with 23 nations as the global (international) trade organisation to serve all multilateral trade agreements by giving fair chances to all nations in the international exchange for trading prospects. WTO is required to build a rule-based trading government in which countries cannot place unreasonable constraints on trade.

In addition, its mission is to increase stock and trade of services, to assure maximum utilisation of world resources and to preserve the environment. The WTO deals include trade in commodities as well as services to promote international trade (bilateral and multilateral) through the elimination of the tax as well as non-tariff obstacles and implementing greater marketplace access to all member nations.

As an influential member of WTO, India is at the lead of building fair global laws, statutes and shields and supporting the concerns of the developing system. India has fulfilled its promises towards the liberalisation of trade, made in the WTO, by eliminating quantitative limitations on imports and decreasing tariff charges.

OBJECTIVES OF WORLD TRADE ORGANISATION

The agreement while establishing the WTO adopted the following objectives in its preamble of WTO :

(1) The primary objective of WTO is to implement new trade policy in agreement.

(2) To eliminate discriminatory treatment in international trade relations.

(3) To improve standard of living of people in the member countries.

(4) To enhance production and trade of goods.

(5) To develop multilateral organized trade system.

(6) To ensure full employment and broad increase in effective demand.

(7) To ensure the reduction of tariffs and other barriers of trade.

(8) To facilitate the optimal use of the world's resources for sustainable development.

(9) To ensure optimum utilization of world resources.

(10) To enlarge production and trade of services.

(11) To protect environment.

CHARACTERISTICS OF WORLD TRADE ORGANISATION

The following are the salient features of the WTO :

(1) The existence of WTO is legal.

(2) It has replaced GATT.

(3) It is an international trade organization.

(4) It is based on multilateral trading system. The ultimate aim is to establish a rule based global system of free trade.

(5) Its statue is equal to IMF and IBRD.

(6) It includes trade in goods, trade in services, protection of intellectual property rights, trade-related investment measures etc.

(7) Agreements agreed by member-countries are binding on all members of WTO and if any member does not follow such agreements, then its complaint can be lodged with the Dispute Settlement Body of WTO.

(8) It has wider scope than GATT. It covers GATT agreements and agreements on trade service, intellectual property rights and investment.

(9) Unlike International Monetary Fund (IMF) and the World Bank, it is not an agent of United Nations.

(10) Unlike IMF and World Bank, there is no weighted voting, rather all the WTO members have equal voting rights. (one country, one vote).

(11) The decision-making under WTO is carried out by consensus. Each member has one vote.

(12) WTO has a large secretariat and huge organizational set up.

FUNCTIONS OF WORLD TRADE ORGANISATION

It has the following functions as set out in Article III:

(1) The WTO, shall facilitate the implementation, administration and operation and further the objectives, of this agreement and of the multilateral Trade Agreements, and shall also provide the framework for the implementation, administration and operation of the Plurilateral Trade Agreements.

(2) The WTO'shall provide the forum for negotiations among its members concerning their multilateral trade relations in matters dealt with agreements in the Annexes to this agreement'.

(3) The WTO'shall administer understanding on Rules and Procedures Governing the Settlement of Disputes'.

(4) The WTO shall administer the trade policy Review Mechanism.

(5) With a view to achieving greater coherence in global economic policymaking the world trade organization shall cooperate, as appropriate, with the international monetary fund and with the International Bank for Reconstruction and Development and its affiliated agencies.

Trade Related Investment Measures (TRIMs)

It is an agreement on Trade-Related Investment Measures which specifies the rules that are applicable to the domestic regulations a country applies to foreign investors. The agreement is applicable to all members of the World Trade Organization (WTO). The agreement was formalized in 1994 and came into effect in 1995.

The TRIMs Agreement prohibits certain trade-related investment measures that violate the general elimination of quantitative restrictions and national treatment requirements of GATT. It has put restrictions on some of the policies like local content requirements; trade balancing rules that have been used to both protect the interests of domestic industries. It refers to certain condition or restrictions imposed by a Government in respect of foreign investment in the country. The TRIM text provides that the foreign capital would not be discriminated by the member Governments.

Objectives of Trade-Related Investment Measures

TRIMs believe that there is a strong connection between trade and investment. The goal of trade-related investments measures is to give fair treatment to all investing members across the world.

As the TRIMs deal says, members have to inform the World Trade Organization (WTO) council to buy and sell various services and goods of their current TRIMs that are incompatible with the agreement.

Features of TRIMs

- Abolition of restriction imposed on foreign capital
- Offering equal rights to the foreign investor on par with the domestic investor
- No restrictions on any area of investment
- No limitation or ceiling on the quantum of foreign investment
- Granting of permission of without restrictions to import raw material and other components
- No force on the foreign investors to use the total products and or materials
- Export of the part of the final product will not be mandatory
- Restriction on repatriation of dividend interest and royalty will be removed
- Phased manufacturing programming will be introduced to increase the domestic content of manufacturer.

The TRIMs agreement has directly restricted the following.

1. **Local Content Requirement**

Local content requirement is the measure that if a developed country wants to trade their products in a developing country. Then the developing country wishes to agree on that deal if and only if it uses one of the domestic items on their product. It means that the growth of domestic products will increase.

2. **Trade Balancing Requirements**

Trade balancing measures require that an enterprise's purchase of imported products is equivalent to the quantity or worth of exported products. In simple words, someone from India has a business of desi ghee, and they export it in foreign. However, they want to expand their business and import foreign cheese. Then, Indian government gave them the condition that they could import the same amount of foreign cheese as the amount of desi ghee they export.

3. **Foreign Exchange Restrictions**

These include measures restricting importation by limiting access to foreign exchange.

4. **Domestic Sales Requirements**

By using domestic sales requirements, many nations restrict the export of domestic products and distort trade. Because of this, the value of those products gradually decreases. As a result, the production of those products is highly available in the market. Developing countries are permitted to retain Trade-Related Investment Measures by virtue of the economic development needs of developing countries. In TRIMs, some restrictions are overlooked for the developing countries' economic needs.

Trade Related Intellectual Property Rights (TRIPs)

- TRIPs provide minimum standards in the form of common set of rules for the protection of intellectual property globally under WTO system.
- The TRIPs agreement gives set of provisions deals with domestic procedures andremedies for the enforcement of intellectual property rights.
- Member countries have to prepare necessary national laws to implement the TRIPs provisions.
- TRIPs cover eight areas for IPRs legislation including patent, copyright and geographical indications.
- The TRIPs regime

A breakthrough of the GATT signed in 1994 was that it brought TRIPs as a common standard for the protection of intellectual property globally. Implication of TRIPs is that member countries should design domestic intellectual property legislations on the basis of the TRIPs provisions.

TRIPs as WTO's IPR regime

TRIPs is considered as a major achievement of the Uruguay Round as an international trade agreement. At the trade negotiations, the developed countries were succeeded in linking intellectual property rights with trade. Until then, the World Intellectual Property Organisation (WIPO) was the exclusive international institution dealing with intellectual property. With TRIPs, the WTO also emerged as the institution for the protection and promotion of intellectual property globally.

What TRIPs instructs to member countries?

As per the TRIPs provisions, the member countries are required to prepare the necessary legal framework spelling out the scope and standards of protection for rights in regard to intellectual property. Or in other words, the member countries have to adopt TRIPs provisions in their domestic intellectual property legislations like Patent Act, Copyright Act etc.

WTO advocate necessary amendments to national IPR laws to accommodate the TRIPs provisions. TRIPs agreement is an effort to bring national legislations under common international rules. An important feature of TRIPs is that it is more specific and harder on 'patents' -the most important form of intellectual property. In the case of plant rights, geographical indications etc., members can adopt a sui-generis (own designed) IPR regime.

WTO gives following areas of intellectual property – copyright and related rights, trademarks, protection of undisclosed information (trade secrets), geographical indications, industrial designs, integrated circuits, patents, and control of anti-competitive practices in contractual licences. Signing TRIPs means countries have to modify their Patent Act, Copy Right Act, Trade Mark Act etc., in accordance with the provisions of the TRIPs. In India, the government has made a major amendment to the 1970 Patent Act in 2005 to accommodate the TRIPs provisions. In 2010, the Copyright Act was amended and enforced from 2012. Other legislations with respect to Industrial designs also have been made.

INTELLECTUAL PROPERTY RIGHTS (IPR)

Intellectual property (IP) is a term referring to creation of the intellect (the term used in studies of the human mind) for which a monopoly is assigned to designated owners by law. Some common types of intellectual property rights (IPR), in some foreign countries intellectual property rights is referred to as industrial property, copyright, patent and trademarks, trade secrets all these cover music, literature and other artistic works, discoveries and inventions and words, phrases, symbols and designs. Intellectual Property Rights are themselves a form of property called intangible property. Although many of the legal principles governing IP and IPR have evolved over centuries, it was not until the 19th century that the term intellectual property began to be used and not until the late 20th century that it became commonplace in the majority of the world.

NATURE OF INTELLECTUAL PROPERTY

IP has its own unique features to distinguish itself from other types of rights. These features include:

- **Territorial** – Unlike immovable property, IP property is commonly used in other countries. Therefore, IP-related issues tend to be resolved according to the national laws of the countries involved.
- **Exclusive right to owners** – This means that parties other than the owners do not have the right to use the IP without permission.
- **Assignable** – Since an IP is a form of rights, it can be assigned. It can be sold, purchased, licensed, hired, or attached.
- **Independence** – In most cases, IP rights are embodied in objects, with different types of IP rights subsisting in the same type of object.
- **Subject to Public Policy** – IP rights need to comply with public policy. While owners of IP seek to achieve adequate remuneration, they also have to make sure that consumers can use their creations with minimal inconvenience.

- **Indivisible** – Multiple parties can have interests in an original creation without having an effect on the interests of other right holders on the same item. Due to its indivisible nature, IP is a resource that cannot be exhausted.

OBJECTIVE OF INTELLECTUAL PROPERTY RIGHTS

The following are the objectives of intellectual property rights:

1) It helps in protecting the ownership and originality of the individuals' creation.

2) It provides recognition to the concerned person or authority.

3) It allows owners of intellectual property to have financial benefits from the property they have created.

4) They are provided financial incentive for the creation of and also to incur the cost of investment in intellectual property.

5) Such rights motivate individuals' creativity and thus also contributes to economic growth.

6) It can also offer some economic aid to the holder of the right, through the monopoly of their creations.

7) It improves the financial status of the individual as well as of the economy of the country.

TYPES OF INTELLECTUAL PROPERTY

The term intellectual property is usually thought of as comprising four separate legal fields:

1. Patents

The U.S. Patent and Trademark Office grants property rights to original inventions, from processes to machines. Patent law protects inventions from use by others and gives exclusive rights to one or more inventors. Technology companies commonly use patents, as seen in the patent for the first computer to protect their investment in creating new and innovative products. The three types of patents consist of:

- **Design patents:** Protection for the aesthetics of a device or invention. Ornamental design patents include a product's shape (Coca-Cola bottle), emojis, fonts, or any other distinct visual traits.

- **Plant patents:** Safeguards for new varieties of plants. An example of a plant patent is pest-free versions of fruit trees. But inventors may also want a design patient if the tree has unique visual properties.
- **Utility patents:** Protection for a product that serves a practical purpose and is useful. IP examples include vehicle safety systems, software, and pharmaceuticals. This was the first, and is still the largest, area of patent law.

2. Trademarks

Trademarks protect logos, sounds, words, colors, or symbols used by a company to distinguish its service or product. Trademark examples include the Twitter logo, McDonald's golden arches, and the font used by Dunkin.

Although patents protect one product, trademarks may cover a group of products. The Lanham Act, also called the Trademark Act of 1946, governs trademarks, infringement, and service marks.

3. Copyrights

Copyright law protects the rights of the original creator of original works of intellectual property. Unlike patents, copyrights must be tangible. For instance, you can't copyright an idea. But you can write down an original speech, poem, or song and get a copyright.

Once someone creates an original work of authorship (OWA), the author automatically owns the copyright. But, registering with the U.S. Copyright Office gives owners a head-start in the legal system.

4. Trade Secrets

Trade secrets are a company's intellectual property that isn't public, has economic value, and carries information. They may be a formula, recipe, or process used to gain a competitive advantage.

To qualify as a trade secret, companies must work to protect proprietary information actively. Once the information is public knowledge, then it's no longer protected under trade secrets laws.

COUNTRY EVALUATION AND SELECTION

Because firms lack sufficient resources to pursue all potential (international) opportunities, they must determine the order of country entry, establish the rates of resource allocation across countries.

Steps of Country Evaluation and Selection

1. Choosing marketing and production sites and geographic strategy

2. Scanning for alternative locations

3. Choosing and weighting variables

4. Collecting and analyzing data

5. Country comparison tool

6. Allocation of resources among locations

7. Making final country selection

Country evaluation and selection Tools

The tools are:

1. Trade Analysis and Analogy Methods
2. Opportunity-Risk Analysis
3. Products-Country Matrix Strategy
4. Market Focus Strategies

1. Trade Analysis and Analogy Methods:

Trade analysis and country analogy methods are widely used for country evaluation by estimating their market size. In simple terms, the market size of a country may be determined by subtracting the exports of a product from the sum-total of its production and imports.

2. **Opportunity-Risk Analysis:**

Carrying out a cross-country analysis of opportunities and risks provides a useful tool to compare and evaluate various investment locations based on a company's objectives and business environment. The internationalizing firm may choose variables both for opportunities (such as market size, growth, future potential, tax regime, costs, etc.) and risks (political, economic, legal, operational, etc.)

3. **Products-Country Matrix Strategy:**

With an objective to examine market diversification and commodity diversification, the product-country matrix strategy is employed. Under this approach, previous trade statistics are analysed to identify the major markets and major products, based on which a suitable marketing strategy is developed.The matrix based on a predominantly supply side analysis reveals comparative advantages. In 1995, the Government of India carried out the analysis of trade data of the mid-nineties to prepare such a matrix. The analysis revealed the restricted commodity/country basket for India's exports.

4. **Market Focus Strategies:**

In view of market potential of a region, market focus strategies can be formulated. Under this technique, the market potential, generally on a regional basis is determined and major product groups that need to be focused are identified. Subsequently, strategies for increasing exports to the identified markets can be formulated.

Choosing Marketing and Production Sites and Geographic Strategy

Developing a site location strategy that helps a firm maximize its resources and its competitive position is very challenging, given that many estimates and assumptions about factors such as future costs and prices competitors' reactions must be made.

1. **Scanning for alternative locations**

Scanning is useful as company might consider either too many or too few possibilities. Through the use of scanning, decision makers can perform a detailed analysis of a manageable number of geographical locations.

2. **Scanning**

Scanning techniques are based on broad variables that identify both opportunities and risks. Scanning techniques help to assure that firms consider neither too many nor two few alternative countries

3. **Detailed Examination**

Detailed examination generally requires on-site visits to collect and analyze specific information that increasingly contributes to the final location decision process. This feasibility study should have clear-cut decision points to guide managers in the decision-making process.

4. **Choosing and Weighting Variables**

Scanning techniques are based on broad environmental variables that identify both opportunities and risks should be used by the company. Country opportunities are determined by competitiveness and profitability factors. Risk refers to the economic, political and business risks that are unique to a specific country, and that might result in unexpected investment losses. Ultimately the variables should be weighted effectively against each other to evaluate the potential success of a particular venture.

RETURN ON INVESTMENT

ROI or return on investment can be defined as the measure of performance of an investment. The efficiency of the investment to earn returns on it is evaluated with ROI. The return is evaluated against the investment cost, and thus we get ROI in percentages. It is a relative measure of return on any specific amount invested in a business project or general investment like shares, mutual funds, or any other asset. ROI is a generic ratio, and for an investor, the higher the ratio, the more the benefits.

In other words, it can be explained as the incremental earnings or gain out of a business operation divided by the operating cost (operating cost). It evaluates the efficiency of the business and whether the resources are optimally used or not. It is a very important financial metric for public companies for management to satisfy the shareholders. For small and medium scale businesses, it is used for evaluating the performance of projects/investments and businesses overall.

INTERNATIONAL ECONOMIC ORGANISATIONS

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.

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.

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 exchange stability
- Facilitate the expansion and balanced growth of international trade
- Promote international monetary cooperation
- Assist in the establishment of a multilateral system of payments
- 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.

FUNCTIONS AND ROLE OF IMF

IMF performs the following functions.

i) International monetary cooperation

ii) To promote exchange rate stability

iii) To help deal with balance of payments adjustment

iv) To help deal with economic crisis by providing international coordination – loans, plus advice.

In practice, IMF does the followings:

(i) **Economic surveillance and monitoring:** IMF produce reports on member countries’ economies and suggests areas of weakness / possible danger e.g., unbalanced economies with large current account deficit/excess debt levels. The idea is to work on ‘crisis prevention’ by highlighting areas of economic imbalance.

(ii) **Loans to countries with a financial crisis:** The IMF has $300 billion of loanable funds. This comes from member-countries who deposit a certain amount at the time of joining the Fund. In times of financial/economic crisis, the IMF may be willing to make available loans as part of a financial readjustment. The IMF has arranged more than US $180 billion in ‘bailout’ packages since 1997.

(iii) **Conditional loans/structural adjustment:** When giving loans, the IMF usually insists on certain criteria to be met, these can include policies to reduce inflation (tightening of monetary policy). These are called ‘conditionalities’.

(iv)**Technical assistance and economic training:** The IMF produces many reports and publications. They can also offer support for local economies.

SHORTCOMINGS OF IMF:

Three shortcomings are notable.

A) The Fund provides short term finance to its members to tackle Balance of Payments (BoP) disequilibrium. For this purpose, it adopted an adjustable peg system in the first phase of its life. But it failed to establish a stable exchange rate.

B) Secondly, the Fund imposes conditions on the poor countries while sanctioning loans. Now, it is ignoring its central concern—exchange rate management and BoP problems. It is now championing the issue of 'market principle'. It suggests poor developing countries to cut expenditure borrowing-subsidy, raise prices of state enterprises, privatisation of state owned enterprises, etc. If such measures, most popularly known as structural adjustment programmes, are adopted only then IMF credit would follow. Most of these measures are anti-people in character. It is said that Third World debt crisis is due to the Fund's policies and working.

C) Thirdly, the Fund has failed to eliminate foreign exchange restrictions imposed by its members that hamper the growth of trade.

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.

FUNCTIONS OF THE WORLD BANK

- It helps the war-devasted countries by granting them loans for reconstruction.

- Thus, they provide extensive experience and the financial resources of the bank help the poor countries increase their economic growth, reducing poverty and a better standard of living.
- Also, it helps the underdeveloped countries by granting development loans.
- So, it also provides loans to various governments for irrigation, agriculture, water supply, health, education, etc.
- It promotes foreign investments to other organizations by guaranteeing the loans.
- Also, the world bank provides economic, monetary, and technical advice to the member countries for any of their projects.
- Thus, it encourages the development of of-industries in underdeveloped countries by introducing the various economic reforms.

OBJECTIVES OF THE WORLD BANK

- This includes providing long term capital to its member nations for economic development and reconstruction.
- Thus, it helps in inducing long term capital for improving the balance of payments and thereby balancing international trade.
- Also, it helps by providing guarantees against loads granted to large and small units and other projects for the member nations.
- So, it ensures that the development projects are implemented. Thus, it brings a sense of transparency for a nation from war-time to a peaceful economy.
- Also, it promotes the capital investment for member nations by providing a guarantee for capital investment and loans.
- So, if the capital investment is not available than it provides the guarantee and then IBRD provides loans for promotional activities on specific conditions.

PURPOSES OF THE WORLD BANK

- It wants to create an environment that is a pro-investment.
- Also, it wants to improve the omics stability by reducing poverty.
- So, it is working towards achieving sustainable growth.
- Increasing the opportunities for jobs and business in member nations which are underdeveloped.
- Through investment, it plans to promote the socio-economic status of the society.
- Also, it wants to ensure that the judicial and legal systems are developed and individual rights are protected.
- Strengthen the government of its member nations by promoting education.
- Combating corruption and to ensure that there are adequate training opportunities and research facilities.
- It wants to provide loans with low-interest rates and interest-free credits.

EUROPEAN UNION:

European Union's purpose is to promote peace, and establish a unified economic and monetary system. Its mandate is also to promote inclusion and combat discrimination; break down of barriers to trade and borders; to encourage technological and scientific developments; champion environmental protection; and, among others, to promote goals like a competitive global market and social progress. So, put simply, the European Union is a coalition of 27 European countries, designed to tear down trade, economic and social barriers and promote prosperity and development in these areas. Established in 1993, the European Union's headquarters are currently located in Brussels, Belgium.

Organisational Setup

The European Union is governed by three main bodies - the EU Council, the EU Parliament and the EU Commission. The Council's main job is to create and propose new policies and legislation for the European Union. It operates under a different EU president every six months. The Parliament then debates and passes the laws proposed by the Council, electing members once every five years. Finally, the Commission enforces and operates the laws for the European Union. Euro is reportedly the second most-used currency in the world. Once established, the Euro has replaced many of Europe's leading currencies, including French and Italian currencies like the Franc and Lira, to name a few.

Brexit and Impact on EU

England has voted to exit from the European Union and leave it - infamously coining the term "Brexit" for the British exit from the EU. Although Brexit may prove to be more harmful to Britain than the European Union, there have still been rippling impacts on the EU in the post-Brexit world. Certain countries in the EU could face huge economic losses, including Ireland and Germany, who both could stand to lose over 10 per cent and 5 per cent of GDP, respectively

UNIT – III

Multinational Enterprises

A Multinational Enterprise is an international Enterprise whose business activities are spread among at least two countries. Some authorities consider any company with a foreign branch to be a multinational Enterprise; others limit the definition to only those companies that derive at least a quarter of their revenues outside of their home country. Many multinational enterprises are based in developed nations. Multinational advocates say they create high-paying jobs and technologically advanced goods in countries that otherwise would not have access to such opportunities or goods. However, critics of these enterprises believe these Enterprises have undue political influence over governments, exploit developing nations, and create job losses in their own home countries.

FEATURES OF MULTINATIONAL ENTERPRISES:

Large Scale Operations: The basic feature of multinational companies is that their area of operations is vast. They have a big production plant installed producing a large number of products at cheaper rates. They have a large number of resources in terms of people, information, technology, and capital. Their efficiency is pretty high as they produce in bulk.

Large Number of Branches: Another important feature of multinational companies is that they operate at a global level and have branches in different countries. Those are controlled through their centralized office situated in the home country of the company. There is full coordination between all these branches and the head office and these branches work fully at the directions of the head office.

Huge Turnover: The amount of turnover of multinational companies is very high as it operates its business in different parts of the world. The amount of profit earned by these companies is very high due to which they are able to pay a good amount of salary to their employees. These also contribute an adequate amount in CSR activities which aims at the overall development of the country.

Continuously Growth: Multinational companies always aim at adopting the latest and the best techniques available in the market. Their main mission is to continuously grow at high speed and always upgrade themselves. Multinational companies also doing various acquisitions and mergers from time to time for increasing their size.

High Products Quality: The products that are produced by the multinational companies are of high quality as they are produced using the modern and best technology available in the market. Also, these companies aim at providing these high-quality products at a cheaper rate by achieving highest efficiency which is achieved through mass production.

Large Scale Advertising: Another essential feature of multinational companies is that they invest huge amount of money in their advertisement and publicity activities. They perform the advertisement activities all over the world as per there number of branches available to keep the public informed of their products and latest offers.

Control from Home Country: The multinational company's control their all branches available in different countries across the globe form their central head office which is located in the home country of the MNC's. All the directions regarding the performance and various activities for the branches in different countries are given from the central office.

TYPES OF MULTINATIONAL ENTERPRISES

1. **Decentralized Enterprise: -**Decentralized Enterprises may have multiple offices, facilities and assets in foreign countries, but they still maintain a strong presence in their home country. While decentralized Enterprises typically don't have a central headquarters, each country they operate in may have its own management structure. This helps the Enterprise scale quickly while ensuring it adheres to the regulations in each geographic area
2. **Centralized global Enterprise: - C**entralized global Enterprise may have a head office in its home country, where the chief executive officer and other senior leaders reside. These Enterprises often look for opportunities to increase revenue by

purchasing cheap resources and materials from foreign countries. The same management team typically handles both domestic and international decisions.

3. **International Division:** Enterprise may keep their domestic operations separate from their international operations by creating an international division. This new division is responsible for overseeing all of the Enterprise's operations in foreign countries. While this structure can help companies reach a wider audience and make decisions that appeal to different cultures, it can also be challenging to maintain a cohesive brand image.
4. **Transnational Enterprise: -**Transnational enterprise may exist within a parent-subsidiary relationship. This allows them access to many of the parent Enterprise's resources, such as their R&D team, even though they may operate in separate countries. Typically, the parent company oversees the transnational enterprise and makes decisions on its behalf. While they typically follow a centralized leadership structure, this can vary from one Enterprise to another

POSITIVE IMPACT OF MULTINATIONAL ENTERPRISES

Multinational Enterprises may experience several benefits, including a faster growth rate. They can also have a positive effect on the international economies they conduct business in by creating more jobs.

1. Multinational Enterprises provide an inflow of capital.

Multinationals are a leading source of capital inflows to the developing world, building factories, investing in training centres, and supporting educational facilities with the intention of improving their productive capacities overseas.

2. Multinational Enterprises allow countries to purchase imports.

The issue of economic development in non-developed countries is an overall lack of resource access. When multinationals build a presence in the developing world, their capital inflows help countries have more access to the import/export market. That allows them to access better goods, create more opportunities, and eventually raise the standard of living for everyone.

3. Multinational Enterprises provide local employment.

If you step outside of the developed world for a moment, the average person works in an agriculture-related position. Almost 70% of the jobs found in the poorest countries of the world are based on this industry, compared to less than 5% which is located in the wealthiest nations in the world.

4. Multinational Enterprises improve the local infrastructure.

Investment in the local infrastructure becomes necessary before operations even begin. Roads, bridges, and technology access are three of the largest barriers taken down when multinationals become active in a developing country.

5. Multinational Enterprises diversify local economies.

Many communities, developing countries, and economies all rely on primary products for subsistence. Most of the products tend to be related to agriculture-based industries. Multinationals provide these economies with more variety, creating diversity in local production levels. That reduces reliance on commodities which often have volatile prices because their supply and demand levels waiver so often.

6. Multinational Enterprises encourage more innovation.

The average multinational Enterprise spends between 5% to 10% of its annual budget on innovative research. Many of the companies with the most intensive research and development intensity are the multinationals who are on the Fortune Global 500.

7. Multinational Enterprises enforce minimum quality standards.

Most multinationals rely on vendors for their distribution work. Some even use them for sales opportunities. Because of their size and influence, these companies put leverage on their partners (including their suppliers) to provide an expected experience to each customer. If there is a failure to do so, the Enterprise can move to a different vendor immediately, which instantly kills some distribution businesses overseas. This structure creates efficiencies of scale that lower customer prices while still ensuring reasonably good product quality.

8. Multinational Enterprises increase cultural awareness.

When companies expand overseas, they become exposed to new cultural realities. Multinationals are incredibly diverse, which gives them added strength because of this necessity. One must know the pain points of the local market before you can produce goods or services for them. When anyone expands their thinking to include new perspectives, the world becomes a stronger place because of it. These companies offer a positive influence on cross-culture communication if this advantage becomes a top priority for them.

NEGATIVE IMPACT OF MULTINATIONAL ENTERPRISES

1. Multinational Enterprises create higher environmental costs.

One primary advantage which multinationals see in doing business in the developing world is a lack of robust environmental legislation. Weaker governments tend to exchange environmental harm for additional profits. When these companies can outsource their production to countries with these lower standards, it does lower prices, but it also creates more damage. Countries like India even trade in waste and rubbish because of the revenues they earn from recycling and disposal, creating the potential for harm to local soil and water supplies.

2. Multinational Enterprises don’t always leave profits local.

There is evidence to show that the investments made by multinational companies improve the local infrastructure. Additional education and job training offer new opportunities for domestic workers. Once the investments are made, however, the profits earned by the company tend to be repatriated for use in other areas.

3. Multinational Enterprises import skilled labor.

The amount of time necessary to create local skills that encourage high productivity levels is measured in years, not weeks or months. Multinationals invest in local workers to develop their skills, but they also need to get their venture off the ground quickly. Most companies in this position will import the skilled labor they require from other economies to meet their needs.

5. Multinational Enterprises encourage political corruption.

When multinationals enter the region, promising to pay for access to raw materials and other needs, those in charge politically often prevent the investments from filtering down to the general population. Money usually gets siphoned off by politicians and officials, which creates massive disruption at the local level with only minor compensation (if any) from the government working with the Enterprise.

6. Multinational Enterprises support “sweatshop” labor.

Sweatshop labor is typically seen as a disadvantage to local economies. Although some experts suggest that any job and income is better than nothing at all, weak labor conditions allow multinationals to lower wages to the greatest extent possible to pad their own profit margins. Even when minimum salaries are legislated by the government, what workers earn in the developing world is very small.

7. Multinational Enterprises remove jobs from their home country.

Several jobs are more economical for multinationals to outsource or offshore the positions than hire domestically. Manufacturing jobs are outsourced most often, with multinationals focusing on Southeast Asia because of the lower labor costs involved.

8. Multinational Enterprises build legal monopolies.

Even though the assets controlled by multinational Enterprises are managed by a centralized structure, governments treat each location as its own entity. That gives the companies more leeway in how they handle their consumer markets

ECONOMIC IMPACT OF MULTINATIONAL ENTERPRISES

Multinational Corporation is a company with established branches in more than one country. As of 2006, there were 63,000 multinational corporations with over 700,000 branches scattered across the globe, according to the United Nations Conference on Trade and Development.

Employment: -When multinational corporations invest in a country they create employment opportunities. They account for increased incomes and expenditures in the economy of the host country stimulating growth. Workers also benefit from technology transfer as new machinery is imported into the host country. Multinational corporations’ control over 25 percent of world output and provides 86 million jobs, according to the World Trade Organization.

Taxation Revenues: -Countries that host multinational corporations also benefit from tax revenues from the companies.

Improving the Balance of Payment: -Balance of payment refers to an accounting record of a country's exports and imports. The country that hosts a multinational corporation is likely to have an improved balance of payment. When multinational corporations invest in the host country they promote direct flow of capital into the host country. The multinational corporation may also eventually begin exporting products made in the host country.

Controlling Local Economy: -Multinational corporations have the freedom to shift their locations at will; giving them the advantage to exert pressure over countries in which they operate when faced situations that affect their interests. In developing countries where multinational corporations have become the major employers and wealth creators, they might oppose attempts by the host country to improve worker's salaries, tighten environmental regulations, demand a higher share of the profits through taxation or liberalize the right of workers to organize if those moves are seen as against their interests. If the host country declines to bend to the multinational corporation's wishes, the company may threaten to withdraw or throw its political and economic influence behind political elements in the host country more amenable to the multinational corporation's point of view. Multinational corporations in South and Central America were often accused in the 1950s, '60s and '70s of supporting repressive regimes in order to continue a profitable relationship with the host country.

Increased Productivity: -Multinational corporations promote productivity and efficiency in the host country. This happens when they import new technology into the countries, they operate in. As a result, this will increase competition as the local firms will as well try to imitate their technologies or hire workers initially trained by multinational corporations. Competition between the local firms and the multinational corporations will cause them to improve their products or even adopt new technology.

INTERNATIONAL GOODS AND SERVICE

Goods and services are an essential part of an economy, and these two terms are used in most of the important economic discussions. There are many products that a consumer purchases in order to fulfill their certain requirements. These products can be either in the form of goods or services. Goods are tangible, as in these have a physical presence and they can be touched, while services are intangible in nature. The purpose of both goods and services is to provide utility and satisfaction to the consumer.

International goods can be expressed in terms of economics, as any item that provides utility and fulfills the needs of the consumer. Goods can be classified as durable and non-durable based on their durability. Durable goods last for a long time while non-durable goods perish sooner than durable goods. Goods involve transfer of ownership from the seller once it is purchased by the consumer (buyer). There is a certain time period that is required for the production of goods. Goods due to their tangible nature have a proper structure, size and shape. They can be produced as per the market demand.

International Services are the intangible and non physical part of the economy that cannot be touched. They are perishable in nature as they need to be provided at a moment when requested by the consumer. Service lacks a physical identity and cannot be owned, it can only be utilised. For e.g, when having dinner at a restaurant you can avail the concierge services but you do not own the restaurant. In other words, there is no transfer of ownership in services and unlike goods, services cannot be stored and utilised later. Also, services cannot be distinguished from the service provider.

FORMS OF INTERNATIONAL FINANCIAL FLOWS

The various types of transactions leading to international financial flows are trade flows, invisibles, foreign direct and portfolio investment, external assistance and external commercial borrowings and some short-term flows.

1. **Merchandise Trade Flows: -**Trade may be related to goods. Alternatively, it may be related to services. The merchandise trade has two sides. While one is export, the other is import. If India exports various goods, it will get convertible currencies and that will be an inflow of funds. On the contrary, it has to make payments in convertible currencies for the imports it makes. Thus, export and import of goods lead to international financial flows.
2. **Invisibles: -**Invisibles include, broadly, trade in services, investment income and unilateral transfers. If an Indian shipping company carries goods of a foreign exporter/importer and gets the freight charges, it will be treated as inflow of funds on

account of trade in services. Similarly, if a foreign shipping company carries goods of an Indian exporter, there will be outflow of funds in form of freight charges. There are many examples of international flow of funds on account of trade in services.

Investment income relates to the receipt and payment of dividend, technical service, fees, royalty, interest on loan, etc. A foreign company operating in India remits dividend, etc. to its home country that will represent an outflow of funds. Similarly, an Indian company operating abroad remits to India the dividend and other fees that will represent inflow of funds. Likewise, payment of interest on foreign borrowings represents outflow of funds. Any receipt of interest manifests in inflow of funds.

Unilateral transfers are unidirectional. They represent international financial flows without any services rendered. If an Indian makes a gift to his/her friend in England, it will be a case of outflow of funds on account of unilateral transfer. Similarly, a large number of Indians living abroad remit a part of their income to their family members living in India. This is a case of inflow of funds on account of unilateral transfer.

3. **Foreign Investment: -**Foreign investment may be of two kinds. While one is direct, the other is portfolio. Foreign direct investment (FDI) occurs when a firm moves abroad for the production of goods or provision of services and participates in the management of that company located abroad. On the contrary, foreign portfolio investment (FPI) is not at all concerned with the production of goods and rendering of services. The sole purpose of a foreign portfolio investor is to earn a return through investment in foreign securities without any intention of grabbing the voting power in the company whose securities it purchases. In case of FDI too, an investor invests in the shares of a foreign company, but the sole objective is to enjoy the voting power and thereby a say in the management of the foreign company. Thus, it is primarily the voting right that differentiates between FDI and FPI.

Whatever the forms may be, inflow of fiends occurs when a foreign investor makes investment in the country. On the contrary, outflow of funds occurs when the domestic investor invests in a foreign country.

4. **External Assistance and External Commercial Borrowings: -**External assistance and external commercial borrowings are different in the sense that while the former flows normally from an official institution -bilateral or multilateral, the latter flows from international banks or other private lenders. The rate of interest in the former is usually low along with a longer maturity period. The latter carries market rate of interest and a shorter maturity. Last but not least, external assistance is manifest often in outright grant that does not require repayment of principal/interest payment
5. **Short-term Flow of funds: -**Normally loans and foreign direct investment are meant for a period exceeding one-year. There are financial flows that occur for less than a year. Movement of funds relating to banking channels, euro notes, speculative and arbitrage activities, etc. are the examples of short-term funds that move across countries.

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.

TYPES OF BALANCE OF PAYMENT

The balance of payment is divided into three types:

Current account: This account scans all the incoming and outgoing of goods and services between countries. All the payments made for raw materials and constructed goods are covered under this account. Few other deliveries that are included in this category are from tourism, engineering, stocks, business services, transportation, and royalties from licenses and copyrights. All these combine together to make a BOP of a country.

Capital account: Capital transactions like purchase and sale of assets (non-financial) like lands and properties are monitored under this account. This account also records the flow of taxes, acquisition, and sale of fixed assets by immigrants moving into the different country. The shortage or excess in the current account is governed by the finance from the capital account and vice versa.

Finance account: The funds that flow to and from the other countries through investments like real estate, foreign direct investments, business enterprises, etc., is recorded in this account. This account calculates the foreign proprietor of domestic assets and domestic proprietor of foreign assets, and analyses if it is acquiring or selling more assets like stocks, gold, equity, etc.

IMPORTANCE OF BALANCE OF PAYMENT

A balance of payment is an essential document or transaction in the finance department as it gives the status of a country and its economy. The importance of the balance of payment can be calculated from the following points:

- It examines the transaction of all the exports and imports of goods and services for a given period.
- It helps the government to analyse the potential of a particular industry export growth and formulate policy to support that growth.

- It gives the government a broad perspective on a different range of import and export tariffs. The government then takes measures to increase and decrease the tax to discourage import and encourage export, respectively, and be self-sufficient.
- If the economy urges support in the mode of import, the government plans according to the BOP, and divert the cash flow and technology to the unfavourable sector of the economy, and seek future growth.
- The balance of payment also indicates the government to detect the state of the economy, and plan expansion. Monetary and fiscal policies are established on the basis of balance of payment status of the country.

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.

UNIT 4

INTERNATIONAL FINANCIAL MANAGEMENT

INTERNATIONAL FINANCIAL MANAGEMENT

International Finance is an important part of financial economics. It mainly discusses the issues related with monetary interactions of at least two or more countries. International financial management is also known as international finance, is a well-known term in today's world. It simply means financial management in an international business environment. It is different from financial management because of the different factors involved like currency, political situations, imperfect markets, and diversified opportunity sets.

Like international trade and business, international finance exists due to the fact that economic activities of businesses, governments, and organizations get affected by the existence of nations. It is a known fact that countries often borrow and lend from each other. In such trades, many countries use their own currencies.

ROLE OF INTERNATIONAL FINANCIAL MANAGEMENT

International finance plays a critical role in international trade and inter-economy exchange of goods and services. It is important for a number of reasons; the most notable ones are listed here −

- International finance is an important tool to find the exchange rates, compare inflation rates, get an idea about investing in international debt securities, ascertain the economic status of other countries and judge the foreign markets.
- Exchange rates are very important in international finance, as they let us determine the relative values of currencies. International finance helps in calculating these rates.
- Various economic factors help in making international investment decisions. Economic factors of economies help in determining whether or not investors' money is safe with foreign debt securities.

- Utilizing IFRS is an important factor for many stages of international finance. Financial statements made by the countries that have adopted IFRS are similar. It helps many countries to follow similar reporting systems.
- IFRS system, which is a part of international finance, also helps in saving money by following the rules of reporting on a single accounting standard.
- International finance has grown in stature due to globalization. It helps understand the basics of all international organizations and keeps the balance intact among them.
- An international finance system maintains peace among the nations. Without a solid finance measure, all nations would work for their self-interest. International finance helps in keeping that issue at bay.
- International finance organizations, such as IMF, the World Bank, etc., provide a mediators' role in managing international finance disputes.

1. Optimum Rate of Interest

International financial management aims to achieve an optimum rate of interest on the funds that a company borrows. The managers should check and compare all the possible options of finance that a company has. They should choose the source that is reliable, safe, and with the least possible rate of interest. Lower interest or lower financing costs will boost the profits in turn.

2. Foreign Exchange Risk Management

As we all know foreign exchange risk is an essential and important part of international trade. Hence, managers have no choice but to manage foreign exchange rate risk timely and effectively. Exchange rates are volatile and unpredictable. They can result in gains as well as heavy losses in case they are not favorable for the company. Hence, the managers should adequately consider, cover, and hedge against foreign exchange risk while doing international trade.

3. Political Risk Management

Effective political risk management is one of the important goals of international financial management. The management should take into account cases of political unrest or instability in countries before they invest there. Political risk can arise in the domestic market too, and hence they should be cautious about it.

Changes in laws and policies of the government, or a change in the government itself can create trouble for any company. They may face cancellations of projects or hindrances, red-tapism, and delays that may cause significant monetary losses to the company. Hence, the managers should always take political risk into consideration while investing in any project, especially if it is for the long term.

4. Effectively Use Expanded Sets of Opportunities

International financial management aims to make the best possible use of opportunities that arise from investing in different countries. Interest rates and the cost of capital can be very low in some countries. Or labor can be inexpensive in some other country. Some foreign markets may have the extra potential for a particular line of product. The managers should be dynamic and flexible in this fast-changing business environment. They should immediately make use of any of such opportunities that may arise and result in monetary benefits for the company.

5. Proper Tax Planning

International financial management aims to promote tax planning in the best possible way. Different countries have different tax slabs, liabilities, and exemptions. Managers should be efficient enough to study in detail the taxation policies of all of the countries wherever they operate.

The management should avoid any wastage of resources on account of inefficient tax planning. Maximum possible reduction in tax liabilities needs to be done by making use of government tax exemptions, rebates, or any other benefits that are available.

6. Effective Inflation Risk Management

Another goal of international financial management is to effectively manage the inflation risk that may arise in different countries at different times. Inflation or the continuous rise in prices of inputs can cause a major financial strain on any company. The output price or the selling price may not increase immediately due to market constraints, resulting in lower profits or even losses.

Managers need to properly plan and budget for inflation risk by properly studying the economic environments of countries where they operate. This will help them to get their costing and pricing right and minimize instances of losses for the company.

7. Maximization of Shareholder Value

International financial management aims to maximize shareholder value by ensuring the maximum possible dividend payout. This can happen by ensuring that the company performs well. The managers have to manage the company's finances in the most effective and efficient manner so as to increase the net profits of the company.

INTERNATIONAL MONETARY SYSTEM

An international monetary system is a set of internationally agreed rules, conventions and supporting institutions that facilitate international trade, cross border investment and generally the reallocation of capital between states that have different currencies. The international monetary system provides the institutional framework for determining the rules and procedures for international payments, determination of exchange rates, and movement of capital.

OBJECTIVES:

- To promote international monetary cooperation through a permanent institution which provides the machinery for consolation and collaboration on international monetary problems.
- To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objective of economic policy.
- To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- To give confidence to members by making the general resources of the Fund tempo - rarely available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments, without resorting to measures destructive of national or international prosperity.

STRUCTURE OF THE INTERNATIONAL MONETARY FUND (IMF)	
Governing Bodies of IMF	Roles and Responsibilities
Board of Governors	Each governor of the Board of Governors is appointed by his/her respective member country. Elects or appoints executive directors to the Executive Board. Board of Governors is advised by the International Monetary and Financial Committee (IMFC) and the Development Committee. An annual meet up between the Board of Governors and the World Bank Group is conducted during the IMF–World Bank Annual Meetings to discuss the work of their respective institutions.
Ministerial Committees International Monetary and Financial Committee (IMFC) Development Committee	It manages the international monetary and financial system. Amendment of the Articles of Agreement. To solve the issues in the developing countries that are related to economic development.

Executive Board	It is a 24-member board that discusses all the aspects of the Funds. The Board normally makes decisions based on consensus, but sometimes formal votes are taken.

FUNCTIONS OF THE IMF

IMF mainly focuses on supervising the international monetary system along with providing credits to the member countries. The functions of the International Monetary Fund can be categorized into three types:

1. **Regulatory functions:** IMF functions as a regulatory body and as per the rules of the Articles of Agreement, it also focuses on administering a code of conduct for exchange rate policies and restrictions on payments for current account transactions.
2. **Financial functions:** IMF provides financial support and resources to the member countries to meet short term and medium term Balance of Payments (BOP) disequilibrium.
3. **Consultative functions:** IMF is a centre for international cooperation for the member countries. It also acts as a source of counsel and technical assistance.

FOREIGN EXCHANGE RATE

Foreign Exchange Rate is defined as the price of the domestic currency with respect to another currency. The purpose of foreign exchange is to compare one currency with another for showing their relative values. Foreign exchange rate can also be said to be the rate at which one currency is exchanged with another or it can be said as the price of one currency that is stated in terms of another currency.

Exchange rates of a currency can be either fixed or floating. Fixed exchange rate is determined by the central bank of the country while the floating rate is determined by the dynamics of market demand and supply.

TYPES OF EXCHANGE RATE SYSTEMS

There are three types of exchange rate systems that are in effect in the foreign exchange market and these are as follows:

1. Fixed exchange rate System or Pegged exchange rate system: The pegged exchange rate or the fixed exchange rate system is referred to as the system where the weaker currency of the two currencies in question is pegged or tied to the stronger currency. Fixed exchange rate is determined by the government of the country or central bank and is not dependent on market forces. To maintain the stability in the currency rate, there is purchasing of foreign exchange by the central bank or government when the rate of foreign currency increases and selling foreign currency when the rates fall.

This process is known as pegging and that's why the fixed exchange rate system is also referred to as the pegged exchange rate system.

Advantages of Fixed Exchange Rate System

Following are some of the advantages of fixed exchange rate system

1. It ensures stability in foreign exchange that encourages foreign trade.
2. There is a stability in the value of currency which protects it from market fluctuations.
3. It promotes foreign investment for the country.
4. It helps in maintaining stable inflation rates in an economy.

Disadvantages of Fixed Exchange Rate System

Following are some of the disadvantages of the fixed exchange rate system

1. There is a constant need for maintaining foreign reserves in order to stabilise the economy.
2. The government may lack the flexibility that is required to bounce back in case an economic shock engulfs the economy.

2. Flexible Exchange Rate System: Flexible exchange rate system is also known as the floating exchange rate system as it is dependent on the market forces of supply and demand.There is no intervention of the central banks or the government in the floating exchange rate system.

Advantages of Floating Exchange Rate System

Following are the advantages of the floating exchange rate system

1. There is no need to maintain foreign reserves in this exchange system.
2. Any deficiencies or surplus in Balance of Payment is automatically corrected in this system.

Disadvantages of Floating Exchange Rate System

Following are some of the disadvantages of the floating exchange rate system

1. It encourages speculation that may lead to fluctuations in the exchange rate of currencies in the market.
2. If the fluctuations in exchange rates are too much it can cause issues with movement of capital between countries and also impact foreign trade.
3. It will discourage any type of international trade and foreign investment.

3. Managed floating exchange rate system: Managed floating exchange rate system is the combination of the fixed (managed) and floating exchange rate systems. Under this system the central banks intervene or participate in the purchase or selling of the foreign currencies.

FACTORS THAT INFLUENCE FOREIGN EXCHANGE RATES

Following are the various factors that influence Foreign exchange rates:

1. Inflation

Inflation is the relative purchasing power of a currency compared to other currencies. For example, it might cost one unit of currency to buy an apple in one country but cost a thousand units of a different currency to buy the same apple in a country with higher inflation. Such differentials in inflation are the foundation of why different currencies have different purchasing powers and hence different currency rates. As such, countries with low inflation typically have stronger currencies compared to those with higher inflation rates.

2. Interest Rates

Interest rates are tightly tied to inflation and exchange rates. Different country's central banks use interest rates to modulate inflation within the country. For example, establishing higher interest rates attracts foreign capital, which bolsters the local currency rates. However, if these rates remain too high for too long, inflation can start to creep up, resulting in a devalued currency. As such, central bankers must consistently adjust interest rates to balance benefits and drawbacks.

3. Public Debt

Most countries finance their budgets using large-scale deficit financing. In other words, they borrow to finance economic growth. If this government debt outpaces economic growth, it can drive up inflation by deterring foreign investment from entering the country, two factors that can devalue a currency. In some cases, a government might print money to finance debt, which can also drive up inflation.

4. Political Stability

A politically stable country attracts more foreign investment, which helps prop up the currency rate. The opposite is also true – poor political stability devalues a country's currency exchange rate. Political stability also affects local economic drivers and financial policies, two things that can have long term effects on a currency's exchange rate. Invariably, countries with more robust political stability like Switzerland have stronger and higher valued currencies.

5. Economic Health

Economic health or performance is another way exchange rates are determined. For example, a country with low unemployment rates means its citizens have more money to spend, which helps establish a more robust economy. With a stronger economy, the country attracts more foreign investment, which in turn helps lower inflation and drive up the country's currency exchange rate. It is worth noting here that economic health is more of a catch-all term that encompasses multiple other drivers like interest rates, inflation, and balance of trade.

6. Balance of Trade

Balance of trade, or terms of trade, is the relative difference between a country's imports and exports. For example, if a country has a positive balance of trade, it means that its exports exceed its imports. In such a case, the inflow of foreign currency is higher than the outflow. When this happens, a country's foreign exchange reserves grow, helping it lower interest rates, which stimulates economic growth and bolsters the local currency exchange rate.

7. Current Account Deficit

The current account deficit is closely related to the balance of trade. In this scenario, a country's balance of trade is compared to those of its trading partners. If a country's current account deficit is higher than that of a trading partner, this can weaken its currency relative to that country's currency. As such, countries that have positive or low current account deficits tend to have stronger currencies than those with high deficits.

8. Confidence/ Speculation

Sometimes, currencies are affected by the confidence (or lack thereof) traders have in a currency. Currency changes from speculation tend to be irrational, abrupt, and short-lived. For example, traders may devalue a currency based on an election outcome, especially if the result is perceived as unfavorable for trade or economic growth. In other cases, traders may be bullish on a currency because of economic news, which may buoy the currency, even if the economic news itself did not affect the currency fundamentals.

9. Government Intervention

Governments have a collection of tools at their disposal through which they can manipulate their local exchange rate. Primarily, central banks are known to adjust interest rates, buy foreign currency, influence local lending rates, print money, and use other tools to modulate currency exchange rates. The primary objective of manipulating these factors is to ensure favorable conditions for a stable currency exchange rate, cheaper credit, more jobs, and high economic growth.

TRANSACTION EXPOSURE

Transaction exposure is a type of foreign exchange (currency) exposure incurred due to the fluctuations in exchange rates before the contract is settled. The foreign exchange rate changes in cross-currency transactions can adversely affect the involved parties. Once a cross-currency contract has been framed and a specific amount of money and quantity of goods is fixed, exchange rate fluctuations can change the value of the contract. Transaction exposure risks are suffered due to foreign exchange rate fluctuations. However, these risks can be minimized or entirely eliminated by numerous financial and operational techniques.

FINANCIAL TECHNIQUES FOR MANAGING TRANSACTION EXPOSURE

The following are the financial techniques for hedging transaction exposure:

Forward Contracts:-If a firm is required to pay a specific amount of foreign currency in the future, it can enter into a contract that fixes the price for the foreign currency for a future date. This eliminates the chances of suffering due to currency fluctuations.

Futures Contracts:-Futures contracts are similar to 'forward contracts.' However, futures contracts have standardized and limited maturity dates, initial collateral, and contract sizes.

Money Market Hedge: - In a money market hedge, the forward price is equal to the current spot price multiplied by the ratio of the currency's riskless returns. This also creates the finance for the foreign currency transaction.

Options: - The options contracts involve an upfront fee and do not oblige the owner to trade currencies at a specified price, time period, and quantity.

OPERATIONAL TECHNIQUES FOR MANAGING TRANSACTION EXPOSURE

The following are the operational techniques for managing it:

- **Risk Shifting**:-The firm can completely avoid transaction exposure by not involving itself in foreign exchange at all. All the transactions can be conducted in the home currency. However, this is not possible for all types of businesses.
- **Currency Risk Sharing**:-The two parties involved in the deal can have the understanding to share the transaction risk.

- **Leading and Lagging**:-Leading and lagging involve manipulating currency cash flows in accordance with the fluctuations. Paying off liabilities when the currency is appreciating is known as leading. While collecting receivables when the currency is at a low value is called lagging.

- **Re-invoicing Centers**: - A re-invoicing center is a single third-party subsidiary used to conduct all intra-company trades. The re-invoicing centers carry out transactions in domestic currency, thereby bearing the losses from the transaction exposures.

ECONOMIC EXPOSURE

Economic exposure can prove to be difficult to hedge as it deals with unexpected fluctuations in foreign exchange rates. As the foreign exchange volatility rises, this exposure increases and vice versa. Multinational companies having numerous subsidiaries overseas and transactions in foreign currencies face a greater risk of economic exposure.

MANAGING ECONOMIC EXPOSURE

The risk of economic exposure can be hedged either by operational strategies and currency risk mitigation strategies.

OPERATIONAL STRATEGIES

The following are the operational strategies that can be used to alleviate the risk of economic exposure:

- **Diversifying Production Facilities and Markets for Products:-** Diversifying the production facilities and sales to a number of markets rather than concentrating on one or two markets would mitigate the risk inherent. However, in such cases, the companies have to forgo the advantage earned by economies of scale.
- **Sourcing Flexibility:-** Companies may have alternative sources for acquiring key inputs. The substitute sources can be utilized if the exchange rate fluctuations make the inputs expensive from one region.
- **Diversifying Financing:-** A company can have access to capital markets in a number of major regions. This enables the company to gain flexibility in raising capital in the market with the cheapest cost of funds.

CURRENCY RISK MITIGATION STRATEGIES

The following are the currency risk mitigation strategies that can be used to alleviate the risk of economic exposure:

- **Matching Currency Flows:-** This is the simplest form of mitigating economic exposure by matching foreign currency inflows and outflows. For example, if a European company has significant inflows in US dollars and is looking to raise debt, it should consider borrowing in US dollars.
- **Currency Risk-Sharing Agreements:-** An agreement is framed between the two parties involved in the purchase and sales contract. The agreement states that the parties must share the risk arising from the exchange rate fluctuations. The agreement consists of a price adjustment clause that states that the base price of the transaction will be adjusted in case of currency rate fluctuations.
- **Back-to-Back Loans:-** This method, also known as credit swap, involves two companies in different countries entering into an arrangement to borrow each other's currency for a fixed period. Once the defined period is over, the currencies are repaid.
- **Currency Swaps:-** The currency swap method is similar to the back-to-back loans method. However, it does not reflect on the balance sheet. This method involves two firms who borrow currencies in the world market, each benefiting from the best rates, and then swap the proceeds.

TRANSACTION VS. ECONOMIC EXPOSURE

The difference between Transaction and Economic Exposure is organized in the following 5 major points.

Point of Difference	Transaction Exposure	Economic Exposure
Cash Flow	Transaction exposure is driven by transactions that have already been contracted for, and hence they are of a short-term nature.	Economic exposure is transaction exposure as well as operating exposure which is related to future cash flows.

Nature of Risk	The risk associated is limited to the contract or transaction under discussion.	The risk associated impacts the core value of a business rather than one particular transaction or contract and is the risk to the present value of future operating cash flows.
Identification	Transaction risk is the most easily identifiable foreign exchange risk	Given its anticipatory nature, economic exposure is not easy to identify
Cause and Scope	Transaction exposure arises only when you enter into a contract involving future receivables/payables in foreign currency. Hence the scope remains narrow.	Economic exposure can arise without having any transaction exposure, and hence the scope remains wide.
Hedging Application	Transaction exposures are hedged more frequently by most companies.	Most firms seldom apply any hedging strategy for managing economic exposure and believe in natural hedging.

FOREIGN DIRECT INVESTMENT (FDI)

A foreign direct investment (FDI) is a purchase of an interest in a company by a company or an investor located outside its borders. The investment may involve acquiring a source of materials, expanding a company's footprint, or developing a multinational presence. Foreign direct investment frequently goes beyond capital investment. It may include the provision of management, technology, and equipment as well. A key feature of foreign direct investment is that it establishes effective control of the foreign business or at least substantial influence over its decision-making. In simple words, FDI is the investment made by any individual or firm in countries apart from the country of their origin.

BENEFITS OF FDI

FDI brings in many advantages to the country. Some of them are discussed below.

1. Brings in financial resources for economic development.
2. Brings in new technologies, skills, knowledge, etc.
3. Generates more employment opportunities for the people.
4. Brings in a more competitive business environment in the country.
5. Improves the quality of products and services in sectors.

DISADVANTAGES OF FDI

However, there are also some disadvantages associated with foreign direct investment. Some of them are:

1. It can affect domestic investment, and domestic companies adversely.
2. Small companies in a country may not be able to withstand the onslaught of MNCs in their sector. There is the risk of many domestic firms shutting shop as a result of increased FDI.
3. FDI may also adversely affect the exchange rates of a country.

FDI IN INDIA

The investment climate in India has improved tremendously since 1991 when the government opened up the economy and initiated the LPG strategies.

- The improvement in this regard is commonly attributed to the easing of FDI norms.
- Many sectors have opened up for foreign investment partially or wholly since the economic liberalization of the country.
- Currently, India ranks in the list of the top 100 countries in ease of doing business.
- In 2019, India was among the top ten receivers of FDI, totalling **$49 billion inflows**, as per a UN report. This is a 16% increase from 2018.

- In February 2020, the DPIIT notifies policy to allow 100% FDI in insurance intermediaries.
- In April 2020, the DPIIT came out with a new rule, which stated that the entity of nay company that shares a land border with India or where the beneficial owner of investment into India is situated in or is a citizen of such a country can invest only under the Government route. In other words, such entities can only invest following the approval of the Government of India
- In early 2020, the government decided to sell a 100% stake in the national airline's Air India.

GOVERNMENT MEASURES TO INCREASE FDI IN INDIA

1. Government schemes like production-linked incentive (PLI) scheme in 2020 for electronics manufacturing, have been notified to attract foreign investments.
2. In 2019, the amendment of FDI Policy 2017 by the government, to permit 100% FDI under automatic route in coal mining activities enhanced FDI inflow.
3. FDI in manufacturing was already under the 100% automatic route, however, in 2019, the government clarified that investments in Indian entities engaged in contract manufacturing is also permitted under the 100% automatic route provided it is undertaken through a legitimate contract.
4. Further, the government permitted 26% FDI in digital sectors. The sector has particularly high return capabilities in India as favourable demographics, substantial mobile and internet penetration, massive consumption along technology uptake provides great market opportunity for a foreign investor.
5. Foreign Investment Facilitation Portal (FIFP) is the online single point interface of the Government of India with investors to facilitate FDI. It is administered by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry.

6. FDI inflow is further expected to increase –
    - as foreign investors have shown interest in the government's moves to allow private train operations and bid out airports.
    - Valuable sectors such as defence manufacturing where the government enhanced the FDI limit under the automatic route from 49% to 74% in May 2020, is also expected to attract large investments going forward.

EXPORT STRATEGY

The decision to export must take into account global concentration, global synergies, and global strategic motivations. Strategic factors affecting the choice of exporting as a mode of entry include:

- the ownership advantages of the firm [specific assets, international experience and the firm's ability to differentiate its products]
- the location advantages of the market [sales opportunitiesυ and investment risk]
- the internalization advantages [benefits of retaining a coreυ competency within the company rather than license, outsource or sell it]
- the international experience of the firm.
- The firm's ability to differentiate its products
- Its fit with the overall strategy of the firm.

STRATEGIC ADVANTAGES OF EXPORTS

- Avoids substantial costs of establishing manufacturing operations in the host country
- Increase revenues and profitability
- Achieve economies of scale in production and research
- Alleviate excess capacity in domestic operations
- Minimize risk (as compared to licensing and foreign direct investment)
- Diversify markets

DESIGNING AN EXPORT STRATEGY

- To design an effective export strategy, management must:
- Assess the company's export potential (examine market opportunities and firm's resources)
- Obtain expert counselling on exporting (get both government and specialised assistance)
- Select target markets (passively or pro actively pursue market opportunities)
- Formulate and implement an effective strategy (define objectives and tactics and establish schedule and deadlines)

IMPORT STRATEGY

There are three types of importers:

- Those looking for any product around the world to import and sell.
- Those looking for foreign sourcing to get their products at the cheapest price.
- Those using foreign sourcing as a part of their global supply chain.

STRATEGIC ADVANTAGES OF IMPORTS

- Decrease costs and increase competitiveness and profitability
- Secure essential inputs and products
- Secure high quality products, supplies, materials and components.
- Minimise risk and investment
- Diversify suppliers

COLLABORATIVE STRATEGIES

Firms use four basic strategies to enter and compete in the international environment: an international strategy, a multi-domestic strategy, a global strategy, and a transnational strategy. Each of these strategies has its advantages and disadvantages. The appropriateness of each strategy varies with the extent of pressures for cost reduction and local responsiveness.

- **International Strategy**:- Firms that pursue an international strategy try to create value by transferring valuable skills and products to foreign markets where indigenous competitors lack those skills and products. Most international skills hence created value by transferring differential product offerings developed at home to new markets overseas Accordingly, they tend to centralize product development functions at home (e.g. R&D). However they tend to establish manufacturing and marketing functions in each major country in which they do business. But while they may undertake some local customization of product offering and marketing strategy, this tends to be limited.
- **Multi-domestic Strategy:-** Firms pursuing a multi-domestic strategy orient themselves toward achieving maximum local responsiveness. The key distinguishing feature of multi-domestic firms is that they extensively customize both their product offering and their marketing strategy to match different national conditions. Consistent with this, they also tend to establish a complete set of value creation activities, including production, marketing and R&D, in each major national market in which they do business. A multi-domestic strategy makes some sense when there are high pressures for local responsiveness and low pressure for cost reductions.
- **Global Strategy**:- Firms that pursue a global strategy focus on increasing profitability by reaping the cost reductions that come from experience curve effects and location economies. That is, they are pursuing a low cost strategy. The production, marketing, and R&D activities of firms pursuing a global strategy are concentrated in a few favourable locations. Global firms tend not to customize their product offering and marketing strategy to local conditions because customization raises costs (it involves shorter production and the duplications of functions). Instead, global firms prefer to market a standardized product worldwide so they can reap the maximum benefits from the economies of scale that underlie the experience curve. They may also use their cost advantage to support aggressive pricing in world markets.

- **Transnational Strategy:-** A transnational strategy makes sense when a firm faces high pressures for cost reductions, high pressures for local responsiveness, and where there are significant opportunities for leveraging valuable skills within a multinational's global network of operations. In some ways, firms that pursue a transnational strategy are trying to simultaneously achieve cost and differential advantages.

SOURCING AND PRODUCTION STRATEGIES:

Global sourcing and production strategy refers to buying the raw materials or components that go into a company's products from around the world, not just from the headquarters' country. For example, Starbucks buys its coffee from locations like Colombia and Guatemala. The advantages of global sourcing are quality and lower cost. Global sourcing is possible to the extent that the world is flat—for example, buying the highest-quality cocoa beans for making chocolate or buying aluminum from Iceland, where it's cheaper because it's made using free geothermal energy.When making global-sourcing decisions, firms face a choice of whether to sole-source (i.e., use one supplier exclusively) or to multisource (i.e., use multiple suppliers). The advantage of sole-sourcing is that the company will often get a lower price by giving all of its volume to one supplier. If the company gives the supplier a lot of business, the company may have more influence over the supplier for preferential treatment. For example, during a time of shortage or strained capacity, the supplier may give higher quantities to that company rather than to a competitor as a way of rewarding the company's loyalty.

SOLE-SOURCING ADVANTAGES

- Price discounts based on higher volume
- Rewards for loyalty during tough times
- Exclusivity brings differentiation
- Greater influence with a supplier

SOLE-SOURCING DISADVANTAGES

- Higher risk of disruption
- Supplier has more negotiating power on price

MULTI SOURCING ADVANTAGES

- More flexibility in times of disruption
- Negotiating lower rates by pitting one supplier against another

MULTI SOURCING DISADVANTAGES

- Quality across suppliers may be less uniform
- Less influence with each supplier
- Higher coordination and management costs

HUMAN RESOURCE MANAGEMENT

International Human Resource Management (IHRM) can be defined as a set of activities targeting human resource management at the international level. It strives to meet organizational objectives and achieve competitive advantage over competitors at national and international level.

IHRM comprises of typical HRM functions such as recruitment, selection, training and development, performance appraisal and dismissal done at the international level and additional exercises such as global skills management, expatriate management and so on.

In short, IHRM is concerned with handling the human resources at Multinational Companies (MNCs) and it includes managing three types of employees −

- **Home country employees** − Employees residing in the home country of the company where the corporate head quarter is situated, for example, an Indian working in India for some company whose headquarters are in India itself.

- **Host country employees** − Employees residing in the nation in which the subsidiary is located, for example, an Indian working as an NRI in some foreign country.
- **Third country employees** − These are the employees who are not from home country or host country but are employed at the additional or corporate headquarters.

OBJECTIVES OF INTERNATIONAL HRM

1. It enhances to develop managerial skills, organisational knowledge and technical abilities of HR managers and employees;
2. To develop more and better handle of global business operations;
3. To manage and secure the performance, compensation and career path of employees;
4. To manage and organise cross cultural counselling and language training programme;
5. To develop more feasible understanding of work practices at global levels;
6. To raise and develop better and new performance management of human resources;
7. To get more and more opportunities within global HR scenario;
8. To develop better and competitive HR strategies in global competitive scenario;
9. To reduce the cultural differences as amicable for cultural environment.

NEED FOR INTERNATIONAL HRM

1. **Cultural Diversity**

Culture of a country is one of the key factors which affect people-oriented processes, and HRM is a people-oriented process. Therefore, culture of a country has very significant impact on HRM practices. When we consider global perspective of HRM, we find cultural diversity along the globe, that is, cultures of two countries are not alike.

Cultural diversity exists on five dimensions- individualism versus collectivism, power orientation, uncertainty avoidance, masculinity versus femininity, and time orientation.

2. **Workforce Diversity**

Workforce diversity is increasingly becoming common for large organizations even for domestic ones. However, in a global firm, additional workforce diversity emerges because of hiring personnel from different countries.

A typical global firm may draw its employees from three types of countries — home country (PCNs), host country (HCNs), and third country (TCNs). In a global firm, workforce diversity can also be seen in the context of employee mobility from one country to another country for performing jobs.

3. Language Diversity

Language is a medium of expression but employees coming from different countries have different languages. Though English is a very common language, it does not serve the purpose adequately as it does not cover the entire world. While employees coming from different countries may be encouraged to learn the language of the host country for better dissemination of the information, it does not become feasible in many cases.

An alternative to this is to send multilingual communications. It implies that anything transmitted to employees should appear in more than one language to help the message get through. While there are no hard- and-fast rules in sending such messages, it appears safe to say that such a message should be transmitted in the languages the employees understand to ensure adequate coverage.

4. **Economic Diversity**

Economic diversity is expressed in terms of per capita income of different countries where a global company operates. Economic diversity is directly related to compensation management, that is, paying wages/salaries and other financial compensation to employees located in different countries.

One of the basic principles of paying to employees is that “there should be equity in paying to employees.” However, putting this principle in practice is difficult for a global company because its operations are located in different countries having different economic status. In such a situation, some kind of parity should be established based on the cost of living of host countries.

APPROACHES OF IHRM

Fundamentally there have been different approaches to International Human Resource Management.

Approaches of IHRM are:

1. Ethnocentric Approach

2. Poly-centric Approach
3. Regiono- centric Approach
4. Geo-Centric Approach

Ethnocentric Approach

In Ethnocentric approach, management believes that the approach of the parent company in managing things is the tried and tested practice and it should be followed in all units of the organization in different countries. This leads to the adoption of all systems, procedures, policies of the parent company from the parent country in all other centres of activities.

In ethnocentric approach, most of the major decision making is centralised with the parent company. This is more in the case of management of Human Resources. The top management in host countries is also posted from the parent company so that the culture of the unit remains in line with the parent country.

Poly-centric Approach

In Poly-centric approach or philosophy, MNCs realize the importance of the host country and its governing laws. Further, they are aware that the National culture plays an important role in all aspects of management. Hence it is prudent to follow the market needs of the host country and frame a strategy which can give the best results.

To implement such a strategy they need local knowledge and indepth understanding of the way of working in that country. They have to align their management style to suit the local culture and aspirations of the people in that country.

In this approach, organisations have local people are recruited at senior positions. There are very few Parent country nationals. The decision making is highly decentralised and local management takes all decisions. Apart from broad policies which are framed by the corporate at Parent country, all operational policies are decided at a local level.

Regino-Centric Approach

In Regino-Centric approach, MNCs believe that though there is a difference in various aspects of culture from country to country yet there are similarities in a particular region.

For example, there may be differences in the cultures of India, Sri Lanka, Japan yet there are lot of similarities hence it may be appropriate that one Region is managed by one regional office. Thus MNCs set up regional offices to manage entire region consisting of all countries in this region.

Such organisations are strong in innovation and creativity due to diversity in their workforce. Simultaneously such MNCs are able to channelise innovative practices across the globe in a significant manner. Inter region transfers and managing expatriate becomes the quite critical activity of Human Resource Management.

Geo Centric Approach

Geocentric approach of management believes in using the best strength wherever it is available within the organization without any consideration of geographical region or country. Such organisations are much matured in their management structure, processes and systems. These organisations create a culture that has right proportion of flexibility as well as defining culture and boundaries which make them unique and highly effective.

In these companies mobility of talent is frequent. Top positions are manned by people from any country. Professionalism is the diving force and equal opportunity irrespective of race, cast, religion, nationality, gender etc is one of their strong core values. Geocentric approach is highly professional hence need very competent leaders at the top. Their training and coaching is given high importance by such companies. Generally, such companies believe and follow ‘homegrown talent strategy. They spend huge efforts in developing talent which is Culture fit.

CHALLENGES IN IHRM

There are a number of unique problems that global companies face while trying to implement consistent practices across their global HR networks. These problems act as barriers to effective International Human Resource Management.

1. **Variation in country environment**

PESTEL (Political, Economic, Social, Technological, Environmental and Social factors of countries varies. An HR practice which works in one country might not work in the same manner in another country. Fluctuations in currency, government policies and regulations, compensation expectations etc are just a few examples of the local variations s global HR professional faces.

2. **Perception of HR**

The perceived value of HR is another global challenge in HRM. In one country, HR in a company might be viewed as a true business partner, working with high-level managers on critical assignments. In another country within the same company, the same HR might just be viewed as a transactional personnel department that handles administrative work.

3. **Resistance to Change**

The rate of change is enormous in multinational companies. Hence, a major challenge facing global HR practitioners is that different locations have their own way of doing things and resist to change.

4. **Balance**

International companies must strive to achieve the appropriate balance between global and local HR systems and practices. It is such firms that put into application the best practices and create a benchmark for others to follow.

ACTIVITIES INTERNATIONAL HUMAN RESOURCE MANAGEMENT

1. **HR Planning**

Human resource planning is very complex and difficult at the international level. The planning is not confined to one country but extends to various other countries in which the MNC is operating or plan to operate in future. It is very difficult to maintain consistency in the HR planning in all the subsidiaries. The HR planning is influenced by the culture of the host country especially its perception towards the control over future events.

2. **International Recruitment and Selection Policy**

The objective of the international HR manager is to make available the right kind of human resource to the organization at the right time. This means after the HR planning recruitment and selection process will start. The international HR manager must hire the candidates not only with the required skills but also with the ability to adapt to the culture of the other country. International managers can hire candidates from the three countries – parent country, host country and third country depending upon the requirement and suitability.

3. **Training and Development**

It is the next step after recruitment and selection. The International HR managers will provide the training and development to the new expatriate going to the host country. They are provided with pre-departure training before they depart for the host country. The expatriate are provided with cultural training, language training and practical training. This will help in reducing expatriate failure.

4. **Expatriate Remuneration**

International HR managers must pay focused attention while designing the remuneration package of the expatriate. It needs to be considered that there is a difference in the cost of living of the two countries and even the tax structure differs.

5. **Performance Appraisal of an Expatriate**

In this world of rising globalization expatriates are of immense importance to multinational enterprises. To keep them motivated appropriate and justified performance appraisals should be conducted. Appraising an expatriate is a complex task as there is active involvement of the home country supervisor and the host country supervisor.

6. **Repatriation**

Repatriation is the process of taking back the expatriate from the host country. It is the process of re-entry into the home country. It represents the new challenges because the expatriate now has to face the re-entry shock or reverse cultural shock. This process takes place when the expatriate has completed his host country assignment and now he has been assigned a new assignment in the home country.

UNIT 5

RECENT DEVELOPMENTS IN INTERNATIONAL BUSINESS

International business relates to any situation where the production or distribution of goods or services crosses country borders. Globalization—the shift toward a more interdependent and integrated global economy—creates greater opportunities for international business. Such globalization can take place in terms of markets, where trade barriers are falling and buyer preferences are changing. It can also be seen in terms of production, where a company can source goods and services easily from other countries. Since the International Business is extremely competitive, it becomes utmost essential to update oneself with the current trends to survive in the market.

RECENT TRENDS IN INTERNATIONAL BUSINESS

1. Crowd Funding

One major trend that seems to have a bright future in international business is Crowd funding. It is the best way to finance new business ventures by collecting a small sum of capital from a large group of individuals. It employs a vast network of people via social media and creates Crowd funding websites to form a direct link between the investor and the entrepreneur. Currently, there are several online portals available which are providing the service of project funding.

2. Remote Employment

Another prevailing global trend in international business is the remote workforce. The progressive modes of communication like webinars, video calls have increased connectivity that facilitates companies to hire employees remotely. This mode of employment is much faster than the traditional hiring methods and helps employers to hire resources from any part of the world.

3. **Environmental-friendly technologies**

New green technologies are expected to still be at the centre-stage for the coming year, despite a shift in focus to the pandemic. The imminent reversal of Trump-era environmental regulations by the Biden administration in the USA will also contribute to restoring some of the attention to environmental issues on the global stage.

4. **Block-chain applications in different industries**

The blockchain technology has long outgrown its usefulness as purely a technological support for cryptocurrencies. Today, you can see the technology being used to increase transparency and security in multiple business domains, including the cybersecurity industry or the global supply chain domain.

5. **Tailored Artificial Intelligence Platforms**

Many companies already use artificial intelligence or are considering it because it can improve business operations and customer service. Until recently, most companies could only afford to access AI through broad as – a – service platforms that required expensive custom engineering to meet a company's specific needs.

6. **Adoption of 5G**

No company can afford to ignore mobile technology, and 5G is likely to be very popular as it delivers more speed, reduced latency and a smoother online experience. Besides the obvious benefits to buyers, 5G can also improve teamwork and business agility. Early 5G adopters may have a distinct advantage over slower competitors.

E- BUSINESS STRATEGY

An e-business strategy defines a long-term plan for putting in place the right digital technology for a company to manage its electronic communications with all partners - that's internal through the intranet and externally through to customers, suppliers and other partners. The term 'e-business' is defined here as the use of electronic means to conduct an organization's business internally and/or externally. Internal e-business activities include the linking of an organization's employees with each other through an intranet to improve information sharing, facilitate knowledge dissemination, and support management reporting. E-business activities also include supporting after sales service activities and collaborating with business partners.

TYPES OF E- BUSINESS STRATEGY

1. **Turnkey Businesses**

A turnkey business functions with a pre-existing template for its given industry. These websites may offer anything from diet pills to a dating network for a particular city. The turnkey model requires less work than others but also faces stiff competition. The operator must do some legwork to produce the site's content and sell ad space to generate more income. Marketing mostly relies on the optimizing the website to appear on as many search engine result pages as possible.

2. **Ad-Supported Content**

Some websites develop into effective e-businesses without directly selling anything at all. With enough worthwhile content and frequent updates, blogs and similar informative sites can succeed simply by selling ad space. The profitability depends on the motivation and talent of the people producing the content. A combination of entertaining the reader and drawing in references to appropriate consumer products can potentially generate enough advertisements and revenue sharing to support the site as a business.

3. **Freemium**

The freemium model for e-business involves offering some content for free while charging membership dues or other fees for special access or materials. Often in combination with another business model, a freemium site caters to both casual visitors and devoted fans. The site can offer all content for free at its beginning to generate interest and later begin charging for membership, or the site can permanently divide its content between free and paying members.

4. **Warehouse Sales**

For an existing company, a new company starting with a surplus of product or a company liquidating merchandise from retail industry, an e-business can function as a sales point for a warehouse of inventory. For companies with physical stores, the website can offer overstocked items, popular items selling at high volume or obscure items unlikely to sell at single locations. An online store can also serve to liquidate leftover merchandise bought at closeout from various suppliers.

5. **Social Media**

While allowing users to register accounts and contribute their own information and content, a social media site can create revenue from ads on the site as well as selling the members' information as marketing data. The website can have either a broad scope or a very specific one with a geographical, cultural, or interest-based theme. The site entertains and informs its users, who can receive targeted ads based on what information they've entered on the site.

INTERNATIONAL BUSINESS INTELLIGENCE

International Business intelligence combines business analytics, data mining, data visualization, data tools and infrastructure, and best practices to help organizations to make more data-driven decisions. In practice, you know you’ve got modern business intelligence when you have a comprehensive view of your organization’s data and use that data to drive change, eliminate inefficiencies and quickly adapt to market or supply changes.

It’s important to note that this is a very modern definition of BI—and BI has had a strangled history as a buzzword. Traditional Business Intelligence, capital letters and all, originally emerged in the 1960s as a system of sharing information across organizations. It further developed in the 1980s alongside computer models for decision-making and turning data into insights before becoming specific offering from BI teams with IT-reliant service solutions. Modern BI solutions prioritize flexible self-service analysis, governed data on trusted platforms, empowered business users, and speed to insight.

Over the past few years, business intelligence has evolved to include more processes and activities to help improve performance. These processes include:

- **Data mining:** Using databases, statistics and machine learning to uncover trends in large datasets.
- **Reporting:** Sharing data analysis to stakeholders so they can draw conclusions and make decisions.
- **Performance metrics and benchmarking:** Comparing current performance data to historical data to track performance against goals, typically using customized dashboards.
- **Descriptive analytics:** Using preliminary data analysis to find out what happened.
- **Querying:** Asking the data specific questions, BI pulling the answers from the datasets.
- **Statistical analysis:** Taking the results from descriptive analytics and further exploring the data using statistics such as how this trend happened and why.
- **Data visualization:** Turning data analysis into visual representations such as charts, graphs, and histograms to more easily consume data.
- **Visual analysis:** Exploring data through visual storytelling to communicate insights on the fly and stay in the flow of analysis.
- **Data preparation:** Compiling multiple data sources, identifying the dimensions and measurements, preparing it for data analysis.

Business intelligence can help companies make better decisions by showing present and historical data within their business context. Analysts can leverage BI to provide performance and competitor benchmarks to make the organization run smoother and more efficiently. Analysts can also more easily spot market trends to increase sales or revenue. Used effectively, the right data can help with anything from compliance to hiring efforts. A few ways that business intelligence can help companies make smarter, data-driven decisions:

- Identify ways to increase profit
- Analyze customer behavior

- Compare data with competitors
- Track performance
- Optimize operations
- Predict success
- Spot market trends
- Discover issues or problems

4 WAYS BUSINESS INTELLIGENCE CAN REVOLUTIONISE GLOBAL BUSINESS.

Business intelligence or BI tools can be an effective solution for your company to integrate global business data for strategic decision making. Integrating BI in a global context can help your organisation gain a huge competitive edge in the international market and quickly scale operations in other countries.

1. **Effective BI can help with product pricing**

One of the primary challenges of scaling business operations overseas is to analyse the price change comparisons between different countries and come up with competitive product prices. For instance, the product price in the USA is dependent on the local market conditions which might not be the same for China.

Incorporating business intelligence tools can help companies quantitatively determine the impact of different economic and market factors on product sales at a specific price. This can help stakeholders with effective product pricing for different world regions.

2. **BI can provide great insights into supply chain management**

The impact of global factors can especially impact companies in the logistics and supply chain management industry. Collection of data is challenging as the data is often stored in

Disparate systems specific to different countries. The lack of consolidated data can increase the time for the company to analyse the data and take important decisions.

Business intelligence software and tools can help logistics companies gain a comprehensive view of their entire operational pathways spread over several countries. The faster data processing and in-depth insights enabled by business intelligence can lead to significant savings for the company in a multitude of departments.

3. **BI can improve operational processes**

Any medium-sized company has hundreds of operations carried out every day to generate direct or indirect revenue. Increasing operational efficiency and speed can make it easier for the customers and allow the company to maximise its profits.

Business intelligence systems can help organisations cut down wasted time between different workflows. They can also reveal the exact scope of streamlining in different departments and make it easier to enforce new changes. BI can also indicate opportunities for automation which can further improve the company's overall productivity.

4. **BI can nurture customer loyalty**

Nurturing and maintaining customer loyalty can get more challenging for companies with overseas operations. Different countries have different kinds of customer bases with different priorities. Hence, standardisation of customer engagement programmes can be impractical and harmful for overseas sales.

INTERNATIONAL PRODUCT DECISION

A product is a physical good, service, idea, person or place that is capable of offering tangible and intangible attributes that individuals or organizations regard as so necessary, worthwhile, or satisfying that they're prepared to exchange money, patronage or some other unit of value in order to acquire it.

Product decision represents product chrematistics and different stages of life cycle. Decisions regarding the product, price, promotion and distribution channels are decisions on the elements of the "marketing mix". It can be argued that product decisions are probably the most crucial as the product is the very epitome of marketing planning. Product decision should be as per the expectations of customer and as per their culture views. India is a more cultural market, where a anti culture product will effects all of the goodwill of the company. So, we should care about the ethical issues of India while taking product decision.

Important product decisions are as follows:

1. Market segment decision
2.Product mix decisions
3.Product specifications
4. Positioning and communication decisions

1**. Market Segment Decision:** The first product decision to be made is the market segment decision because all other decisions product mix decision, product specifications, and positioning and communications decisions depend upon the target market.

2. Product Mix Decision: Product mix decision pertains to the type of products and product variants to be offered to the target market.

3. Product Specifications: This involves specification of the details of each product items in the product mix. This includes factors like styling, shape, size and other attributes and factors like packaging and labeling.

4. Positioning and Communications Decisions: Positioning is the image projected for the product. For example, toilet soap may be positioned as baby soap, beauty soap, a deodorant soap, freshness soap or skin care soap. Communication refers to the promotional message designed for the product.

GLOBAL SUPPLY CHAIN MANAGEMENT

Globalisation has meant that supply change management has undergone many changes in recent years. Global supply chains are networks that can span multiple continents and countries for the purpose of sourcing and supplying goods and services. These supply chains are an integral part of the flow of information, processes, and resources across the globe.

Supply chain management covers almost all business activity including marketing, manufacturing, purchasing, logistics and more generally such activities as finance, personnel, whereas global supply chain management involves planning how the entire supply chain will function as an integrated whole, including:

- Generating an exceptional level of customer
- Cost efficiency
- Product delivery – increasing the speed at which your product reaches your customers
- Flexibility in dealing with customer transactions

FEATURES OF GLOBAL SUPPLY CHAIN MANAGEMENT

1. **Formulate Effective Plan**

Supply chain managers focus on creating effective plans and strategies for ensuring proper functioning. They develop well-defined plans by doing various analysis and forecasting that leads to deliver better results within the organization.

2. **Acquire Raw Materials**

Availability of sufficient amount of raw materials at all is must for the uninterrupted functioning of the business. Supply chain managers identify cheap sources of raw materials and ensure timely attainment of all materials in the right quantity and quality.

3. **Supervise Production Process**

Supply chain management supervises the whole production processes of business for deriving optimum results. These managers monitor all activities and ensure that each of the resources is efficiently utilized with minimum wastage.

4. **Manages Delivery Of Goods**

Supply chain management is concerned with the regulation of delivery and logistics activities of the organization. It works towards timely delivery of goods and services by bringing proper coordination in between distinct transportation channels and warehouses.

5. **Proper Return System**

It facilitates a proper return mechanism by providing an automated process on both buy and sell-side of the business. All refunds and claims of customers, distributors and suppliers are settled instantly via this process. Super chain management ensures proper handling and inspection of defective goods.

OBJECTIVES OF GLOBAL SUPPLY CHAIN MANAGEMENT

1. **Reduce Operating Expenses**

Supply chain management lays emphasis on bringing down the operational expenses of a business. It reduces all types of business expenses like the cost of purchase, production and delivery by providing a proper supply chain. Holding period of both raw materials and finished goods is reduced by facilitating a smooth flow of raw materials in between the supplier and a company and movement of finished products between company and customers. This avoids losses and minimizes the overall operating cost of business.

2. **Enhance Customer Satisfaction**

Boosting the overall customer experience with business is another major role by process of supply chain management. Proper analysis of customer analysis is done before formulating any production strategy which leads to production of right product. It keeps an eye on all activities within the organization and checks the quality of products to ensure whether they meet desired standards or not. Providing right quality of products at right price enables in providing better satisfaction to customers.

3. **Improve Distribution Channel**

Supply chain management provides an efficient supply chain to business which accelerates the whole process of distribution. Proper coordination in between various transportation channel and warehouses is achieved for facilitating faster movement of goods. This way the whole distribution system is enhanced which enables in delivering product in right time and at right location.

4. **Strengthen Financial Position**

It strengthen financial status of business by attaining better efficiency in its process. Supply chain manager prevents any shortage of materials and focuses on cutting any excessive costs. Any chance of funds blockage in inventories is avoided by facilitating a speedy movement of goods. Optimum funds are always maintained by managers within the business which leads to strengthen the financial status.

5. **Regulate Proper Inventory**

Maintaince of proper inventory is must for continued operations of business. All inventories such as raw materials, spare parts and finished product are properly recorded by managers for maintaining a right stock always. Any situations like under stocking or over stocking is avoided that leads to smooth functioning of business organization.

6. **Promotes Better Coordination**

Supply chain management aims at establishing a better coordination among all stakeholders of business. Proper channel is developed for easy communication of employees, customers and suppliers with organization. Manager can easily direct their employees and employees can also contact their supervisors via the established channel in case of any problem erupts. It promotes exchange of information among all parties and assist in bringing proper coordination within the organization.

INTERNATIONAL LOGISTICS AND DISTRIBUTION

"Logistics is the process of planning, executing and controlling the efficient & effective flow and storage of goods, services as well as the related information from point of origin to point of consumption to serve the purpose of conforming the customer requirement".

International Logistics, therefore, refers to the integration and management of activities including inventory databases and shipping schedules, material handling, production, packaging, inventory, transportation, distribution, storage, and security for the resources of organizational supply chains beyond the political boundaries of the nations involved in the global trade. It is the process of planning and managing the flow of goods and products in your company's supply chain from acquisition to customer purchase, where part of the process involves crossing at least one international border. It is a Global Supply Chain Logistics provided for clients that have products to move from point to point.

OBJECTIVES OF INTERNATIONAL LOGISTICS

The basic objective which a company tries to achieve through using the logistics at global level or even at national level is to maintain the ensured flow of goods & services from seller to the buyer with the following:

- Right product
- Right quantities and assortments
- Right places
- Right time
- Right cost/price
- Right condition

However, there are some definite objectives to be achieved through a proper logistics system which are as follows:

1. Improving Customer Service : The effective management of international logistics system can help in improving the level of customer service by developing an effective system of warehousing, quick and economic transportation, along with maintenance of optimum level of inventory because the level of service directly affects the cost of physical distribution.

2. Increased Customer Response: Now-a-days, the information & communication technology has increased the capability to postpone logistical operations to the latest possible time and then achieve the faster delivery of required inventory, thereby, resulting in the elimination of excessive inventories traditionally stocked in anticipation of customer requirements.

3. Reduction in Distribution Costs : The distribution cost is comprised of various elements, like, transportation, warehousing and inventory maintenance, and any reduction in the cost of one the elements are likely to increase the cost of the other elements. Thus, the objective of the firm should be the reduction of the total cost of distribution and not just the cost incurred on any one of the elements. To serve this purpose, the total cost of alternative distribution systems should be analyzed and the one with the minimum total distribution cost should be selected.

4. Increasing Sales : The physical distribution/logistics system in a firm also aims to generate more sales. A firm can attract more customers by offering better services at lower prices. For instance, by introducing decentralization in its warehousing operations or by using economic and efficient modes of transportation, a firm can achieve larger market share. Further, by avoiding the out-of-stock situation, the loss of loyal customers can be curtailed.

5. Creating Time & Place Utilities : The logistical system also focuses on creating time and place utilities to the products & services. Till the products are physically moved from the place of their origin to the place of destination, they do not serve any purpose to the users. In the same manner, the products & services have to be made available at the time when they are needed for consumption. Moreover, a rapid mode of transportation should be selected to move the products from one place to another in the shortest possible time. Therefore, time and place utilities can be created in the products & services by adopting an efficient system of physical distribution.

6. Stabilizing Product Prices : The international logistics system also aims at stabilizing the prices of the products. It can be achieved by controlling & maintaining the flow of the products to the market through a judicious use of available transport facilities and compatible warehouse operations. To say, maintaining the stock of the raw material during the periods of excess supply and making it available during the periods of short supply, the prices can be stabilized.

7. Quality Management : The international logistics system is a significant part & parcel of developing and maintaining continuous improvement in total quality management. The long-term objective of the international logistics system is to seek continuous quality improvement. Overall commitment to total quality management is one of the major forces responsible for the logistical renaissance because the logistical costs cannot be reversed, if they are increased once. In fact, when the quality fails to match the set standards, the logistical performance typically needs to be reversed and then repeated. Moreover, logistics itself must perform to demanding quality standards.

8. Supporting Product Life-Cycle : A good logistical system helps to support the life cycle. Product recall is a vital competency resulting from increasingly rigid quality standards, product expiration dating and liability for unfavourable consequences as well.

SCOPE OF INTERNATIONAL LOGISTICS

With the continuously expanding scope of international logistics, a number of activities and services are now included in the periphery of the concept. However, following areas are majorly considered as a part & parcel of international logistics:

· Forecasting Customer Demands
· Strengthening Communication Channels
· Maintaining Distribution Channels
· Controlling Inventory Requirements
· Handling Material Requirements
· Processing Orders
· Selecting Location for Plant & Warehouse
· Procuring Raw Materials
· Managing Packing & Packaging Requirements
· Regulating Traffic & Transportation
· Creating Time & Place Utilities
· Movement Consolidation
· Handling Reverse Logistics
· Maintenance of Customer Service & Support

INTERNATIONAL DISTRIBUTION

International distribution is the processes, relationships and fulfillment that you set in place to get your products into overseas markets. Distribution plays an important role in the implementation of the international marketing programme as it enable the products and services to reach the ultimate customer. An international marketing firm has the option of managing its distribution function either directly or indirectly through middleman or a suitable combination of the two.

Following are the International distributions channels:

1. **Indirect Distribution:** Indirect channels are further classified based on whether the international marketer makes use of domestic intermediaries. An international marketer therefore can make use of the following types of intermediaries for distribution in foreign markets.

- **Domestic Overseas Intermediaries**

  1. Commission buying agents
  2. Country controlled buying agents
  3. Export management companies (EMCs)
  4. Export Merchants
  5. Export agents
  6. Piggy backing

- **Foreign Intermediaries**

  1. Foreign Sales Representatives
  2. Foreign Sales Agent
  3. Foreign Stocking and Non-Stocking Agents
  4. State Controlled Trading Companies

2. **Direct Distributions:** The options available to international marketer in organizing direct distributions include sending representatives abroad from the headquarters, setting up of local sales/branch office in the foreign country of for a region establishing a subsidiary abroad, entering into a joint venture or franchising agreement.

Factors affecting the selection of channels of International distribution

1. Market Considerations

Following are the factors related to the market which affect the selection of a particular channel of distribution:

(i) Geographical Concentration of Market: If the consumers of a product are scattered all over the county, it will not be possible for the manufacturer to distribute such product directly. Therefore, it becomes necessary that such a product must be distributed through a long channel of distribution. If, on the other hand, the consumers of a product are scattered over a particular region, it can be supplied by the manufacturer himself or it can be distributed through a direct channel of distribution.

(ii) Number of Buyers: If the number of buyers of a product is very large, it must be distributed through an indirect channel of distribution so that it may be made available to all the segments of the market at all the times. If, on the other hand, number of consumers of a product is limited, it must be distributed through direct channel of distribution.

(iii) Size of Orders: If a product is bought by the consumers in large quantity, the manufacturer may decide to distribute it direct to the consumers. If a product is bought by the consumers in small quantity, the manufacturer will have to arrange to supply the product at all the places and at all the times. Thus, such a product is distributed through an indirect channel of distribution.

(iv) Habits of Buyers: Customers' buying habits also affect the channel decision. For example, habit of credit facilities, desire to purchase the necessities at one place or desire for the personal services of the salesman.

(v) Utility of Products: A very important consideration affecting the selection of a particular channel of distribution is the nature of market for the product. If the product is industrial, it can be distributed directly by the manufacturers to the industrial users. On the other hand, consumer goods are generally supplied to the consumers through middlemen.

2. Product Consideration

The characteristics of a product affect the selection of channel in the following manner:

(i) Weight of the Product: Products that are bulky, large in size, and technically complicated are usually sold directly by the company to the consumers because of the difficulty of finding middlemen for these lines. Moreover, the products of technical nature require after sale service to the consumers, and these must be supplied either directly or through the shortest possible route.

(ii) Perishability: Perishable and fashionable products such as dairy and bakery products, fruits and vegetables or sea foods must be placed in the hands of the final users as soon as possible after its production. These usually require more direct marketing because of the dangers associated with repeated handling and delays.

(iii) Selling Price per Unit: If selling price per unit is low, the channel of distribution may be indirect as in the case of cigarettes and watches. If selling price is more, the channel is more direct as in the case of television and radio.

(iv) Standardised Products: Products of standard size and quality are usually sold through middlemen, e.g. machine tools and automobile products, which are of standard make reach the consumer through wholesaler and retailers. Unstandardised products are sold through indirect channel of distribution.

(v) Number of Products: If the product lines handled by the manufacturer have consistency, the producer can sell the products directly because such products are purchased by similar type of customers. But if there is less or no consistency in the product lines, the nature of the customers purchasing it varies widely. Hence it is difficult, rather impossible, for the producer to contact them directly. Then the channel of distribution will be indirect.

(vi) After Sales Service: If it is necessary for the manufacturer to provide after sale services to the consumers, it becomes necessary that these products must be supplied direct by the manufacturer or through shortest possible channel of distribution.

3. Middlemen Consideration

The choice of channel also depends upon the strengths and weaknesses of various types of middlemen. Their behavioural differences, product lines, number, location and size differ and affect the selection of the channel.

Following are the factors related to middlemen consideration:

(i) Service Provided by Middlemen: Services provided by the middlemen may affect the choice of the channel. If middlemen can provide the services to the customers which the company requires to provide, the middlemen can be appointed, otherwise company will sell the product direct to the consumers.

(ii) Sales Possibilities: If it is expected that the sales of a product can be increased through middlemen, the manufacturer may take the help of these middlemen for the distribution. If the increase in sales is not expected through middlemen, the manufacturer may decide to distribute his products directly.

(iii) Cost Factor: If the cost of distribution of a product through a channel of distribution is within the range of enterprise, a decision may be taken to adopt it, otherwise, it is better to distribute the goods directly.

(iv) Attitude of Middlemen towards Manufacturer's Policies: Sometimes, a manufacturer adopts a channel of distribution for distributing his products because of his marketing policies and strategies require to do so. Main reason of such decision may be to get the advantage of goodwill of middlemen.

4. Company Consideration

Following are the factors related to the manufacturer which affect the selection of a channel of distribution:

(i) Financial Resources: The very first factor affecting the selection of a channel of distribution is the availability of financial resources with a manufacturer. If the manufacturer has sufficient financial resources, he may decide to sell his products direct to the consumers. If, on the other hand, a manufacturer does not have sufficient financial resources, he will have to opt for indirect channel.

(ii) Goodwill: Selection of a particular channel of distribution depends upon the goodwill of manufacturer also. If a manufacturer enjoys high reputation in the market and his products are popular among consumers, he can select any channel of distribution according to his desire. If a manufacturer does not enjoy such reputation, he should take the advantage of goodwill of middlemen.

(iii) Marketing Experience and Managerial Ability: Marketing of goods is an art. If the enterprise has sufficient marketing experience and managerial ability, the decision may be taken for distributing products direct to the consumers. If the enterprise lacks marketing experience and managerial ability, the enterprise must decide to distribute its products with the help of middlemen.

(iv) Size of the Enterprise: If the size of an enterprise is large and it has sufficient financial resources, marketing experience and managerial ability, it may select any channel of distribution. It may also decide to distribute its products to the consumers directly. Otherwise, the manufacturer will have to depend upon the experience and ability of middlemen.

(v) Desire to Control: If the manufacturer wants to have complete control over all the marketing activities, he should select a short channel of distribution or he should distribute his goods direct to the consumers. If, on the other hand, the manufacturer has no such desire, he may decide a long channel of distribution.

5. Government Rules

Government rules and policies also affect the selection of a distribution channel. If there is any legal restriction on any selling activity, the producer will be restricted to follow the same. In case of controlled items the channel should be strictly according to the government policy. For example, In India sale of wine can be made according to rules framed by the Government.

6. Other Factors

Besides the above, there are many other factors such as financial resources, managerial ability, marketing experience, characteristics and product, situation of competition, policies of competitors, buying behaviour of consumers, social expectations and government policies.

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