MALLA REDDY COLLEGE OF ENGINEERING & TECHNOLOGY
(Autonomous Institution - UGC, Govt. of India)

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MBA DEPARTMENT OF BUSINESS MANAGEMENT

DIGITAL NOTES

International Business

(R22MBA15C)

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MBA I Year II Semester

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MALLA REDDY COLLEGE OF ENGINEERING & TECHNOLOGY
(Autonomous Institution-UGC, Govt. of India)
Course Code : R22MBA15C
Course Title : INTERNATIONAL BUSINESS
Course (Year/Semester) : MBA I Year II Semester Course Type : Open Elective
Course Credits 3

Course Aim/s:

- To enhance the understanding of the dynamics of interactions between individual and the organization.
- To facilitate a clear perspective to diagnose and effectively handle human behaviour issues in Organizations.

Learning Outcome/s:

- To develop greater insight into their own behaviour in interpersonal and group, team, situations;
- Identify international business issues in advanced markets and emerging markets by using both classic and emerging international business theories and concepts.

Unit-I: Introduction to International Business

Basic Concepts: Need for International Business (IB), Drivers of IB, Approaches, Modes, Opportunities and Challenges of IB. Distinction between Domestic and IB. International Business Environment: Cultural, Political, Social and Technological Environment. Drivers of Globalization.

Unit-II: International Trade Theories

Classical Theories: Mercantilism, Absolute Advantage Theory, Comparative Advantage Theory and Factor Endowment Theory. Modern Theories: Country Similarity Theory, Product Life Cycle Theory, New Trade Cycle Theory and National Competitive Advantage Theory. India's Foreign Trade, Foreign Direct Investment in India, Balance of Payments.

Unit-III: International Business and Economic Integration

Economic Integration: Levels, Benefits and Challenges of Economic Integration, Free Trade Agreement (FTA), International Trade Policy of India. Regional Economic Groups: Customs Union, Common Market, Economic Union, European Union, NAFTA, ASEAN, SAARC and G8. Multilateral Trade Agreements: GAAT and WTO.

Unit-IV: Strategy and Structure of International Business:

Analysis in IB: Environmental Analysis, Value Chain Analysis, Strategies of IB: Types of Strategies, Strategy Implementation Process, Control and Evaluation, Strategic Alliance: Nature, Benefits, Pitfalls, Scope of Strategic Alliance, Alliance Development Process, Economic Considerations for Strategic Alliances. Organization structure: Choosing an Organizational Design Structure, Issues in Global Organizational Design.

Unit-V: International Business Operations

Issues in International Production: Sourcing and Vertical Integration. Major Activities in International Marketing: Brand Decisions. Issues in International Financial Management: Forex Market, International Monetary System, International Financial Markets, Export Financing. Issues in International HRM.

REFERENCES:

- Charles W.I. Hill and Arun Kumar Jain, International Business, Tata Mc Graw Hill.
- John D. Daniels and Lee H. Radebaugh, International Business, Pearson Education Asia, New Delhi.
- K. Aswathappa, International Business, Tata Mc Graw Hill.
- Michael R. Czinkota, Ilkka A. Ronkainen and Michael H. Moffet, International Business, Thomson, Bangalore.
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UNIT I

Need for International Business

1. Increase revenue and brand awareness

Your company will be able to explore new markets and draw in new clients as a result of your international expansion, which will increase your sales and revenue but also the visibility of your brand internationally. Your business can grow sales by entering a new market and extending the shelf life of your goods and services.

Going to a new market where certain goods and services are not offered, and customers cannot purchase them gives you access to fresh and enthusiastic customers who are prepared to acquire your goods and services.

2. Minimizing reliance on the current market

The chance to lessen reliance on the present market where you are already established exists when a store expands worldwide. Right now, many other businesses in a market is very competitive. You are unable to profit from this market and raise sales.

Moving your company abroad would now be one of the best solutions. You can split the resources to create money without being overly dependent on one particular market, as opposed to concentrating on just one plan or putting all your eggs in one basket.

3. Collaborate with skilled individuals and utilize the external resource

The ability to utilise the other country's resources, such as technology, skill, and understanding in a certain industry, is another significant benefit of expanding your firm internationally. It enables you to employ better technologies and discover better work practices, ultimately enhancing your company's operations and revenue.

Additionally, you will collaborate with skilled individuals who are experts in your field. You can benefit from their knowledge and experience by working together to comprehend how a new country you have recently expanded to operates.

4. Get a first-mover advantage

The desire to outperform rivals is one of the main drivers behind why so many businesses seek to go global. They will benefit greatly from being the pioneer. Customers will be familiar with your brand before those of your rivals. Additionally, when buyers have certain brands in mind, changing their habits and way of thinking may be challenging. They will visit yours rather than your competitors.

Drivers of International Business

Limited Home Market:

When the size of the home market is limited either due to the smaller size of the population or due to the lower purchasing power of all people or both, the companies internationalize their operations. Similarly, A company, which is mature in its domestic market, is driven to sell in more than one country because the sales volume achieved in its own domestic market is not large enough to fully capture the manufacturing economies of scale. For example, ITC Indian cigarette major captured the European market.

Excess of Production:

Some of the domestic companies expand their production capacities more than the demand for the product in the domestic market. In such cases, these companies are forced to sell their extra production in foreign developed countries. For example, Nokia is an international company based in Finland whose production capabilities were very large compared to the population of Finland. Similarly, Toyota of Japan has a large export market.

Global Marketplace:

International business has become easier since the advent of the internet and the emergence of e-business. In order to do business internationally, a company must have a good product, the right strategy, and an appetite to take a risk at the global marketplace.

Emerging Markets:

Compared to developed countries, developing countries are growing at a healthy pace, thus reducing the barriers of trade. Emerging markets provide an unexplored marketplace with unlimited potential and scope for business. Any company with good or innovative products and services cannot afford to ignore the opportunities provided by these emerging markets. Car manufacturers like Toyota, Suzuki, Mercedes, etc. have set the production facilities in India.

Higher Rate of Profits:

The main objective of any business is to achieve profits. When the domestic markets don't promise a higher rate of profits, business firms search for foreign markets where there is a scope for a higher rate of the profits. TCS of India earns more profit through its global operations than through the domestic operations.

Political Stability:

The Political stability means that continuation of the same policies of the Government for a quite long period. Business firms prefer to enter the politically stable countries & are restrained from locating their own business operations in politically unstable countries.

Approaches of international business

1. Ethnocentric Approaches: The ethnocentric orientation is an assumption or belief that the home country is superior. Someone having this orientation sees the similarities in markets, and thus believe that the products and practices which succeed in the home country are superior and, thus should be used everywhere. In the ethnocentric company, overseas operations are viewed as being secondary to domestic and primarily as a means of disposing off surplus domestic production. Plans for overseas markets are developed in the home office to use policies and procedures identical to those who are employed at home.There is no systematic marketing research conducted overseas, there are no major modifications to products, and also there is no real attention to consumer needs in foreign markets. The executives at the head office of the company make the decisions related to exports and, the marketing personnel of the domestic company monitor these export operations through an export department. The company exports the same product designed for domestic markets to foreign countries under this approach. Hence, maintenance of domestic approach towards international business is called as ethnocentric approach. This approach is suitable for the companies during the early days of internationalization and also to the smaller companies.

2. Polycentric Approach: The polycentric approach is the unconscious belief that each host country is unique and different and that the way to succeed in each country is to adapt to each country's unique differences. In the polycentric stage, subsidiaries are established in the overseas markets. Each subsidiary operates independently from the others and establishes its own marketing objectives and plans. Marketing is organised on a country by-country basis, where each country has its own unique marketing policy. The domestic companies that are exporting to foreign countries using the ethnocentric approach find at the latter stage that the foreign markets need an altogether different approach. The company establishes a foreign subsidiary company and thus decentralizes all the operations and delegates decision-making and policy making authority to its executives. In this approach, the company appoints executives and personnel including a chief executive who reports directly to the managing director of the company. Company appoints the key personnel from the home country and all the remaining vacancies are filled by the people of the host country.

3. Regiocentric Approach: The company as it is operating successfully in a foreign country thinks of exporting to the neighbouring countries of the host country. At this stage, the foreign subsidiary considers the regional environment to formulate policies and strategies. But it markets more or less the same product which has been designed under polycentric approach in other countries of the region, but with different market strategies.

4. Geocentric Approach: Under this approach, the entire world is same as a single country for the company. They select the employees from the entire globe and thus operate with a number of subsidiaries. The headquarter co-ordinates activities of the subsidiaries and each subsidiary functions like an independent and autonomous company in the formulation of policies, strategies, product design, human resource policies, operations, etc.

Modes of International Business

Below are the different modes of international business -

1. Exporting

The traditional mode of entering into **international business is Exporting**. Exporting is the simplest way to get started in foreign business. As a result, most businesses begin their global expansion in this manner. The act of selling goods and services produced domestically in other countries is known as exporting. Exports are classified into two types:

Direct exports are transactions in which a company sells its products directly to a buyer in another country. At this company, you will gain firsthand market knowledge.
Indirect exports include hiring a third party's skills to facilitate the transaction. The fee is the amount charged by the intermediary for its services.

2. Licensing

In this mode of entry, a manufacturer from the home country rents the right to their intellectual properties, such as technology, copyrights, brand names, and so on, to a manufacturer from a foreign country. To obtain the license, you must pay a set fee. Lessees are manufacturers who lease, and licensees are manufacturers from the country that receives the license. Essentially, the licensee is purchasing another company's assets (know-how or R&D). The licensor may grant these rights non-exclusively to a single licensee or exclusively to one or more licensees.

3. Franchising

A separate company known as the franchisee operates under the brand of a different organisation known as the franchisor in this model.Because of franchising, a franchisee can use a name, procedure, method, or trademark. Furthermore, the franchisor company provides raw materials, assists the franchisee with business operations, or does both.

4. Management Contracts

A company essentially rents out its knowledge or know-how to a government or business in the form of individuals who enter the foreign setting and manage the **business under management contracts** and do contract manufacturing. This strategy of entering international markets is frequently used with a new facility after a company has been seized by the national government or when a business is experiencing difficulties.

5. Foreign Direct Investment

A corporation can enter a foreign market through **foreign direct investment** by investing significantly there. Foreign direct investment can be used to enter the global market through mergers and acquisitions, joint ventures, and greenfield investments. This strategy is appropriate when there is sufficient demand, market size, or market growth potential to justify the investment.

6. Joint Ventures

A joint venture is one of the preferred ways to enter the global market for companies that don't mind sharing their brand, knowledge, and expertise. Companies that want to expand into international markets can form joint ventures with local companies in those markets, in which both joint venture partners share the benefits and risks of the business. The investment, costs, profits, and losses are allocated to the two corporate units in accordance with a predetermined ratio. This method of entering the global market is suitable for countries where the government prohibits 100 percent foreign ownership in certain industries.

Opportunities of International Business

Notwithstanding greater complexities and risks, international business is important to both nations and business firms. It offers them several benefits. Growing realisation of these benefits over time has in fact been a contributory factor to the expansion of trade and investment amongst nations, resulting in the phenomenon of globalisation. Some of the benefits of international business to the nations and business firms are discussed below.

(i) Earning of foreign exchange: International business helps a country to earn foreign exchange which it can later use for meeting its imports of capital goods, technology, petroleum products and fertilisers, pharmaceutical products and a host of other consumer products which otherwise might not be available domestically.

(ii) More efficient use of resources: As stated earlier, international business operates on a simple principle — produce what your country can produce more efficiently, and trade the surplus production so generated with other countries to procure what they can produce more efficiently. When countries trade on this principle, they end up producing much more than what they can when each of them attempts to produce all the goods and services on its own. If such an enhanced pool of goods and services is distributed equitably amongst nations, it benefits all the trading nations.

(iii) Improving growth prospects and employment potentials: Producing solely for the purposes of domestic consumption severely restricts a country's prospects for growth and employment. Many countries, especially the developing ones, could not execute their plans to produce on a larger scale, and thus create employment for people because their domestic market was not large enough to absorb all that extra production. Later on a few countries such as Singapore, South Korea and China which saw markets for their products in the foreign countries embarked upon the strategy 'export and flourish', and soon became the star performers on the world map. This helped them not only in improving their growth prospects, but also created opportunities for employment of people living in these countries.

(iv) Increased standard of living: In the absence of international trade of goods and services, it would not have been possible for the world community to consume goods and services produced in other countries that the people in these countries are able to consume and enjoy a higher standard of living.

Challenges in International Business

The following factors highlight the problems of international business:

1. Managing globally distributed teams

Developing and successfully managing teams at the international level is a tough job. The complexities of international businesses like varying labor laws, payroll laws, compliance, tax laws, employee rights, and varying technology access increase global team management challenges.

To maintain a strong work association with your team spread across the globe, you must ensure regular check-ins, preferably through a video conferencing platform that enables real-time interactions. Many researchers have shown that employees who regularly interact with their managers are three times more likely to be engaged in their work than employees who do not interact.

In the aftermath of the COVID-19 pandemic, when many companies have shifted to remote working, distance divides teams. Therefore, effective communication and collaboration are essential to ensure employees feel valued and productive work engagement.

2. Language obstacles

In international business, it's prevalent to meet people speaking different languages. The language barrier is one of the most significant international business challenges. Therefore, most multinational companies hire employees fluent in at least one foreign language.

It's noteworthy that organizations often face difficulty explaining their goals to the customers due to the information lost in translation. It's also vital to consider the languages your team members speak, and the customer support executives should be in line with your target customers. Significant investment in interpreters and maintaining a pool of employees comfortable in major global languages ensures that your business operates smoothly.

In some countries, labor laws dictate that employment contracts are written in the local language. While employing talent in another country becomes a challenge for international business. Employing a local to verify the correctness and compliance of these contracts is one way to solve this problem.

3. Currency exchange and inflation rate issues

An international business receives payments from multiple nations. The value of a dollar for your native country will not always be equal to the same amount in other currencies. Therefore, it’s one of the major problems of international business as the currency’s value consistently fluctuates for the same amount of goods & services.

It’s recommended that you familiarize yourself with the currency exchange rates and the inflation rates of the nations where your international business operates. The inflation rates influence the price of commodities and labor costs, which eventually steers the final product pricing. Monitoring these two rates provides essential insights into the market value of your product & services in different locations over time.

4. Cultural variations

The different counties worldwide, sometimes other regions within these countries, have a unique cultures. Understanding the different cultures your employees and clients follow enhances the management and increases cross-cultural business relationships. Eventually, this reduces the complexities of international business and makes your processes highly effective.

Whether managing your overseas office, selling your products/services to international clients/retailers, or operating an overseas manufacturing set-up, it will significantly benefit your international operations once you understand their cultures and employ emotional intelligence.

5. Nuances of foreign policies, geopolitics, and cross-country relations

The international business environment is greatly affected by political scenarios and the foreign relations between the countries. When you expand your business in the international market, it's essential to know the financial systems, trade policies, and country-specific tax regulations. Friction in cross-country relations is one of the significant complexities of international business. This knowledge affects your business strategy and ensures that you abide by the rules and regulations of the operating country.

The political decisions taken by the leaders influence the taxes, labor wages, commodity prices, transportation & infrastructure costs, etc. Therefore, you should update yourself with the strategic decisions, and the workplace policy should comply with all the regulations.

6. Supply chain risks

Managing the supply chain that encompasses national borders lies among the significant problems of international business. The particulars of imports, exports, offshore shipping, and related logistics are steered by international laws and other foreign legislations. If your business sources products & services overseas, managing the supply chains can pose a significant threat to international business.

International expansion is a strategic decision that should be taken after developing a solid supply chain strategy as it affects the future of your business. Supply chain strategies need to be unique based on your business requirements, and you need to develop them specifically for the locations you wish to expand. This includes studying the local trade regulations, external influences, existing supply chain, and local material availability.

<u>International Business environment</u>

Political environment

Being one of the most notable features of the international business environment, it constitutes the type of government, the relationship between the government and the business & the political risk in the country. There could be a dictatorship, one party system (single party system), democracy, constitutional monarchies and so on. So, on that note, the company should keep in mind the following

- What is the approach of government towards business, restrictive or facilitating?
- Whether there are any legal restrictions like licensing, or reservation to a specific sector like the public sector, private or small scale industries.
- What are the procedure and legal formalities of setting up a business?
- If there is any restriction on exporting some product or services. There is an export procedure that is followed in India you should check out.
- Whether there is any restriction on pricing and distribution of goods

- If there is any restriction on importing technical know-how, capital goods, and raw material
- Any facilities or incentives offered by the government. Like there are some subsidies given to MSME of India

The social/cultural environment

The cultural and social environment consists of the influence of religious, family, educational, and social systems in the marketing system. Marketers who intend to market their products overseas may be very sensitive to foreign cultures. While the differences between our cultural background in the United States and those of foreign nations may seem small, marketers who ignore these differences risk failure in implementing marketing programs. Failure to consider cultural differences is one of the primary reasons for marketing failures overseas. A number of cultural differences can cause marketers problems in attempting to market their products overseas. These include: (a) language, (b) color, (c) customs and taboos, (d) values, (e) aesthetics, (f) time, (g) business norms, (h) religion, and (i) social structures.

Technological Environment

The technological environment includes factors related to the machines and materials used in manufacturing services and goods. As organisations do not have control over the external environment, their success depends on how they will adapt to the external environment. A significant aspect of the international business environment is the level and acceptance of technological innovation in countries.

The last decade of the twentieth century saw significant advances in technology, and it is also continuing in the twenty-first century. Technology often gives organisations a competitive advantage. Hence, organisations compete to access the latest technology, and international organisations transfer technology to be globally competitive.

Due to the internet, it is easier even for a small business plan to have a global presence, which grows its exposure, market, and potential customer base. For political, economic and cultural reasons, some countries are more accepting of technological innovations, while others are less accepting. In analysing the technological environment, the organisations should consider the following aspects:

- Level of technological developments in the country as a whole and specific business sector
- Pace of technological changes and obsolescence
- Sources of technology
- Facilities and restrictions for technology transfer
- Time taken for the absorption of technology

Drivers of Globalization

1) Technological drivers

Technology shaped and set the foundation for modern globalization. Innovations in the transportation technology revolutionized the industry. The most important developments among these are the commercial jet aircraft and the concept of containerization in the late 1970s and 1980s. Inventions in the area of microprocessors and telecommunications enabled highly effective computing and communication at a low-cost level. Finally the rapid growth of the internetis the latest technological driver that created global e-business and e-commerce.

2) Political drivers

Liberalized trading rules and deregulated markets lead to lowered tariffs and allowed foreign direct investments in almost all over the world. The institution of GATT (General Agreement on Tariffs and Trade) 1947 and the WTO (World Trade Organization) 1995 as well as the ongoing opening and privatization in Eastern Europe are only some examples of latest developments.

3) Market drivers

As domestic markets become more and more saturated, the opportunities for growth are limited and global expanding is a way most organizations choose to overcome this situation. Common customer needs and the opportunity to use global marketing channels and transfer marketing to some extent are also incentives to choose internationalization. (Ferrier, 2004)

4) Cost drivers

Sourcing efficiency and costs vary from country to country and global firms can take advantage of this fact. Other cost drivers to globalization are the opportunity to build global scale economies and the high product development costs nowadays. (Ferrier, 2004)

5) Competitive drivers

With the global market, global inter-firm competition increases and organizations are forced to “play” international. Strong interdependences among countries and high two-way trades and FDI actions also support this driver.

Distinction between Domestic business and International Business

The most important differences between domestic and international business are classified as under:

- Domestic business is defined as a company whose economic transactions are done within the country's borders. International business is defined as a business that is not limited to a single country, i.e. a business that transacts with several countries throughout the world. The area of operation of the domestic business is limited, which is the home country. On the other hand, the area of operation of an international business is vast, i.e. it serves many countries at the same time.
- A domestic business's quality criteria for products and services are generally low. International companies, on the other hand, have very high quality requirements that are set according to global norms.
- Domestic business conducts its operations in the currency of the country in which it is based. International trade, on the other hand, is conducted in a variety of currencies.
- When opposed to foreign companies, domestic business requires far less capital investment.
- Domestic business is subject to minimal constraints since it is governed by the laws and taxation of a single country. International trade, on the other hand, is subject to the regulations, laws, taxes, tariffs, and quotas of many nations, and as a result, it is subject to numerous limitations that act as obstacles to international trade.
- Customers in a domestic business are more or less the same. In contrast, international companies have a diverse range of clients from each country it services.
- In a domestic firm, conducting market research is simple. In contrast, doing business research is challenging in international research since it is expensive and research dependability differs from country to country.
- Factors of production are moveable in domestic companies, but they are constrained in foreign business.

Conclusion

It is significantly more difficult to do foreign business and manage it than it is to operate local business. Most businesses find it challenging to expand worldwide due to changes in the political, economic, and socio-cultural environments between nations. To be a successful player in the worldwide market, companies must tailor their business strategy to the needs of the international market.

UNIT II- International Trade Theories

Mercantilism

What is Mercantilism?

Mercantilism is an economic theory that emphasizes self-sufficiency through a favorable balance of trade. Mercantilist policies focus on the accumulation of wealth and resources while maintaining a positive trade balance with other countries. By maximizing exports and minimizing imports, mercantilism is also viewed as a form of economic protectionism. Originating in 16th-century Europe, mercantilism is now viewed as a mostly outdated economic theory, replaced by the supply and demand forces of the market economy. Present-day mercantilism commonly refers to economic policies that restrict the importation of foreign goods.

History of Mercantilism

Originating in 16th-century Europe, mercantilism began with the emergence of the nation-state. The dominant economic theory was that the global supply of wealth was finite, and it was in the nation's best interest to accumulate as much as possible. During that time, wealth was measured by a country's quantity of silver and gold. To accumulate more wealth, European countries, such as Britain and France, would focus on maximizing their exports and minimizing imports, which resulted in a favorable balance of trade.

For countries with a negative trade balance with a mercantilist country, the difference would be paid back in silver or gold. To maintain a favorable trade balance, the early mercantilist countries would enact imperialist policies by setting up colonies in smaller nations.

The aim was to extract raw material to send back to the home country, where it would be refined into manufactured goods. The goods would then be resold to the colonies, allowing early mercantilist nations to accumulate wealth through a positive trade balance.

Mercantilist Ideology

As an economic theory, mercantilism relies on government intervention to regulate international trade and protect domestic industries. Mercantilist policies involve the protection of domestic corporations through regulations and the promotion of trade surpluses. In the context of international trade, a favorable trade balance is achieved through government regulations, such as tariffs and restrictions on imports.

On the domestic side, mercantilist policies support domestic industries by establishing monopolies and allocating capital to encourage growth. Such policies are a form of economic protectionism meant to encourage self-sufficiency and are in direct opposition to the free-market economics of trade and globalization.

From Mercantilism to the Market Economy

By the end of the 18th century, scholars, such as Adam Smith and David Hume, began to evaluate and critique the merits of mercantilist theory. Contrary to established beliefs, the scholars realized that wealth was not finite, but could be created through the productive allocation of labor.

Mercantilist policies also failed to account for the benefits of trade, such as comparative advantage and economies of scale. When countries specialize in the production of goods for which they enjoy a comparative advantage, trade can result in mutually beneficial deals. Such a realization resulted in the emergence of the market economy, where prices and means of production were driven by the forces of supply and demand.

Under a mercantilist system, the restriction of imports meant consumers obtained access to fewer goods at higher prices. Under a system of free trade, consumers benefit from lower prices due to increased competition and greater access to goods from across the world.

Present-Day Mercantilism

Although mercantilism is mostly viewed as an outdated economic theory, there has been an emergence of mercantilist policies in recent times. Present-day mercantilism typically refers to protectionist policies that restrict imports to support domestic industries. It can sometimes be referred to as neomercantilism.

Modern mercantilist policies include tariffs on imports, subsidizing domestic industries, devaluation of currencies, and restrictions on the migration of foreign labor. Mercantilist policies can also explain the recent escalation of tariffs and trade restrictions between the US and China.

Absolute Advantage Theory

What Is Absolute Advantage?

Absolute advantage is the ability of an individual, company, region, or country to produce a greater quantity of a good or service with the same quantity of inputs per unit of time, or to produce the same quantity of a good or service per unit of time using a lesser quantity of inputs, than its competitors.

Absolute advantage can be accomplished by creating the good or service at a lower absolute cost per unit using a smaller number of inputs, or by a more efficient process.

Understanding Absolute Advantage

The concept of absolute advantage was developed by 18th-century economist Adam Smith in his book 'The Wealth of Nations' to show how countries can gain from trade by specializing in producing and exporting the goods that they can produce more efficiently than other countries. Countries with an absolute advantage can decide to specialize in producing and selling a specific good or service and use the generated funds to purchase goods and services from other countries.

Smith argued that specializing in the products that they each have an absolute advantage in and then trading the products can make all countries better off, as long as they each have at least one product for which they hold an absolute advantage over other nations.

Absolute advantage explains why it makes sense for individuals, businesses, and countries to trade with each other. Since each has advantages in producing certain goods and services, both entities can benefit from the exchange.

This mutual gain from trade forms the basis of Smith's argument that specialization, the division of labor, and subsequent trade lead to an overall increase in prosperity from which all can benefit.

Assumptions of the Theory of Absolute Advantage

Both Smith's theory of absolute advantage, and Ricardo's theory of comparative advantage, rely on certain assumptions and simplifications in order to explain the benefits of trade.

Barriers to Trade

Both theories assume that there are no barriers to trade. They do not account for any costs of shipping or additional tariffs that a country might raise on another's imported goods. In the real world, though, shipping costs impact how likely both the importer and exporter are to engage in trade. Countries can also leverage tariffs to create advantages for themselves or disadvantages for competitors.

Factors of Production

Both theories also assume that the factors of production are immobile. In these models, workers and businesses do not relocate in search of better opportunities. This assumption was realistic in the 1700s.

In modern trade, however, globalization has now made it easy for companies to move their factories abroad. It has also increased the rate of immigration, which impacts a country's available workforce. In some industries, businesses will work with governments to create immigration opportunities for workers that are essential to their business operations.

Consistency and Scale

More crucially, these theories both assume that a country's absolute advantage is constant and scales equally. In other words, it assumes that producing a small number of goods has the same per-unit cost as a larger number and that countries are unable to change their absolute advantages.

In reality, countries often make strategic investments to create greater advantages in certain industries. Absolute advantage can also change for reasons other than investment. Natural disasters, for example, can destroy farmland, factories, and other factors of production.

Comparative advantage Theory

What Is Comparative Advantage?

Comparative advantage is an economy's ability to produce a particular good or service at a lower opportunity cost than its trading partners. Comparative advantage is used to explain why companies, countries, or individuals can benefit from trade.

When used to describe international trade, comparative advantage refers to the products that a country can produce more cheaply or easily than other countries. While this usually illustrates the benefits of trade, some contemporary economists now acknowledge that focusing only on comparative advantages can result in exploitation and depletion of the country's resources.

The law of comparative advantage is popularly attributed to English political economist David Ricardo and his book *On the Principles of Political Economy and Taxation* written in 1817, although it is likely that Ricardo's mentor, James Mill, originated the analysis.

Understanding Comparative Advantage

Comparative advantage is one of the most important concepts in economic theory and a fundamental tenet of the argument that all actors, at all times, can mutually benefit from cooperation and voluntary trade. It is also a foundational principle in the theory of international trade.

The key to understanding comparative advantage is a solid grasp of opportunity cost. Put simply, an opportunity cost is a potential benefit that someone loses out on when selecting a particular option over another.

In the case of comparative advantage, the opportunity cost (that is to say, the potential benefit that has been forfeited) for one company is lower than that of another. The company with the lower opportunity cost, and thus the smallest potential benefit which was lost, holds this type of advantage.

Another way to think of comparative advantage is as the best option given a trade-off. If you're comparing two different options, each of which has a trade-off (some benefits as well as some disadvantages), the one with the best overall package is the one with the comparative advantage.

Comparative Advantage in International Trade

David Ricardo famously showed how England and Portugal both benefit by specializing and trading according to their comparative advantages. In this case, Portugal was able to make wine at a low cost, while England was able to cheaply manufacture cloth. Ricardo predicted that each country would eventually recognize these facts and stop attempting to make the product that was more costly to generate.

Indeed, as time went on, England stopped producing wine, and Portugal stopped manufacturing cloth. Both countries saw that it was to their advantage to stop their efforts at producing these items at home and, instead, to trade with each other in order to acquire them.

A contemporary example: China's comparative advantage with the United States is in the form of cheap labor. Chinese workers produce simple consumer goods at a much lower opportunity cost. The United States' comparative advantage is in specialized, capital-intensive labor. American workers produce sophisticated goods or investment opportunities at lower opportunity costs. Specializing and trading along these lines benefit each.

Factor Endowment Theory

What Is a Factor Endowment?

A factor endowment represents how many resources a country has at its disposal to be utilized for manufacturing—resources such as labor, land, money, and entrepreneurship. Countries with large or diverse factor endowments are typically more wealthy and able to produce more goods than countries with small factor endowments. Factor endowments also affect the opportunity cost of specializing in producing certain goods relative to others.

As a result of the differences and variation in a country's endowments, factor endowment theory states in economic reasoning that these different breakdowns of capital to labor will determine a country's comparative advantage and what to manufacture or specialize an economy on.

A comparative advantage exists when the opportunity cost of specialization is lower than that of other nations. The existence of a comparative advantage is, in turn, affected by things such as abundance, productivity, cost of labor, land, and capital. Other factors also might influence a country's comparative advantage in practical terms, such as a highly developed financial system or economies of scale.

Examples of Factor Endowments

A simple example of a factor endowment with respect to land would be the presence of geographic scale or natural resources such as oil. Countries with abundant oil tend to export oil, redirecting internal resources toward producing the factor they have in quantity. As of 2019 data, Angola is an extreme example of such specialization: oil accounts for more than 86% of its exports. Other countries, such as the Democratic Republic of Congo (DRC), is one of the countries sitting on Africa's copper belt, which holds more than two-thirds of the entire world's cobalt, as per a 2020 USGS report. Cobalt, used in rechargeable batteries for electronic gadgets like cellphones, laptops, and even electric cars, is in high demand—meaning, countries like the DRC have heavily relied on mining this resource, leading even to political tensions over this resource.

On the other hand, countries such as the United States that own more acreage can diversify its efforts; capitalizing on soil-rich regions for agricultural production, while using the coasts for exports, and taking advantage of a larger population and labor force.

Speaking of labor, labor is a key input in most products, from agriculture to cellphones, and its characteristics affect a country's comparative advantage. An abundant labor force means that a country has a lower opportunity cost of specializing in labor-intensive activities. A highly skilled labor force is more expensive and more productive than an unskilled labor force. For example, as China's labor force has grown more skilled, wages have risen and China has begun specializing in more complex manufactured goods.

Changing Factor Endowments

Factor endowments are not static. With education, for example, the characteristics of the labor force can change. The same holds true for investments in capital and infrastructure. Over time, both can affect a country's sources of comparative advantage. As a country develops more complex transportation systems, buildings, and public services, a labor force may be more available to take on complex jobs.

Country Similarity Theory of International Trade

Swedish economist Steffan Linder developed the country similarity theory in 1961, as he tried to explain the concept of intra industry trade. Linder's theory proposed that consumers in countries that are in the same or similar stage of development would have similar preferences. In this firm-based theory, Linder suggested that companies first produce for domestic consumption. When they explore exporting, the companies often find that markets that look similar to their domestic one, in terms of customer preferences, offer the most potential for success. Linder's country similarity theory then states that most trade in manufactured goods will be between countries with similar per capita incomes, and intra industry trade will be common. Simply, this theory describes the idea that countries with comparable qualities are mainly likely to trade with each other. These qualities might include the level of development, savings rates, and natural resources, among others.

The country similarity theory is based on the following principles:

- If two countries have related require patterns, then their customers would claim the same goods with alike degrees of value and superiority.
- Since the majority of products are developed on the required patterns in the domestic market, other countries with related require patterns due to a cultural or economic comparison would be their normal trade partners.
- Countries with the proximity of geological locations would also have better trade compared to the far-away ones.

International trade acts as a major contributing factor in global economic activity and a **catalyst of economic growth** in developing as well as developed countries. Differences in various conditions, like resource availability, natural climatic conditions, cost of production, etc., act as the motive behind trade between the countries. International trade has made it all possible and has **provided a large number of employment opportunities** as well as several goods and services for the consumer. It has been a **major reason for the rising living standards of people** all over the globe.

It is based on the idea that a country's wealth and power depend on its ability to accumulate gold and silver, and on its trade with other countries.

With time, economists have established theories that explain global trade. These theories explain the mechanism of international trade which is how countries exchange goods and services with each other. International trade theories help countries in deciding what should be imported and what should be exported, in what quantity, and with whom trade should be done internationally. Initially, economists developed international trade theories on the basis of the country which were termed - Classical Theories. However, these theories, later on, shifted from country-based to firm or company based by the mid-twentieth century which were termed - Modern Theories.

Classical Country-Based Theories	Modern Firm-Based Theories
Mercantilism	Country Similarity
Absolute Advantage	Product Life Cycle
Comparative Advantage	Global strategic Rivalry
Heckscher-Ohlin	Porter's National Competitive Advantage

Classical or country-based theories

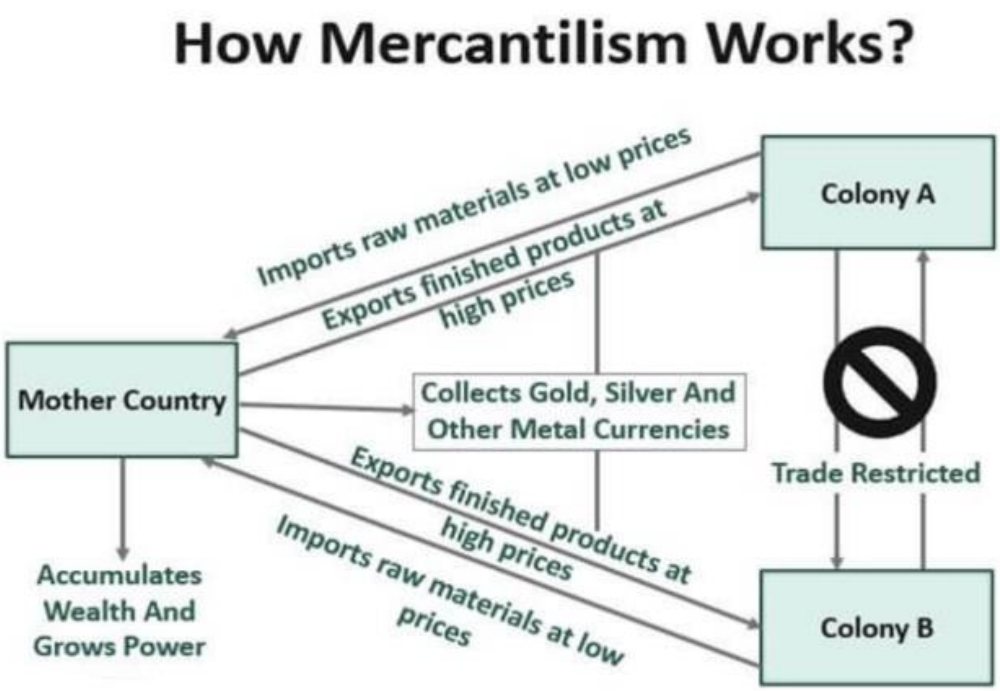
The founders of the various theories of the classical country-based approach were mainly concerned with the fact that the priority should be increasing the wealth of one's own nation. They were mainly of the view that focus should be on economic growth on a priority basis. The main classical theories in reference to international trade are discussed below.

Mercantilism

The Mercantilism theory is the **first classical country-based theory**, which was propounded around the 17-18th century. The Theory is focused on the motto that, on a priority basis, a country must look after its own welfare and therefore, expand exports and discourage imports. The theory also propounded the view that the first thing a nation **must focus on is the**

accumulation of wealth in the form of gold and silver, thus, strengthening the treasure of the nation.

In the 17th-18th Century, **the wealth of the nation only consisted of gold or other kinds of precious metals** so the theorists suggested that the countries should start accumulating gold and other kinds of metals more and more. The European Nations started doing so. Mercantilists, during this period, stated that all these precious stones denoted the wealth of a nation, they believed that **a country will strengthen only if the nation imports less and exported more.** They said that this is a favorable balance of trade and that this will help a nation to progress more.



Pros

It encourages the complete development of all natural resources.

It encourages trade deficits for foreign nations.

It naturally reduces unemployment rates.

Cultural exchanges are encouraged to promote trade.

Cons

It creates high levels of resentment.

It creates a preference for the mother nation to always be first.

There is always a risk of local raw materials and resources running out.

The system is ultimately quite inefficient.

There are several types of mercantilism, including:

1. **Export-led mercantilism:** This type of mercantilism emphasizes the promotion of exports and the accumulation of gold and silver through a favorable balance of trade. It typically involves the use of tariffs and other trade barriers to protect domestic industries and to encourage exports.
2. **State-led mercantilism:** This type of mercantilism involves the active intervention of the state in the economy, including through the regulation of trade, the promotion of certain industries, and the protection of domestic producers.
3. **Colonial mercantilism:** This type of mercantilism involves the expansion of a country's colonies and the exploitation of their resources and labor in order to benefit the mother country.
4. **Industrial mercantilism:** This type of mercantilism involves the promotion of domestic manufacturing and the protection of domestic industries through the use of tariffs and other trade barriers.
5. **Financial mercantilism:** This type of mercantilism involves the manipulation of financial policies, such as the control of interest rates and the manipulation of exchange rates, in order to promote exports and accumulate gold and silver.

Three Basic Issues of International Trade

It is to be noted that mercantilists failed to address three relevant issues of international trade which are

1) **Gains from trade** – The first important issue is about the gains from trade? Do countries gain from international trade? Where do the gains come from , and how are they divided among the trading countries?
2) **Structure of trade** – The second relevant issue is the structure or direction or pattern of international trade. In other words, which goods are exported and which are imported by each trading country? What are the fundamental laws that govern the international allocation of resources and the flow of trade?
3) **Terms of trade** – The third relevant issue is the terms of trade. In other words, at what prices are the exported and imported goods exchanged?

What is absolute advantage?

The ability of a person, firm, region, or country to create more of a commodity or service per unit of time using the same amount of inputs as its competitors or produce the same amount of a commodity or service per unit of time using fewer inputs is known as an absolute advantage.

Absolute advantage can be reached by using fewer inputs or a more efficient process to create the goods or services at a lower total cost per unit.

Theory of absolute advantage

Absolute advantage is the ability of a corporation, nation, or region to create more of a good while keeping the time required to do so constant. Absolute advantage occurs when a company can produce the same amount of items with fewer inputs than a rival.

As a result, there is more competition among businesses, which is good for commerce. Absolute advantage examines the effectiveness of manufacturing a single product, which is crucial.

Example: Let's use the example of rice and the information that Vietnam can grow rice at a lower cost than Japan to grasp the absolute advantage further. Due to this situation, rice is being supplied from Vietnam to Japan.

Vietnam nevertheless exported more than a million tonnes of rice in 1989. The country's annual rice exports increased during the 1990s, reaching 3 million tonnes. This unmatched competitive advantage caused a rise in rice exports, which increased work and income and helped lower the country's poverty rate.

Pros: Simple illustration of why countries can benefit by trading on their advantages.

Cons: Lacks the explanatory power of the theory of comparative advantage.
Does not account for costs or barriers to trade.
Has been used to justify exploitative policies.

<u>Comparative Advantage</u>

The theory of comparative advantage flourished in the 19th century and was propounded by **David Ricardo in his book 'Principles of Political Economy and Taxation' in 1817.** This theory strengthened the understanding of the nature of trade and acknowledges its benefits. The theory suggests that **it is better if a country exports goods in which its relative cost advantage is greater than its absolute cost advantage when compared with other countries**.

For instance, let's take the examples of Malaysia and Indonesia. Let's say Indonesia can produce both electrical appliances and rubber products more efficiently than Malaysia. The production of electrical appliances is twice as much as that of Malaysia, and for rubber products, it is five times more than that of Malaysia. In such a condition, Indonesia has an absolute productive advantage in both goods but a relative advantage in the case of rubber products. In such a case, it would be more mutually beneficial if Indonesia exported rubber products to Malaysia and imported electrical appliances from them, even if Indonesia could efficiently produce electrical appliances too.

What Ricardo proposed is that even though a country may efficiently produce goods, it may still import them from another country if a relative advantage lies therein. Similar is the case with export, even if a country is not very efficient in certain goods from other countries, it may still export that product to other countries. This theory basically encourages trade that is mutually beneficial.

Assumptions of Comparative Advantage

The following are the assumptions of the Ricardian doctrine of comparative advantage:

- There are only two countries, assume A and B.
- Both of them produce the same two commodities, X and Y.
- Labour is the only factor of production.
- The supply of labor is unchanged.
- All labor units are homogeneous.
- Tastes are similar in both countries.
- The labor cost determines the price of the two commodities
- The production of commodities is done under the law of constant costs or returns.
- The two countries trade on the barter system.
- Technological knowledge is unchanged.
- Factors of production are perfectly mobile within each country. However, they are immobile between the two countries.
- Free trade is undertaken between the two countries. Trade barriers and restrictions in the movement of commodities are absent.
- Transport costs are not incurred in carrying trade between the two countries.
- Factors of production are fully employed in both the countries.
- The exchange ratio for the two commodities is the same.

Criticisms of Comparative Advantage

The following are the criticisms of the Ricardian doctrine of comparative advantage:

- The theory only considers labour costs and neglects all non-labour costs involved in the production of the commodities.

- The theory considers all labour to be homogenous. However, in reality, labour is heterogeneous due to different grades and kinds.
- The theory assumes similar tastes for all. However, the tastes differ with the growth of economies and income brackets.
- The theory assumes that a fixed proportion of labour is used in the production of all commodities. However, in reality, the utilization of the proportion of labor depends on the type of commodity being produced.
- The theory has an unrealistic assumption of constant costs. However, large-scale productions lead to cost reduction and thereby increase the comparative advantage.
- Transport costs play an essential role in determining the pattern of trade. But the Ricardo theory neglects this independent factor of production.
- The assumption of the factors of production being mobile internally is unrealistic. The factors do not move freely from one region to another or one industry to another. The greater the degree of specializations in an industry, the more immobile the factor will be.
- The assumption of the theory of having only two countries and two commodities is unrealistic as international trade takes place among countries trading numerous commodities.

Heckscher-Ohlin theory (Factor Proportions theory)

The theories founded by Smith and Ricardo were not efficient enough for the countries, as they could not help the countries determine which of the products would benefit the country. The theory of Absolute Advantage and Comparative Advantage **supported the idea of how a free and open market would help countries determine which products could be efficiently produced by the country**. However, the theory proposed by Heckscher and Ohlin dealt with the concept of comparative advantage that a country can gain by producing products that make use of the factors that are present in abundance in the country. The main basis of their theory is on a country's production factors like land, labour, capital, etc. They proposed that the approximate cost of any factor of resource is directly related to its demand and supply. Factors which are present in abundance as compared to demand will be available at a cheaper cost, and factors which are in great demand and less availability will be expensive. They proposed that countries produce goods and export the ones for which the resources required in their production are available in a much greater quantity. Contrary to this, countries will import goods whose raw materials are in shorter supply in their own country as compared to the one from which they are importing.

For example, India has a large number of labourers, so foreign countries establish industries that are labour-intensive in India. Examples of such industries are the garment and textile industries.

The core premises of the Heckscher-Ohlin model are;

- The model explains how resources are imbalanced throughout the world.
- Naturally, resources are not evenly distributed across the world, some parts of the world have certain resources in abundance while some have other resources in abundance.
- Since each country has its own unique natural resources and specialized area of production, mathematically, a country will export resources it has in abundance.
- The Heckscher-Ohlin model is not limited to natural resources or commodities, it also accounts for factors of production such as labor, land and capital and how they affect exportation.
- The Heckscher-Ohlin model helps to find a trade balance between the two countries involved in international trade.

Real World Example of the Heckscher-Ohlin Model

Modern or firm-based theory

The emergence of modern or firm-based theories is marked after period of World War II. The founders of these theories were mainly professors of business schools and not economists. These theories majorly came up after the rising popularity of multinational companies. The Country based classical theories were mainly focused on the country, however, the modern or firm-based theories address the needs of companies. The following are the modern or firm-based theories propounded by various business school professors:

Country similarity theory

Steffan Linder, a Swedish economist, was the founder of this theory. The theory marked its emergence in the year 1961 and **explained the concept of in-train industry trade.** Linder suggested that countries that are in a similar phase of development will probably have similar preferences. The suggestion proposed by Linder was that companies first produce goods for their domestic consumption and later expand production, thereby exporting those products to other countries where customers have similar preferences. Linder suggested that most of the trade in manufactured goods, in most circumstances, will be between countries with similar per capita incomes, and that the in-train industry trade will thus be common among them. This theory is generally more applicable in understanding trade where buyers mainly decide on the basis of brand names and product reputations.

Product life cycle theory

This theory was propounded by **Raymond Vernon**, a business professor at Harvard Business School, in the 1960s. The theory that originated in the field of marketing proposed that a product life cycle has three stages, **namely, new product, maturing product, and standardized product.** The theory assumed that production of the new product will occur completely in the home country of its innovation. In the 1960s this was a useful theory to explain the manufacturing success of the United States. US manufacturing was the globally dominant producer in many industries after World War II.

It has also been used to describe how the personal computer (PC) went through its product cycle. The PC was a new product in the 1970s and developed into a mature product during the 1980s and 1990s. Today, the PC is in the standardized product stage, and the majority of manufacturing and production process is done in low-cost countries in Asia and Mexico.

The product life cycle theory has been less able to explain current trade patterns where innovation and manufacturing occur around the world. For example, global companies even conduct research and development in developing markets where highly skilled labor and facilities are usually cheaper. Even though research and development is typically associated with the first or new product stage and therefore completed in the home country, these developing or emerging-market countries, such as India and China, offer both highly skilled labor and new research facilities at a substantial cost advantage for global firms. The theory has a presumption that the production of a new product will completely arise in the country where it was invented. This theory, up to a good extent, helps in explaining the sudden rise and dominance of the United States in manufacturing. This theory also explained the stages of computers, from being in the new product stage in the 1970s and thereby entering into their maturing stage in the 1980s and 1990s. In today's scenario, computers are in a standardized stage and are mostly manufactured in low-cost countries in Asia. However, this theory has not been able to explain the current trading pattern where products are being invented and manufactured in almost all parts of the world.

Global strategic rivalry theory

Paul Krugman and Kelvin Lancaster were the founders of this theory. This theory emerged around the 1980s. The theory **majorly focused on multinational companies and their strategies and efforts to gain a comparative advantage** over other similar global firms in their industry. This theory acknowledges the fact that firms will face global competition and prove their superiority. They must surely develop a competitive advantage over each other. The ways through which the firms can gain competitive advantage were termed as barriers to entry for that particular industry. These barriers are basically the obstacles that a firm will face globally when they enter the market. The barriers that companies and firms may try to optimise are

- Mainly research and development,
- The ownership of intellectual property rights,
- Economies of scale,
- Unique business processes or methods,
- Extensive experience in the industry, and
- The control of resources or favourable access to raw materials.
- Porter's national competitive advantage theory

The theory **emerged in the 1990s** with the aim of explaining the concept of national competitive advantage. The theory proposes that a nation's competitiveness majorly depends upon the capability and capacity of the industry to come up with innovations and upgrades. This theory attempted to explain the reason behind the excessive competitiveness of some nations as compared to others. The main determinants proposed in this theory were local market resources and capabilities, local market demand conditions, local suppliers and complementary industries, and local firm characteristics. The theory also mentioned the crucial role of government in forming the competitive advantage of the industry.

Porter's National Competitive Advantage Theory

In the continuing evolution of international trade theories, Michael Porter of Harvard Business School developed a new model to explain national competitive advantage in 1990. Porter's theory stated that a nation's competitiveness in an industry depends on the capacity of the industry to innovate and upgrade. His theory focused on explaining why some nations are more competitive in certain industries. To explain his theory, Porter identified four determinants that he linked together.

The four determinants are

(1) local market resources and capabilities,

(2) local market demand conditions,

(3) local suppliers and complementary industries, and

(4) local firm characteristics.

India's Foreign Trade:

The foreign trade policy in India is basically a set of guidelines for the import & export of goods & services. The policy is formulated by the DGFT (Directorate General of Foreign Trade), which is the governing body to promote & facilitate the exports & imports of the goods under the Ministry of Commerce & Industry.

The policy is notified for the period of 5 years and is updated on 31st March every year and comes to effect on 1st April. Though the policy covers the aspect of imports & exports, its primary aim is to facilitate trade by reducing the cost of transaction & time & by making the Indian exports competitive globally.

Aim Of New Foreign Trade Policy

The new foreign trade policy aims to:

- Boost the exports of both services & goods. This aim will be achieved by addressing various constraints related to regulatory, policy & framework that helps in lowering the transaction costs & helps in ease of business doing.
- Help the districts to reach its potential as an Export Hub. The commerce department through DGFT engages with the State Governments & the Union Territories for the implementation of the initiative.
- Improvise the infrastructure for the operations of domestic services & manufacturing sectors to correct the trade imbalance in India.
- Regular meetings will be held with the chambers of commerce, industry associations, and export promotion councils to take their inputs.

What Are The Expectations From New Foreign Trade Policy 2021 – 26?

A new foreign trade policy is formulated after the consideration on the inputs by traders, trades associations, members of parliament.

- **WTO compliant tax incentives**

The government has introduced the Remission of Duties or Taxes on Export Products to end the need of the hour, i.e. WTO compliant tax benefits. The RoDTEP became effective from 1st January, 2021 and it replaces MEIS but the rates & conditions of the scheme is yet to be announced.

- **Infrastructure upgrade**

The trade infrastructure needs to be developed and thus, the government has introduced a scheme in 2017 to develop the trade infrastructure for the export sector. The scheme was introduced for a period of 3 years.

- **Digitalisation**

The process of digitalisation makes the whole process of import & export paperless and online. This helps in bringing a transparency in the trade happens globally. Thus, the policy must be formulated to make the whole process digitalised.

- **Easy access to credits**

There is a problem that goes way back, related to lending money to MSMEs because they lack adequate collateral. There is a demand of credit access from the exporters especially MSMEs. This policy can help to start or open up the alternate avenues and the advisory group has advised to increase the borrowing limits at the Export Import Bank of India.

- **Tax breaks**

The government must support in respect of easing & lowering the tax rates. The confederation of Indian Industry proposes to simplify the import duty structure, i.e., high duties on finished goods & lower or minimal duties on the raw materials.

- **Import wish list**

India's import community has a wish list that includes permission to import capital goods on self – certification basis & to import prohibited goods with the approval of Central Government or Inter – Ministerial Standing Committee.

- **Export awareness**

There are many exporters who lacks awareness in respect of trade opportunities. The Indian government must formulate policy in such a way that it consists of workshops & awareness programs to make the exporters aware about the international laws, global markets, etc.

Conclusion

With the help for new foreign trade policy, it can ensure a stable demand & supply that helps in economic growth. The policy also allows the country to increase in import & export in the country and to makes India's position in International market.

FDI in India

- Investment climate in India has improved considerably since the opening up of the economy in 1991.
- This is primarily attributed to ease in FDI rules in India. India, today is a part of the top 100 clubs on Ease of Doing Business (EoDB).FDI inflows in India stood at $45.15 bn in 2014-15 and have consistently increased since then. Moreover, total FDI inflow grew by 65.3%, i.e. from $266.21 bn in 2007-14 to $440.01bn in 2014-21 and FDI equity inflow also increased by 68.6% from $185.03 bn during 2007-14 to $312.05 bn (2014-21).

- India received the highest annual FDI inflows of $84,835 mn in FY 21-22 overtaking last year's FDI by $2.87 bn. Also, FDI equity inflow in FY 2021-22 were $ 59,825 mn.

- FDI Equity inflow in Manufacturing Sectors have increased by 76% in FY 2021-22 ($ 21.34 bn) compared to previous FY 2020-21 ($ 12.09 bn).

- Total FDI inflows in the country in the last 22 years (April 2000 - March 2022) are $ 847 bn while the total FDI inflows received in the last 8 years (April 2014- March 2022) was $ 523 bn which amounts to nearly 40% of total FDI inflow in last 22 years.

- In FY 2014-15, FDI inflow in India stood at mere $ 45.15 bn, which increased to $ 60.22 bn in 2016-17 and further to the highest ever annual FDI inflow of $ 83.57 bn reported during the FY 2021-22.

- Total FDI inflows in the country in the FY 2022 (April - December) is $ 55.27 Bn and total FDI equity inflows stands at $ 36.74 Bn.

- Singapore (27.01%), USA (17.94%), Mauritius (15.98%), Netherland (7.86%) and Switzerland (7.31%) emerge as top 5 countries for FDI equity inflows into India FY 2021-22.

- Top 5 sectors receiving highest FDI Equity Inflow during FY 2021-22 are Computer Software & Hardware (24.60%), Services Sector (Fin., Banking, Insurance, Non Fin/Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, Other) (12.13%), Automobile Industry (11.89%), Trading 7.72% and Construction (Infrastructure) Activities (5.52%).

- Top 5 States receiving highest FDI Equity Inflow during FY 2021-22 are Karnataka (37.55%), Maharashtra (26.26%), Delhi (13.93%), Tamil Nadu (5.10%) and Haryana (4.76%).

Balance of Payment (BOP)

Balance of Payment (BoP) of a country can be defined as a systematic statement of all economic transactions of a country with the rest of the world during a specific period usually one year.

It indicates whether the country has a surplus or a deficit on trade.
When exports exceed imports, there is a trade surplusand when imports exceed exports there is a trade deficit.

Purposes of calculation of BoP:

- Reveals thefinancial and economic status of a country.
- Can be used as an indicatorto determine whether the country's currency value is appreciating or depreciating.
- Helps the Government to decide on fiscal and trade policies.
- Provides important information to analyze and understand the economic dealings of a country with other countries.

Components of BoP:

For preparing BoP accounts, economic transactions between a country and rest of the world aregrouped under – Current account, Capital account and Errors and Omissions. It also shows changes in Foreign Exchange Reserves.

Current Account: It shows export and import of visibles (merchandise or goods) and invisibles (non merchandise).Invisibles include services, transfers and income.

Capital Account: It shows a capital expenditure and income for a country. It gives a summary of the net flow of both private and public investment into an economy.

Unit 2
International Trade Theories

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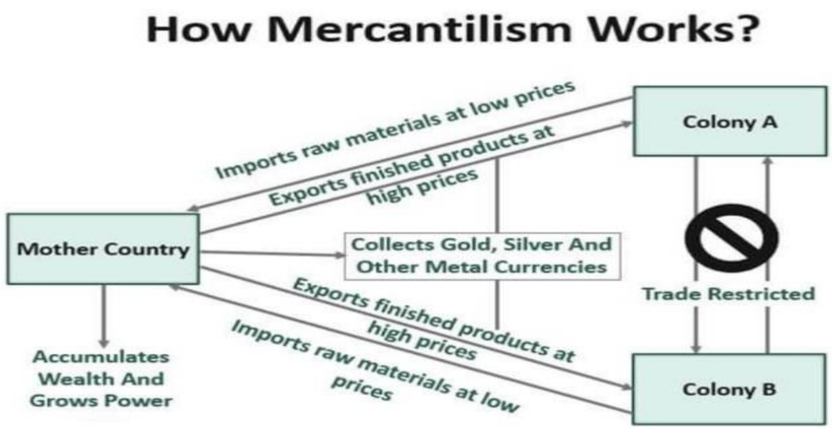

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The ability of a person, firm, region, or country to create more of a commodity or service per unit of time using the same amount of inputs as its competitors or produce the same amount of a commodity or service per unit of time using fewer inputs is known as an absolute advantage. Absolute advantage can be reached by using fewer inputs or a more efficient process to create the goods or services at a lower total cost per unit.

Theory of absolute advantage

Absolute advantage is the ability of a corporation, nation, or region to create more of a good while keeping the time required to do so constant. Absolute advantage occurs when a company can produce the same amount of items with fewer inputs than a rival.

As a result, there is more competition among businesses, which is good for commerce. Absolute advantage examines the effectiveness of manufacturing a single product, which is crucial.

Example: Let's use the example of rice and the information that Vietnam can grow rice at a lower cost than Japan to grasp the absolute advantage further. Due to this situation, rice is being supplied from Vietnam to Japan.

Pros: Simple illustration of why countries can benefit by trading on their advantages.

Cons:

- Lacks the explanatory power of the theory of comparative advantage.
- Does not account for costs or barriers to trade.
- Has been used to justify exploitative policies.

Comparative Advantage

The theory of comparative advantage flourished in the 19th century and was propounded by David Ricardo in his book 'Principles of Political Economy and Taxation' in 1817. This theory strengthened the understanding of the nature of trade and acknowledges its benefits. The theory suggests that it is better if a country exports goods in which its relative cost advantage is greater than its absolute cost advantage when compared with other countries.

For instance, let's take the examples of Malaysia and Indonesia. Let's say Indonesia can produce both electrical appliances and rubber products more efficiently than Malaysia. The production of electrical appliances is twice as much as that of Malaysia, and for rubber products, it is five times more than that of Malaysia. In such a condition, Indonesia has an absolute productive advantage in both goods but a relative advantage in the case of rubber products. In such a case, it would be more mutually beneficial if Indonesia exported rubber products to Malaysia and imported electrical appliances from them, even if Indonesia could efficiently produce electrical appliances too.

What Ricardo proposed is that even though a country may efficiently produce goods, it may still import them from another country if a relative advantage lies therein. Similar is the case with export, even if a country is not very efficient in certain goods from other countries, it may still export that product to other countries. This theory basically encourages trade that is mutually beneficial.

Assumptions of Comparative Advantage

The following are the assumptions of the Ricardian doctrine of comparative advantage:

- There are only two countries, assume A and B.
- Both of them produce the same two commodities, X and Y.
- Labour is the only factor of production.
- The supply of labor is unchanged.
- All labor units are homogeneous.
- Tastes are similar in both countries.
- The labor cost determines the price of the two commodities
- The production of commodities is done under the law of constant costs or returns.
- The two countries trade on the barter system.
- Technological knowledge is unchanged.
- Factors of production are perfectly mobile within each country. However, they are immobile between the two countries.
- Free trade is undertaken between the two countries. Trade barriers and restrictions in the movement of commodities are absent.
- Transport costs are not incurred in carrying trade between the two countries.
- Factors of production are fully employed in both the countries.
- The exchange ratio for the two commodities is the same.

Criticisms of Comparative Advantage

The following are the criticisms of the Ricardian doctrine of comparative advantage:

- The theory only considers labour costs and neglects all non-labour costs involved in the production of the commodities.
- The theory considers all labour to be homogenous. However, in reality, labour is heterogeneous due to different grades and kinds.
- The theory assumes similar tastes for all. However, the tastes differ with the growth of economies and income brackets.

- The theory assumes that a fixed proportion of labour is used in the production of all commodities. However, in reality, the utilization of the proportion of labor depends on the type of commodity being produced.
- The theory has an unrealistic assumption of constant costs. However, large-scale productions lead to cost reduction and thereby increase the comparative advantage.
- Transport costs play an essential role in determining the pattern of trade. But the Ricardo theory neglects this independent factor of production.
- The assumption of the factors of production being mobile internally is unrealistic. The factors do not move freely from one region to another or one industry to another. The greater the degree of specializations in an industry, the more immobile the factor will be.
- The assumption of the theory of having only two countries and two commodities is unrealistic as international trade takes place among countries trading numerous commodities.

Heckscher-Ohlin theory (Factor Proportions theory)

The theories founded by Smith and Ricardo were not efficient enough for the countries, as they could not help the countries determine which of the products would benefit the country. The theory of Absolute Advantage and Comparative Advantage **supported the idea of how a free and open market would help countries determine which products could be efficiently produced by the country**. However, the theory proposed by Heckscher and Ohlin dealt with the concept of comparative advantage that a country can gain by producing products that make use of the factors that are present in abundance in the country. The main basis of their theory is on a country's production factors like land, labour, capital, etc. They proposed that the approximate cost of any factor of resource is directly related to its demand and supply. Factors which are present in abundance as compared to demand will be available at a cheaper cost, and factors which are in great demand and less availability will be expensive. They proposed that countries produce goods and export the ones for which the resources required in their production are available in a much greater quantity. Contrary to this, countries will import goods whose raw materials are in shorter supply in their own country as compared to the one from which they are importing.

The core premises of the Heckscher-Ohlin model are;

- The model explains how resources are imbalanced throughout the world.
- Naturally, resources are not evenly distributed across the world, some parts of the world have certain resources in abundance while some have other resources in abundance.
- Since each country has its own unique natural resources and specialized area of production, mathematically, a country will export resources it has in abundance.
- The Heckscher-Ohlin model is not limited to natural resources or commodities, it also accounts for factors of production such as labor, land and capital and how they affect exportation.
- The Heckscher-Ohlin model helps to find a trade balance between the two countries involved in international trade.

Modern or firm-based theory

The emergence of modern or firm-based theories is marked after period of World War II. The founders of these theories were mainly professors of business schools and not economists. These theories majorly came up after the rising popularity of multinational companies. The Country based classical theories were mainly focused on the country, however, the modern or firm-based theories address the needs of companies. The following are the modern or firm-based theories propounded by various business school professors:

Country similarity theory

Steffan Linder, a Swedish economist, was the founder of this theory. The theory marked its emergence in the year 1961 and **explained the concept of in-train industry trade.** Linder suggested that countries that are in a similar phase of development will probably have similar preferences. The suggestion proposed by Linder was that companies first produce goods for their domestic consumption and later expand production, thereby exporting those products to other countries where customers have similar preferences. Linder suggested that most of the trade in manufactured goods, in most circumstances, will be between countries with similar per capita incomes, and that the in-train industry trade will thus be common among them. This theory is generally more applicable in understanding trade where buyers mainly decide on the basis of brand names and product reputations.

Product life cycle theory

This theory was propounded by **Raymond Vernon**, a business professor at Harvard Business School, in the 1960s. The theory that originated in the field of marketing proposed that a product life cycle has three stages, **namely, new product, maturing product, and standardized product.** The theory assumed that production of the new product will occur completely in the home country of its innovation. In the 1960s this was a useful theory to explain the manufacturing success of the United States. US manufacturing was the globally dominant producer in many industries after World War II.

It has also been used to describe how the personal computer (PC) went through its product cycle. The PC was a new product in the 1970s and developed into a mature product during the 1980s and 1990s. Today, the PC is in the standardized product stage, and the majority of manufacturing and production process is done in low-cost countries in Asia and Mexico.

The product life cycle theory has been less able to explain current trade patterns where innovation and manufacturing occur around the world. For example, global companies even conduct research and development in developing markets where highly skilled labor and facilities are usually cheaper. Even though research and development is typically associated with the first or new product stage and therefore completed in the home country, these developing or emerging-market countries, such as India and China, offer both highly skilled labor and new research facilities at a substantial cost advantage for global firms. The theory has a presumption that the production of a new product will completely arise in the country where it was invented. This theory, up to a good extent, helps in explaining the sudden rise and dominance of the United States in manufacturing. This theory also explained the stages of computers, from being in the new product stage in the 1970s and thereby entering into their maturing stage in the 1980s and 1990s. In today's scenario, computers are in a standardized stage and are mostly manufactured in low-cost countries in Asia. However, this theory has not been able to explain the current trading pattern where products are being invented and manufactured in almost all parts of the world.

Global strategic rivalry theory

Paul Krugman and Kelvin Lancaster were the founders of this theory. This theory emerged around the 1980s. The theory **majorly focused on multinational companies and their**

strategies and efforts to gain a comparative advantage over other similar global firms in their industry. This theory acknowledges the fact that firms will face global competition and prove their superiority. They must surely develop a competitive advantage over each other. The ways through which the firms can gain competitive advantage were termed as barriers to entry for that particular industry. These barriers are basically the obstacles that a firm will face globally when they enter the market. The barriers that companies and firms may try to optimise are

- Mainly research and development,
- The ownership of intellectual property rights,
- Economies of scale,
- Unique business processes or methods,
- Extensive experience in the industry, and
- The control of resources or favourable access to raw materials.
- Porter's national competitive advantage theory

The theory **emerged in the 1990s** with the aim of explaining the concept of national competitive advantage. The theory proposes that a nation's competitiveness majorly depends upon the capability and capacity of the industry to come up with innovations and upgrades. This theory attempted to explain the reason behind the excessive competitiveness of some nations as compared to others. The main determinants proposed in this theory were local market resources and capabilities, local market demand conditions, local suppliers and complementary industries, and local firm characteristics. The theory also mentioned the crucial role of government in forming the competitive advantage of the industry.

Porter's National Competitive Advantage Theory

In the continuing evolution of international trade theories, Michael Porter of Harvard Business School developed a new model to explain national competitive advantage in 1990. Porter's theory stated that a nation's competitiveness in an industry depends on the capacity of the industry to innovate and upgrade. His theory focused on explaining why some nations are more competitive in certain industries. To explain his theory, Porter identified four determinants that he linked together.

The four determinants are

(1) local market resources and capabilities,
(2) local market demand conditions,
(3) local suppliers and complementary industries, and
(4) local firm characteristics.

India's Foreign Trade:

The foreign trade policy in India is basically a set of guidelines for the import & export of goods & services. The policy is formulated by the DGFT (Directorate General of Foreign Trade), which is the governing body to promote & facilitate the exports & imports of the goods under the Ministry of Commerce & Industry. The policy is notified for the period of 5 years and is updated on 31st March every year and comes to effect on 1st April. Though the policy covers the aspect of imports & exports, its primary aim is to facilitate trade by reducing the cost of transaction & time & by making the Indian exports competitive globally.

Aim of New Foreign Trade Policy

The new foreign trade policy aims to:

- Boost the exports of both services & goods. This aim will be achieved by addressing various constraints related to regulatory, policy & framework that helps in lowering the transaction costs & helps in ease of business doing.
- Help the districts to reach its potential as an Export Hub. The commerce department through DGFT engages with the State Governments & the Union Territories for the implementation of the initiative.
- Improvise the infrastructure for the operations of domestic services & manufacturing sectors to correct the trade imbalance in India.
- Regular meetings will be held with the chambers of commerce, industry associations, and export promotion councils to take their inputs.

What Are The Expectations From New Foreign Trade Policy 2021 – 26?

A new foreign trade policy is formulated after the consideration on the inputs by traders, trades associations, members of parliament.

WTO compliant tax incentives

The government has introduced the Remission of Duties or Taxes on Export Products to end the need of the hour, i.e. WTO compliant tax benefits. The RoDTEP became effective from 1st January, 2021 and it replaces MEIS but the rates & conditions of the scheme is yet to be announced.

Infrastructure upgrade

The trade infrastructure needs to be developed and thus, the government has introduced a scheme in 2017 to develop the trade infrastructure for the export sector. The scheme was introduced for a period of 3 years.

Digitalisation

The process of digitalisation makes the whole process of import & export paperless and online. This helps in bringing a transparency in the trade happens globally. Thus, the policy must be formulated to make the whole process digitalised.

Easy access to credits

There is a problem that goes way back, related to lending money to MSMEs because they lack adequate collateral. There is a demand of credit access from the exporters especially **MSMEs**.

This policy can help to start or open up the alternate avenues and the advisory group has advised to increase the borrowing limits at the Export Import Bank of India.

Tax breaks

The government must support in respect of easing & lowering the tax rates. The confederation of Indian Industry proposes to simplify the import duty structure, i.e., high duties on finished goods & lower or minimal duties on the raw materials.

Import wish list

India’s import community has a wish list that includes permission to import capital goods on self – certification basis & to import prohibited goods with the approval of Central Government or Inter – Ministerial Standing Committee.

Export awareness

There are many exporters who lacks awareness in respect of trade opportunities. The Indian government must formulate policy in such a way that it consists of workshops & awareness programs to make the exporters aware about the international laws, global markets, etc.

Conclusion

With the help for new foreign trade policy, it can ensure a stable demand & supply that helps in economic growth. The policy also allows the country to increase in import & export in the country and to makes India’s position in International market.

FDI in India

- Investment climate in India has improved considerably since the opening up of the economy in 1991.
- This is primarily attributed to ease in FDI rules in India. India, today is a part of the top 100 clubs on Ease of Doing Business (EoDB).FDI inflows in India stood at $45.15 bn in 2014-15 and have consistently increased since then. Moreover, total FDI inflow grew by 65.3%, i.e. from $266.21 bn in 2007-14 to $440.01bn in 2014-21 and FDI equity inflow also increased by 68.6% from $185.03 bn during 2007-14 to $312.05 bn (2014-21).

- India received the highest annual FDI inflows of $84,835 mn in FY 21-22 overtaking last year’s FDI by $2.87 bn. Also, FDI equity inflow in FY 2021-22 were $ 59,825 mn.

- FDI Equity inflow in Manufacturing Sectors have increased by 76% in FY 2021-22 ($ 21.34 bn) compared to previous FY 2020-21 ($ 12.09 bn).

- Total FDI inflows in the country in the last 22 years (April 2000 - March 2022) are $ 847 bn while the total FDI inflows received in the last 8 years (April 2014- March 2022) was $ 523 bn which amounts to nearly 40% of total FDI inflow in last 22 years.

- In FY 2014-15, FDI inflow in India stood at mere $ 45.15 bn, which increased to $ 60.22 bn in 2016-17 and further to the highest ever annual FDI inflow of $ 83.57 bn reported during the FY 2021-22.

- Total FDI inflows in the country in the FY 2022 (April - December) is $ 55.27 Bn and total FDI equity inflows stands at $ 36.74 Bn.

- Singapore (27.01%), USA (17.94%), Mauritius (15.98%), Netherland (7.86%) and Switzerland (7.31%) emerge as top 5 countries for FDI equity inflows into India FY 2021-22.

- Top 5 sectors receiving highest FDI Equity Inflow during FY 2021-22 are Computer Software & Hardware (24.60%), Services Sector (Fin., Banking, Insurance, Non Fin/Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, Other) (12.13%), Automobile Industry (11.89%), Trading 7.72% and Construction (Infrastructure) Activities (5.52%).

- Top 5 States receiving highest FDI Equity Inflow during FY 2021-22 are Karnataka (37.55%), Maharashtra (26.26%), Delhi (13.93%), Tamil Nadu (5.10%) and Haryana (4.76%).

Balance of Payment (BOP)
Balance of Payment (BoP) of a country can be defined as a systematic statement of all economic transactions of a country with the rest of the world during a specific period usually one year.

It indicates whether the country has a surplus or a deficit on trade.
When exports exceed imports, there is a trade surplusand when imports exceed exports there is a trade deficit.
Purposes of calculation of BoP:

- Reveals thefinancial and economic status of a country.
- Can be used as an indicatorto determine whether the country's currency value is appreciating or depreciating.
- Helps the Government to decide on fiscal and trade policies.
- Provides important information to analyze and understand the economic dealings of a country with other countries.

Components of BoP:
For preparing BoP accounts, economic transactions between a country and rest of the world are grouped under – Current account, Capital account and Errors and Omissions. It also shows changes in Foreign Exchange Reserves.
Current Account: It shows export and import of visibles (merchandise or goods) and invisibles (non merchandise).Invisibles include services, transfers and income.
Capital Account: It shows a capital expenditure and income for a country. It gives a summary of the net flow of both private and public investment into an economy.

Unit 3

International Business & Economic Integration

International business resulted in establishments of economic groups both international and regional level. All these close associations happen through economic integration among different nations. Hence, we should study the meaning, importance, features, benefits and limitations of Economic Integraion.

Economic integration, process in which two or more states in a broadly defined geographic area reduce a range of trade barriers to advance or protect a set of economic goals.

The level of integration involved in an economic regionalist project can vary enormously from loose association to a sophisticated, deeply integrated, transnationalized economic space. It is in its political dimension that economic integration differs from the broader idea of regionalism in general. Although economic decisions go directly to the intrinsically political question of resource allocation, an economic region can be deployed as a technocratic tool by the participating government to advance a clearly defined and limited economic agenda without requiring more than minimal political alignment or erosion of formal state sovereignty. The unifying factor in the different forms of economic regionalism is thus the desire by the participating states to use a wider, transnationalized sense of space to advance national economic interests.

Forms of economic integration

Although there are many different forms of economic integration, perhaps the most convenient way to order the concept is to think of a continuum that ranges from loose association at one end to an almost complete merging of national economies at the other end. Although it is far from a given that positive experiences in the simpler forms of economic integration will lead to a deepening of the process to increasingly integrated shared economic spaces, the more-complex forms incorporate and are founded on the substantive elements of the earlier forms. The significant point is that although economic integration is explicitly framed by trading relationships, it acquires an increasingly political character as it reaches deeper forms.

There are four main types of regional economic integration.

1. **Free trade area.** This is the most basic form of economic cooperation. Member countries remove all barriers to trade between themselves but are free to independently determine trade policies with nonmember nations. An example is the North American Free Trade Agreement (NAFTA).
2. **Customs union.** This type provides for economic cooperation as in a free-trade zone. Barriers to trade are removed between member countries. The primary difference from the free trade area is that members agree to treat trade with nonmember countries in a similar manner.

3. **Common market.** This type allows for the creation of economically integrated markets between member countries. Trade barriers are removed, as are any restrictions on the movement of labor and capital between member countries. Like customs unions, there is a common trade policy for trade with nonmember nations. The primary advantage to workers is that they no longer need a visa or work permit to work in another member country of a common market. An example is the Common Market for Eastern and Southern Africa (COMESA).
4. **Economic union.** This type is created when countries enter into an economic agreement to remove barriers to trade and adopt common economic policies. An example is the European Union (EU)

Pros and Cons of Regional Integration

There are many theoretical advantages and disadvantages that come with regional integration,

The **advantages** include:

- Less chance of conflict and war.
- Larger markets and customer base allows businesses within member countries to exploits economies of scale.
- Freedom of movement of goods and peoples.
- Increased global significance.
- Improving environmental and social conditions.
- The promotion of democracy and liberalisation.
- Trade creation-the elimination of protectionism increases trade, leading to a more efficient allocation of member state resources.

The **disadvantages** include:

- Loss of sovereignty, independence, and national identity.
- Loss of national power in favour of even bigger government.
- Increased competition leading to job losses in some domestic industries.
- Loss of border control and the increased risk of smuggled goods and people.
- Uniform laws don't account for cultural differences.
- Trade diversion - the elimination of trade barriers among the member states may divert trade away from more efficient non-member states that are disadvantaged by the protectionism they still face.

Indias' Free Trade Agreement (FTA)

It is a pact between two or more nations to reduce barriers to imports and exports among them. Under a free trade policy, goods and services can be bought and sold across international borders with little or no government tariffs, quotas, subsidies, or prohibitions to inhibit their exchange. Recently, the Commerce and Industry Ministry said that India is in dialogue with Israel for concluding a Free Trade Agreement (FTA). The announcement coincides with the 30th anniversary of the establishment of diplomatic ties between the two countries.

India and FTAs

After India opted out of the Regional Comprehensive Economic Partnership (RCEP) in November 2019, the 15-member FTA grouping that includes Japan, China and Australia, FTAs went into cold storage for India.

- But in May 2021 came the announcement that India-European Union talks, which had stalled in 2013, would be resumed.
- Both sides are now engaged in internal preparations to take these various strands of work forward.
- Bilateral free trade agreements of India are being negotiated with the United Arab Emirates, the United Kingdom, Australia and Canada.
- The agreement with the UAE was 'close to finalisation' while the FTA with Australia was at a 'very advanced stage.'

Other Important Trade Agreements of India:

- Comprehensive Economic Cooperation and Partnership Agreement (CECPA) between India and Mauritius.
- South Asia Preferential Trading Agreement (SAPTA): It is for promoting trade amongst the member countries came into effect in 1995.
- South Asian Free Trade Area (SAFTA): A Free Trade Agreement confined to goods, but excluding all services like information technology. Agreement was signed to reduce customs duties of all traded goods to zero by the year 2016.
- Asia Pacific Trade Agreement (APTA): Previously the Bangkok Agreement, it's a preferential tariff arrangement that aimed at promoting intra-regional trade through the exchange of mutually agreed concessions by member countries.

Indias Trade Policy

Trade policy encompasses all instruments that governments may use to promote or restrict exports and imports. Trade policy also includes the approach taken by countries in trade negotiations. From the time of evolution till the very recent COVID-19 pandemic, trade has evolved and changed the meaning of various things in the world. Recently, India introduced its new foreign trade policy for 2021-2026 intending to become an economy of USD 5 Trillion along with making India a leader in the area of international trade.

Customs Union: A customs union is an agreement between two or more countries to remove trade barriers and lower or eliminate tariffs. Members of a customs union generally apply a common external tariff on imports from non-member countries. A customs union is not the same as an economic union. An economic union applies to more than just goods. It extends to the free movement of money and workers between member countries, which a customs union does not do. The European Union is an economic union as well as a customs union.

Common Market: A common market, also known as a trade block, is a market that allows trade and exchange of labor or services between specific countries. It is the result of a regional or intergovernmental agreement that permits agreeing countries to trade with one another with little or no barriers to trade.

Common external tariffs (CET)s can be imposed on non-members of the market who want to import into the market. The European community is an example of a common market organized for countries or members of the European Union. Common markets are established to create free trade areas among its members, in this market exchange of capital, goods and services can be done with less barriers to trade

Economic Union: An economic union is an agreement between two or more nations to allow goods, services, money and workers to move over borders freely. The countries may also coordinate social and financial policies to support this common market.

The European Union (EU) is an example of an economic union. The countries of the EU coordinate their respective economic policies, laws and regulations so they can work together to address economic and financial issues. The EU also has a common currency, the Euro, used by 19 EU members.

An economic union is different from a customs union. The members of a customs union enjoy free movement of goods but do not typically share currency or allow workers to move freely across borders.

European Union

Brief History and Purpose

The European Union (EU) is the most integrated form of economic cooperation. As you learned in the opening case study, the EU originally began in 1950 to end the frequent wars between neighboring countries in the Europe. The six founding nations were France, West Germany, Italy, and the Benelux countries (Belgium, Luxembourg, and the Netherlands), all of which signed a treaty to run their coal and steel industries under a common management. The focus was on the development of the coal and steel industries for peaceful purposes.

EU Governance

The EU is a unique organization in that it is not a single country but a group of countries that have agreed to closely cooperate and coordinate key aspects of their economic policy. Accordingly, the organization has its own governing and decision-making institutions.

- **European Council.** The European Council provides the political leadership for the EU. The European Council meets four times per year, and each member has a representative, usually the head of its government. Collectively it functions as the EU's "Head of State."
- **European Commission.** The European Commission provides the day-to-day leadership and initiates legislation. It's the EU's executive arm.
- **European Parliament.** The European Parliament forms one-half of the EU's legislative body. The parliament consists of 751 members, who are elected by popular vote in their respective countries. The term for each member is five years. The purpose of the parliament is to debate and amend legislation proposed by the European Commission.
- **Council of the European Union.** The Council of the European Union functions as the other half of the EU's legislative body. It's sometimes called the Council or the Council of Ministers and should not be confused with the European Council above. The Council of the European Union consists of a government minister from each member country and its representatives may change depending on the topic being discussed.
- **Court of Justice.** The Court of Justice makes up the judicial branch of the EU. Consisting of three different courts, it reviews, interprets, and applies the treaties and laws of the EU.[23]

NAFTA

Brief History and Purpose

The North American Free Trade Agreement (NAFTA) came into being during a period when free trade and trading blocs were popular and positively perceived. In 1988, the United States and Canada signed the Canada–United States Free Trade Agreement. Shortly after it was approved and implemented, the United States started to negotiate a similar agreement with Mexico. When Canada asked to be party to any negotiations to preserve its rights under the most-favored-nation clause (MFN), the negotiations began for NAFTA, which was finally signed in 1992 and implemented in 1994.

The goal of NAFTA has been to encourage trade between Canada, the United States, and Mexico. By reducing tariffs and trade barriers, the countries hope to create a free-trade zone where companies can benefit from the transfer of goods. In the 1980s, Mexico had tariffs as high as 100 percent on select goods. Over the first decade of the agreement, almost all tariffs between Mexico, Canada, and the United States were phased out.

ASEAN

The Association of Southeast Asian Nations (ASEAN) was created in 1967 by five founding-member countries: Malaysia, Thailand, Indonesia, Singapore, and the Philippines. Since inception, Myanmar (Burma), Vietnam, Cambodia, Laos, and Brunei have joined the association.

ASEAN's primary focus is on economic, social, cultural, and technical cooperation as well as promoting regional peace and stability. Although less emphasized today, one of the primary early missions of ASEAN was to prevent the domination of Southeast Asia by external powers—specifically China, Japan, India, and the United States.

Unit-4

Analysis of International Business

An environmental analysis is a strategic technique used to identify all internal and external factors that could affect a company's success. Internal components reveal the strengths and shortcomings of a company, while external components represent the opportunities and risks. This exists outside of the company.

Importance of environmental analysis

Organizations need to do environmental analysis because it helps them:

- **Find opportunities:** By looking at the outside world, organizations can find new trends and chances to enter new markets or make new products or services.
- **Identify threats:** It helps businesses find threats to their business, such as new competitors, changes in regulations, or a slowing economy.
- **Create effective strategies:** Organizations can create effective strategies that are in line with their goals and objectives when they understand how the outside world affects their business.
- **Anticipate change:** Environmental scanning helps organizations plan ahead for changes in the outside world and create strategies to deal with them.
- **Make informed decisions:** It helps organizations learn more about the outside factors that affect their business so that they can make better decisions.

Organizations that want to stay competitive and successful in a business world that is changing quickly need to do environmental analysis. It helps them take advantage of opportunities, lower risks, and come up with good plans that lead to growth and success.

Environmental analysis process

Environmental analysis is the process of assessing and evaluating the internal and external factors that can have an effect on an organization's performance and strategy. This analysis aims to find opportunities, threats, strengths, and weaknesses so that the organization can make a good strategy that fits its goals and objectives.
The environmental analysis process usually involves the following steps:

Determine the effects on the environment

To begin a business environmental analysis procedure, select environmental factors evaluating. Your industry determines this.

Obtain information

Collect information about your chosen environmental factors once you decide which ones to evaluate. You can observe your factors and conduct research here. There are two types of information to gather: verbal and written data. Hearing is how people obtain verbal information.

Consider your competitors

You may want to gather information about your competitors. To see if they pose any threats. You can accomplish this by employing a technique known as spying. This involves unusually gathering information.

Examine your strategies

Finally, evaluate your present and prospective strategies to determine how future environmental changes will impact your organization. This assists you in resolving potential issues. These factors could have been to blame.

For example, the health facility may wish to develop a new strategy. It will clearly show how they aim to deal with the decrease in clients caused by their competitor's new branch.

Environmental analysis tools- PESTEL & Value Chain Analysis

Environmental analysis is frequently used to assist businesses. It is used before launching a new product or service.

Political

Political issues refer to the level of government intrusion into an organization's operations. Primary concerns include taxes, tariffs, regulations, elections, and political stability.

For example, different political parties hold divergent viewpoints on raising the minimum wage. Small businesses may be affected by an election..

Economic

Businesses in the United States first consider the overall health of the American economic factors. Growth, employment, inflation, and interest rates are just a few examples.

Social

Factors like age, demographic changes, changing attitudes toward safety and health, customer preferences, and technical improvements reflects on business environment.

Technology

The technology involves research and development, robotics, automation, and any other type of technological advancement. New technologies are referred to as "technological disruption." It has the ability to change the cast of leading competitors dramatically.

Environmental

Climate change, weather, air quality, and natural disasters are examples of environmental factors. Changes in the environment threaten some industries more than others.

Legal

Legal factors involve employment, health, and safety policies. Customer safety and discrimination laws can also have an impact on a company's capacity to operate.

Value Chain Analysis

The term value chain refers to the various business activities and processes involved in creating a product or performing a service. A value chain can consist of multiple stages of a product or service's lifecycle, including research and development, sales, and everything in between. The concept was conceived by Harvard Business School Professor Michael Porter in his book The Competitive Advantage: Creating and Sustaining Superior Performance.

Taking stock of the processes that comprise your company's value chain can help you gain insight into what goes into each of its transactions. By maximizing the value created at each point in the chain, your company can be better positioned to share more value with customers while capturing a greater share for itself. Similarly, knowing how your firm creates value can enable you to develop a greater understanding of its competitive advantage.

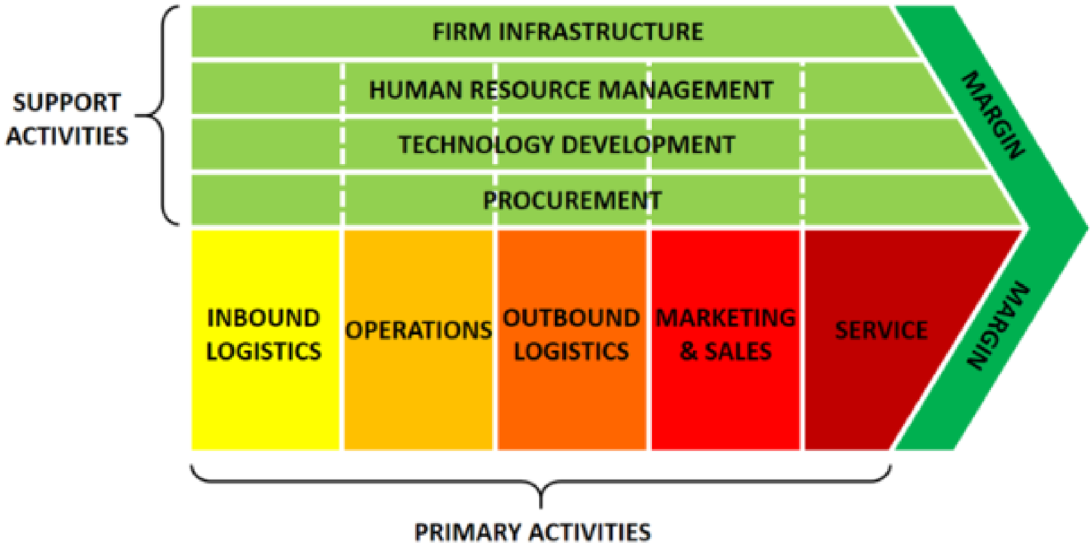

Figure 1: Porter's Value Chain

Primary activities are those that go directly into the creation of a product or the execution of a service, including:

- Inbound logistics: Activities related to receiving, warehousing, and inventory management of source materials and components
- Operations: Activities related to turning raw materials and components into a finished product
- Outbound logistics: Activities related to distribution, including packaging, sorting, and shipping
- Marketing and sales: Activities related to the marketing and sale of a product or service, including promotion, advertising, and pricing strategy.
- After-sales services: Activities that take place after a sale has been finalized, including installation, training, quality assurance, repair, and customer service

Secondary activities help primary activities become more efficient—effectively creating a competitive advantage—and are broken down into:

- Procurement: Activities related to the sourcing of raw materials, components, equipment, and services
- Technological development: Activities related to research and development, including product design, market research, and process development
- Human resources management: Activities related to the recruitment, hiring, training, development, retention, and compensation of employees
- Infrastructure: Activities related to the company's overhead and management, including financing and planning

Strategies of IB

The first strategy: International strategy

An international strategy is often the first strategy companies' use when they expand to secondary markets, and that's because it's the most accessible of the four. It's essentially an extension of your domestic strategy, operating with a central or head office in your home market and exporting your products to target markets.

The major advantage of this approach is that it's a quick way to test out the global appeal of your product without making significant investments in infrastructure or staffing in other markets.

The most local responsiveness: Multi-domestic strategy

A multi-domestic strategy ranks high on local responsiveness and low on global integration, making it the "local-first" approach of the four strategies. Companies that employ a multi-domestic strategy change their product, messaging, go-to-market, and customer support (among other things) based on each market they enter.

The greatest advantage to this is a highly specialized, localized product that directly matches customer tastes and preferences, with employees on the ground in that market that understand the cultural nuances. Choosing this strategy allows you to:

- Control a portfolio of local subsidiaries that you can scale up and down based on performance
- Easily access local competitive advantages, such as labor, shipping lanes, and natural resources
- Gain a stronger foothold in a local market more quickly

The most global integration: Global strategy

On the flip side of the global integration/local responsiveness spectrum is operating with a global strategy. This approach focuses on standardization as much as possible, including colors, messaging, products, and operations, so they can build repeatable, scalable processes no matter which foreign market they operate in. That means having one brand, one suite of products, and one message from a central headquarters.

The advantage of this is that pursuing this strategy gives you an instantly recognizable global brand with a step-by-step path toward global market penetration. Choosing this strategy allows you to:

- Harness economies of scale with efficient processes and operations
- Streamline product development with one product line and minimal changes by market

The best of both: Transnational strategy

While a global strategy may seem like the end-game, for many brands, the best choice is a transnational strategy, which splits the difference in terms of local responsiveness and global integration.

Transnational businesses operate with a central or head office in one country (the global integration part) and also employ local subsidiaries in international markets (the local responsiveness part). That way, they get the best of both worlds: one overarching brand that provides a cohesive structure and efficient center of operations while optimizing for local market preferences and tastes as needed. Choosing this strategy allows you to:

- Create a standardized brand that's immediately recognizable but accommodate differences in market preferences
- Centralize and streamline operations, getting the advantage from economies of scale
- Be able to flex between a high-level strategic overview of investments without losing customer-centricity with local markets

Meaning of Strategic Alliance:

A strategic alliance is an arrangement between two companies to undertake a mutually beneficial project while each retains its independence. The agreement is less complex and less binding than a joint venture, in which two businesses pool resources to create a separate business entity.

Nature and Scope of Strategic Alliance

A strategic alliance is an arrangement between two companies to undertake a mutually beneficial project while each retains its independence. The agreement is less complex and less binding than a joint venture, in which two businesses pool resources to create a separate business entity.

The scope of Strategic alliances might vary according to the tasks done by the partners. There can be strategic alliance where partners take part in all the activities of the business. There are cases where partners take care of the narrow aspects of the business like Marketing, Finance, R&D etc.

Advantages of Strategic Alliances

Earn new clients: Joining a strategic alliance may lead a company to expand its clientele if they earn a high return on investment (ROI). If both parties earn a high ROI, the company can trust each other to produce similar results. 2. Expand business opportunities and revenue

Expand business opportunities and revenue: Agreeing to join a strategic alliance means a business is open to working with companies outside of its geographic location. If you work for an entertainment promotions business in New Delhi, you may build a strategic alliance with a company in Mumbai to help increase name recognition and provide a service beneficial to their company.

Attain different sources of income: Working with a strategic alliance may improve the resources to scale a company and replenish the services it provides to its partner. For example, the company in your strategic alliance might provide graphic design services, while the company you work for specialises in copywriting services.

Limit risk: A strategic alliance may limit company risks because of the high-quality service delivered while working with another company. If companies join an alliance and specialise in two areas, like marketing and public relations, they can create a final product that creates a positive impact on the target consumer. The mutual return allows them to focus on how to grow the companies and the impact of the brands. Gain new resources

Gain new resources: Working in a strategic alliance permits your creation to plan for training and developing your employees using new resources. Training a team helps improve communication with essential members of the partner's company. Additionally, highlighting the responsibilities of employees and best practices for them to complete high-quality work is beneficial.

Change public perception: Announcing a strategic alliance may boost your company's reputation, especially working at a smaller company. For example, a small engineering company might work with a large company that builds commercial and military aircraft parts and has an excellent reputation among the public.

Disadvantages of Strategic Alliance

Experience communication challenges: A disadvantage of strategic alliances a company may experience is communication challenges. This may happen because a company may have challenges sharing information with its alliances or it may communicate differently than how the other company communicates.

Earn unequal benefits: In a strategic alliance, the company you work for can experience unequal benefits. In these agreements, one company may earn more benefits than the other. For example, one company may experience a 5% increase in sales while the other business might only gain a 2% revenue increase.

Risk a company's reputation: Similar to how you may enhance a company's reputation through a strategic alliance, you may risk decreasing a company's public perception.

Encounter conflicts: In a strategic alliance, you may encounter with the other companies in the agreement. Challenges may occur because you are combining two or more different work cultures with various personalities and workflows, which may cause disruptions or frustrations for the team members. Conflicts may cause the companies to experience a setback in the project or goals.

Face culture or language barriers: Collaborating with two or more companies may provide culture or language barriers as a disadvantage for a strategic alliance. For example, this may happen if you connect with a company in another country in the same industry.

Confront challenging alliance management: Another disadvantage a company may experience is confronting challenging alliance management. Challenging alliance management means the other company in the agreement may lack management skills to allow the team members to complete their tasks and goals effectively and efficiently.

Alliance Development Process:

Monitor: Study organizational needs through self-analysis. Observe, and identify your areas for desired improvement. Develop an organizational evaluation method to be completed by your customers, suppliers, employees and management. This will help you to inventory your core strengths and weaknesses. Which strengths might be valuable to a potential alliance partner? What weaknesses do you want to shore-up?

Educate: Study the individual companies that have been successful in building alliances. Study what worked and what did not. If Partnering was not successful, learn and understand why not.

Organize: Once you've selected your potential alliance partner short list, you can establish mutual goals. You can agree to who gives and gets what, when, where, and how. Mutual performance measuring instruments can be developed. It is time for identifying, understanding, and putting together the possibilities for an alliance. Internal and external personnel should be involved in developing not only your alliance structure, but also your road map as well.

Agreement: This is the agreement, handshake or contract. Most who have been down this path would strongly urge that your strategic alliance agreement be committed to paper. For the safety of all concerned, the agreement will be so much clearer six months or two years later. Sometimes people forget what they agreed to or, even worse, they have been transferred to a completely different division thousands of miles away.

Implementation: This is the kick-off of the alliance and kick-off parties are common. Generally, most of the persons from both or all companies that are involved in the alliance will attend. This humanizes the organizations and the people working on the alliance.

Maintenance: Regularly meet with alliance partners to evaluate the status of your relationship. Should the alliance be upgraded, maintained, or downgraded? Should new goals (short and long-term) and performance expectations be established? Are new measurement systems available?

Organizational Design and structure:

Let us try to understand the term "Organization Design and Structure." The structure of any building depends on its base or foundation. A strong foundation and a basic structure are critical to making a building strong. Although it is possible to redesign and restructure a building, if the base is weak, the whole structure of a building will be unstable.
The organizational structure also defines the flow of information between different levels of an organization, clarity of job of each employee, and its fitment in the overall system which motivates the employees to work efficiently by keeping their morale high; hence, increasing the overall productivity of an organization.

Centralized Organisation structure

In such type of organizations, Programs and polices framed by top management. However top management structure with centralized. A centralised structure is where business decisions are made at the top of the business or in a head office and distributed down the chain of command . It is often used in retail chain

Centralized structure-Pyramid Shape

Decentralized Organization Structure

In such type of organizations, day-to-day tasks and the decision-making processes are delegated to the supervisors at the middle and lower level by the top management for fast and effective decisions and to improve efficiency. By letting the middle and lower level executives jump in the process of decision-making, the top management can focus on other major decisions. This also increases the responsibility and accountability of the employees.

Issues in Organizational Design:

- **Turnover:** High turnover refers to an organizational issue where employees leave their companies frequently and at high volumes. ...
- **Productivity:** Productivity is a measure of economic performance that compares the amount of goods and services produced (output) with the amount of inputs used to produce those goods and services.
- **Role specification:** A job specification is the list of recommended qualities for a person to qualify for and succeed in a position. While the job description includes the title position, responsibilities and summary, the specification identifies the skills, traits, education and experience a candidate might need to qualify for that job
- **Customer satisfaction and relations:** Customer satisfaction is defined as a measurement that determines how happy customers are with a company's products, services, and capabilities. Customer satisfaction information, including surveys and ratings..
- **Teamwork:** A group of people who perform interdependent tasks to work toward accomplishing a common mission or specific objective
- **Poor communication.:** Poor communication is a breakdown that results from a discrepancy or disconnect between what is said and what is understood. This lack of mutual understanding can happen at the interpersonal level between colleagues or at an organizational level.
- **Lack of awareness:** A lack of awareness is the failure to be able to see beyond your thoughts. It means we can't grasp the impact of your emotions, actions, and behaviours.
- **No personal development opportunities:** Activities designed to improve talents, potential, employability, and even wealth. Any time you are consciously making an effort to improve yourself.
- **Not enough feedback:** Continuous feedback is the practice of sharing regular, constructive feedback at work through a series of ongoing and structured conversations between managers and their employees.
- **Lack of accountability: w**hen someone does not take ownership of an unproductive situation that results from their own actions and subsequent choices.
- **Lack of innovation:** A loss of productivity, reduced customer engagement and an inevitable decline in profits. In this blog, we look at how a lack of innovation can damage your business and what you can do to keep your business current.
- **Lack of trust:** A feeling that someone or something is not honest and cannot be trusted.

Unit 5
International Business Operations

The foundation for international production and operations is no different to domestic production and operations management. But there are certain aspects which make international exposure a challenge for an organization. The very 1st difference is international business environment where not just economics but also international quality standards have to be maintained. The 2nd aspect is the international stint makes the company more aware of its surroundings thus making it more competitive.
As IPOM is dynamic in nature, organization has to design it strategic objectives which cover following points:

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

Domestic POM and IPOM

Organization has to clearly identify challenges it is likely to face in an international environment. Those challenges can be categorized as follows:

Culture: Domestic POM has to content with homogenous culture where as IPOM has to content with multi-culture multi-ethnicity scenario.

Business Environment: Domestic POM has to consider local economical and social factors where as IPOM has to deal with economical and social factors across geography and countries.

Quality Standards: Domestic POM has to look at single local market therefore not much variation in quality standards where as IPOM has to consider different international markets with different quality standard requirements.

Pricing: Pricing for Domestic POM may not be a challenge as competition would also operate in the same environment. IPOM has to consider the customer paying capacity which may vary from developed country to developing country.

Technology: In domestic environment innovation and usage of technology is much more comparable among competition. For IPOM owing to different quality and pricing requirements investment in technology becomes important.

Economies of Scale: Domestic POM has to deal with limited local market, hence limiting scope of economies of scale whereas IPOM has to access to larger market thus providing a change of achieving larger economies of scale.

Market Segmentation: Domestic POM is around local market where as IPOM has to developed and diversified market.

Usage of resources: Domestic POM has to deal with in-flexibility of moving around of resources within one location while IPOM has advantage of moving around of resources from high cost market to low cost market.

IPOM Strategies

Organization needs to consider the following point while developing IPOM strategies:

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

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

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

Vertical Integration:

Vertical integration is a strategy that allows a company to streamline its operations by taking direct ownership of various stages of its production process rather than relying on external contractors or suppliers. Companies can achieve vertical integration by acquiring or establishing their own suppliers, manufacturers, distributors, or retail locations rather than outsourcing them. Vertical integration can be risky due to the significant initial capital investment required.

Vertical integration occurs when a company attempts to broaden its footprint across the supply chain or manufacturing process. Instead of sticking to a single point along the process, a company engages in vertical integration to become more self-reliant on other aspects of the process. For example, a manufacturer may want to directly source its own raw materials or sell directly to consumers.

The supply chain or sales process typically begins with the purchase of raw materials from a supplier and ends with the sale of the final product to the customer. Vertical integration requires a company to take control of two or more of the steps involved in the creation and sale of a product or service. The company must buy or recreate a part of the production, distribution, or retail sales process that was previously outsourced.

Types of Vertical Integration

Backward Integration

A company that chooses backward integration moves the ownership control of its products to a point earlier in the supply chain or the production process. This form of vertical integration is aptly named as a company often strives to acquire a raw material distributor or provider towards the beginning of a supply chain. The companies towards the start of the supply chain are often specialized in their distinct step in the process (i.e. a wood distributor to a furniture manufacturer). In an attempt to streamline processes, the furniture manufacturer would try to bring the wood sourcing in-house.

Forward Integration

A company that decides on forward integration expands by gaining control of the distribution process and sale of its finished products. A clothing manufacturer can sell its finished products to a middleman, who then sells them in smaller batches to individual retailers. If the clothing manufacturer were to experience forward vertical integration, the manufacturer would join a retailer and be able to open its own stores. The company would aim to bring in more money per product, assuming it can operate its retail arm efficiently.

Balanced Integration

A balanced integration is an approach to vertical integration where a company aims to merge with companies both before it and after it along the supply chain. A company must be the middleman and manufacture a product to engage in balanced integration. That's because it must both source raw materials as well as work with retailers to deliver the final product.

Pros of vertical integration

- Long-term cost saving due to favorable pricing and minimal supply chain disruptions
- Economies of scale, which increase efficiency
- Reduces or eliminates the need to rely on external parties/suppliers
- Greater control over the product, inputs, and process, which may lead to superior products

Cons with vertical integration

- Requires large upfront capital requirements to implement
- Reduce a company's long-term flexibility
- Loss of focus on a company's primary objective or customer
- Displeased customer base that would prefer to work with smaller retailer

Major activities in International Marketing

Understanding the International marketing activities how you better focus the following of marketing and take a look at how they align with overarching business objectives.

1. Promotion.
2. Selling.
3. Product/Service Management.
4. Marketing Information Management.
5. Pricing.
6. Financing.
7. Distribution.

1. Promotion

When people map out their marketing goals, promotion is usually at or near the top of that list. Getting your name in front of prospective customers, building brand awareness and raising your company's profile are major priorities for every marketing department.

Promotional strategies often overlap with other business units and awareness-building activities, such as advertising and public relations. From a marketing perspective, promotion can include everything from content marketing and email marketing to social media, text marketing and influencer marketing.

2. Selling

We've often cautioned readers about the dangers of coming on too strong and sales with your marketing content. You risk alienating your target audience by consistently delivering overt sales pitches in your content and making it seem like your only goal is to get people to buy something from you.

The truth is part of every marketer's job is to sell their products to customers — ideally, though, it's done with more nuance. Every marketing decision, from your brand messaging to your campaign themes, should support the ultimate goal of increasing sales. Once you've grabbed the attention of a potential customer, whether that's a consumer or B2B prospect, marketers need to go to work nurturing that lead and guiding them through the sales funnel so they're primed to make a purchase when they finally make contact with your sales team. Use technology to your advantage by including an online catalog maker in your must-have list of digital tools when it comes to showcasing your products or services.

3. Product/Service Management

Designing a new product that better meets customer needs and fills a gap in the marketplace doesn't happen by coincidence or sheer luck. It takes a lot of thorough market research to figure out what people want and how to deliver the best product possible. Marketing teams may identify new growth opportunities when:

- Speaking with prospects.
- Running competitor analysis.
- Incorporating feedback gleaned from customer support services into marketing strategies.

4. Marketing Information Management

Strategic marketing is driven by data. Every good marketer knows that the more information you can gather about your target customer, industry competitors and market trends, the more successful your marketing efforts will be.

All of that juicy info is as good as gold, so there's no reason to keep it locked away in some silo. One of the core (yet sometimes overlooked) functions of marketing is to collect this valuable data, distill it down to action items and useful takeaways and share it with other departments that might find it useful. Usually, the marketing team stores all this information in a marketing CRM.Sales teams, for instance, can always use more in-depth marketing insights to help them refine their pitches to:

- Address the latest industry trends.
- Respond to competitor messaging.
- Speak directly to the pressing customer concerns.

5. Pricing

Marketing research can also inform how brands set the price of a product. Effective pricing is as much art as it is science, and brands need to find that sweet spot that balances how customers value your goods or services with the cost of production and delivery as well as accounting for the current price of competing products.

The perceived value of your brand directly impacts your pricing strategy. Marketing research sheds light on your brand's reputation and helps you better understand how much your target audience values your brand. That's on top of all the competitor analysis and industry research critical to setting a fair asking price for your wares.

6. Financing

Now we're digging into some of the less-discussed functions of marketing, although they're still very important to overarching business objectives. Financing may not initially seem like a top concern for your marketing team to worry about, but think about it this way: If your department can't secure space in the budget to fully support your next marketing campaign, how are you going to meet your goals?

When people think about financing, they often focus on the up-front costs of getting a new business off the ground. But, in reality, financing is an ongoing concern for business owners and company leaders, who need to make difficult budgeting decisions year after year and quarter after quarter.

7. Distribution

Where you sell your products or services and how you get them into your customer's hands is also a marketing problem, whether you're talking about digital or physical distribution. Choosing the right distribution channels comes down to understanding who your target customer is, how they view your brand and where they expect to find you — all marketing-centric issues. You would never expect to find a Rolex watch for sale at the Dollar Store, after all. Those brands represent two very different market demographics.

Brand decisions

A brand is a product, service or concept that is publicly distinguished from other products, services or concepts so that it can be easily communicated and usually marketed. Branding is the process of creating and disseminating the brand name, its qualities and personality..

Branding consists of a set of complex branding decisions. Major brand strategy decisions involve brand positioning, brand name selection, brand sponsorship and brand development..Branding is more than a logo and colour palette. Branding is positioning your company to make a favourable impression so that potential customers think of you when making a buying decision.

Major brand strategy decisions involve brand positioning, brand name selection, brand sponsorship and brand development. features, benefits, services and experiences consistently to buyers. However, a brand should rather be understood as a set of perceptions a consumer has about the products of a particular firm.

Corporate Branding:

Corporate Branding is an act of using the brand name of the company in the overall advertising efforts and all the communication to the stakeholders. It is the intangible attitude and spirit behind the company that gives it a distinguishing identity in the industry and in the minds of consumers. It is the much broader concept as compared to promoting the products and services of the company.

Product Branding

Product branding is when marketers introduce a product to the public with its own unique identity. This can be with the product name, logo, design—any aspect of the product that differentiates itself from all else.

Personal Brand

Personal branding is the process of creating an identity for yourself as an individual or business. This involves developing a well-defined and consistent look, message, and presence online and offline. There are many psychology-based reasons why you might want to work on your personal brand.

Activities in International Financial Management

International finance management is the strategic management of financial activities across national borders. It entails overseeing global financial operations such as investing, financing, and risk management. The primary actors in international finance management are multinational corporations, governments, and financial institutions. These organizations must navigate complex financial systems that differ by country, such as tax laws, regulations, and currency exchange rates. International finance management entails analyzing and interpreting these systems and developing and implementing financial strategies to improve performance in various markets.

International financial management entails dealing with a wide range of issues that can emerge from operating in a global context. The following are some of the most significant challenges:

Foreign exchange risk: This is the risk of loss resulting from fluctuations in currency exchange rates. Hedging strategies such as currency forwards, options, and futures can help manage this risk

Political risk: It is the risk of loss caused by political events such as changes in government policies, regulations, and insecurity. To mitigate this risk, businesses can spread their operations across multiple countries and regions

Cultural differences: Different cultures have different approaches to business, finance, and risk. Organizations can overcome this challenge by investing in cross-cultural training for employees and developing cultural intelligence

International financial regulations: Each country has its own set of financial regulations. To ensure compliance, organizations can hire professionals with experience in international financial regulations

Economic insecurity: Economic conditions can vary greatly across countries and regions. Organizations can mitigate this risk by diversifying their investments across countries and industries.

Forex Market

The foreign exchange market is over a counter (OTC) global marketplace that determines the exchange rate for currencies around the world. This foreign exchange market is also known as Forex, FX, or even the currency market. The participants engaged in this market are able to buy, sell, exchange, and speculate on the currencies.

These foreign exchange markets are consisting of banks, forex dealers, commercial companies, central banks, investment management firms, hedge funds, retail forex dealers, and investors. In our prevailing section, we will widen our discussion on the ‘Foreign Exchange Market’.

International Monetary System

The International Monetary System comprises central and commercial banks, international financial institutions, and various money market funds, including open market funds from the currency and bond markets. In their eyes, money is a medium of exchange that facilitates the exchange of capital flows, goods, and services across countries.

The international monetary system is the operating system of the global financial environment. This body comprises investors, multinational companies, and financial institutions. The International Monetary System formulates the framework that facilitates the exchange rates, international payments, and movement of capital between two countries with different currencies.

The prerogative of the International Monetary System is to facilitate the exchange of capital, goods, and services between countries. The International Monetary Fund (IMF) oversees articles of the agreement signed in this regard between countries. The responsibility of member countries is to formulate economic and financial policies that facilitate the economic and financial conditions to ultimately result in economic growth by maintaining price stability.

Moreover, member countries take active action toward creating systems that help avoid manipulation or tampering of exchange rates and keep improving rate change policies that foster growth and safety to benefit the global economy. To broaden the approach from just focusing on exchange rates, the IMF sought to create external stability through a balance of payments system that eliminates uncontrollable exchange rate movements.

Since IMF is a multilateral institution, its policies and regulations help the functioning of the International Monetary System. More so, as IMF plans to extend its reach and address issues such as inequalities, financial supervision, poverty, and climate change. However, it is essential to note that The International Monetary Fund (IMF) has no power or control over the International Monetary System.

International Financial Market: The International Financial Market is the place where financial wealth is traded between individuals (and between countries). It can be seen as a wide set of rules and institutions where assets are traded between agents in surplus and agents in deficit and where institutions lay down the rules. In short, the international financial market is the worldwide marketplace in which buyers and sellers trade financial assets, such as stocks, bonds, currencies, commodities and derivatives, across national borders.

The institutions or agencies of International Financial Markets that serve as the sources of International funds are:

1. Multilateral development banks or agencies
2. Government / governmental agencies
3. International banks
4. Securities market

Segments of International Financial Markets

The following are the segments of International Financial Markets:

Foreign Exchange Market: The Foreign Exchange Market is the world's largest financial market. Foreign exchange market is the market for the purchase and sale of foreign currencies. Borrowing or investing internationally requires the use of foreign exchange market for conversion of currencies. The foreign exchange market facilitates international trade and international transactions.

International Bond Market: Foreign bonds and Euro bonds are the two types of international bonds. International bond market also includes a) Sinking fund bonds b) Convertible bonds c) Floating rate notes e) Global bonds.

International Equity Market: Equity capital for a company is raised through the issue of shares. A multinational company would often like to raise equity capital from different countries by issuing shares in those countries. These shares are then traded in the stock exchange of the country.

International Money Market: International Money market is the market for transfer of short-term funds. In international money market, transactions take please in a variety o f different currencies. International banks and financial institutions across the world are the major suppliers of funds in these markets, while MNCs and governments of different countries are the major users of these funds. The European money market is an important part of the international money market.

International Credit Market: International Credit market refers to the market through which companies and governments issue debt to investors, such as investment-grade bonds, junk bonds, and short-term commercial paper. Sometimes called the debt market, the credit market also includes debt offerings, such as notes and securitized obligations, including collateralized debt obligations (CDOs), mortgage-backed securities, and credit default swaps (CDS).

International HRM

Organizations that have expanded their business to other countries may face international HR challenges due to cultural differences, time zones, and the failure to maintain legal compliance with labor laws. Human resource officers must excel at communication and devise strategic management systems to oversee employees all over the world.

Challenges

Breaking Local Employment Laws

One international human resource management challenge that your human resource department needs to be prepared for is global employment laws. When hiring outside of your organization’s typical area of operation, ensure that your HR department has read up on local labor laws in that particular country. Failure to maintain legal compliance may impact your organization’s image and work-force branding. Labor laws are different from country to country, so stay up to date on new HR developments around the globe.

Creating a Healthy Work Environment

Forming a healthy work environment remotely is one of the most important international challenges for HR professionals to conquer. It may be difficult to motivate teams to reach business goals and build genuine connections amongst different departments. If the work environment is not addressed before building teams across the globe, your organization’s efficiency and retention rates will suffer significantly.

Administering Fair and Ethical Policies

When your organization’s workplace expands globally, your HR department will need to understand the ethics of different cultures around the globe. As labor laws change from country to country, so will ethics.

Some key international ethical issues to look out for may surround the topics of data, privacy, and compensation. These potential international HR problems can be easily addressed through training. Lack of awareness can damage your organization's reputation and relations overseas, so it is imperative to train all employees on international business ethics.

Training and Development of Talent

Since your organization is expanding to international territory, your company's workforce will expand too and will be in need of organizational leadership. Make sure that your HR department is ready to manage a larger pool of talent virtually. When human resource departments get swamped with all the HR systems, skill gaps and trainings can easily be missed or mismanaged. Stay on top of training and development with a unified HR platform that brings all your learning management systems together.

Managing People All Over the World

As companies expand overseas, new employees will most likely be in a time zone far from yours and may communicate in another language. Both of these matters can lead to the largest HR international challenge, communication problems. Communication is huge when working domestically or internationally. As the world moves to remote work, you may not have the chance to meet your team in person for months. So, creating a human connection may be difficult as well.