INTERNATIONAL BUSINESS
AN OVERVIEW

INTRODUCTION

Meaning & Definition

"International Trade consists of transactions between residents of different countries"

Wasserman & Haltman

Today, business is acknowledged to be international and there is a general expectations that this will continue for the foreseeable future. The study of International business have become more important in recent years because of the growing influence of multinational companies (MNCs) & global corporations.

"International Business means carrying of business activities beyond national boundary." These activities include normally the transactions of economic resources & international production of goods & provision of services. The broad forms of internationalization of business are therefore, trade, technical collaboration & investment. International Business grew over the half of the twentieth century partly because of liberalization of both trade & investment, and partly because doing business internationally had become easier. For Example Tata Motors, India's largest automobile manufacturer is steadily increasing its presence across the world. Tata passenger cars and trucks are currently being purchased by customers in Europe, Africa, the Middle East, South and South East Asia and Australia.

International business is all commercial transactions between two or more countries. Private companies undertake such transactions for profit which partly depends on foreign sales & resources; Government business may or may not be profit motivated.

Though there are a number of definitions available for international business but no simple or universally accepted definition exist for the term international business.

At the end of the definitional spectrum:

"International Business is the process of focusing on the resources of the globe & objective of the organizations on global business opportunities & threats."

GLOBALISATION

Meaning and Definitions of Globalisation:

Globalisation means different things to different people. Globalisation may be defined as the integration of countries into world economy or one global market. Such integration involves removal of all trade barriers between countries. It is the process of internationalization of products, markets, technologies, capital, human resources, information and culture.

"It can be defined, simply as the expansion of economic activities across political boundaries of nation states. **Deepak Nayyar**

Globalisations is "the shift towards a more integrated and interdependent world economy. Globalisation has two main components – the globalization of market & globalization of production." **Charles U.L. Hill**

"Globalisation as the growing economic interdependence of countries worldwide through increasing volume & variety of cross border transactions in goods and services and of international capital flows and also through the more rapid & widespread diffusion of Technology" **International Monetary fund**

CHARACTERISTICS OF GLOBALISATION

1) Globalisation involves expansion of business operations throughout the world.

2) It leads to integration of individual countries of the world into one global market thereby removing differences between domestic & foreign market.

3) Products are planned and developed for the world market.

4) Factors of production like raw materials, labour, finance, technology and managerial skills are sourced from the entire globe.

5) Establishing manufacturing & distribution facilities in any part of the world based on the feasibility & viability rather than national consideration.

ADVANTAGES OF GLOBALISATION

Globalisation can offer the following benefits:

1. **Rapid Industrialization:** Globalisation helps in the free flow of capital and technology between countries. Free flow of capital along with the technology enables the developing countries to boost up industrialization in their countries.

2. **Lower prices with high quality:** Indian consumer have already been getting the products of high quality at lower prices. Increased industrialization, spread up of technology, increased production and consumption level enable the companies to produce & sell the products of high quality at lower prices.

3. **Increase in Employment & income:** Globalisation creates job opportunities in developing countries and then income of people increase due to increased industrialization.

4. **High standard of Living:** Globalisation reduces the prices and thereby enhances consumption & living standards of people in all the countries of the world.

5. **Cultural exchange & demand for a variety of products:** Globalisation reduces the physical distance among the countries and enables people of different countries to acquire the culture of other countries. The cultural exchange in turn makes the people to demand for variety of products which are being consumes in other countries.

DISADVANTAGES OF GLOBALISATION

1. **Interdependence:** Globalisation increases interdependence between nations of the world. As a result economic sovereignty & control over the domestic economy are reduced.

2. **Threat to Domestic Business:** Globalisation leads to establishment of manufacturing and marketing facilities by multinationals in developing countries. The domestic firms in these countries fail to face the Multinationals. As a result they sell out foreign firms. Cheap imports from china and other countries also kill domestic business.

3. **Exploits Human Resources:** The foreign companies which are located in developing countries invariably violate

the labour & environmental laws in order to have the cost advantage. These companies employ child labour, pollute environment, and ignore workplace safety & health issues. However, it is viewed that, the globalization enables the developing countries to become rich and enforce the labour & environmental regulations.

4. **Technological Dependence**: Globalisation offers readymade foreign technology which scuttles domestic research and development. Foreign technologies are available at a high cost and are often adaptable to local conditions. Developing countries become technologically dependent on developed countries.

5. **Leads to Unemployment & underemployment:** Globalisation leads to restructuring of industry. Technology upgradation and focus on areas of comparative advantage create unemployment and underemployment among low skilled labour. As a result income inequality poverty & social unrest may increase

WHY COMPANIES GO INTERNATIONAL?

While going internationally, a company should consider its mission, its objectives & strategy. The basis or reasons for going internationally are given below:

1. To Expand Sales
2. To achieve higher rate of profits
3. To acquire resources.
4. Limited home market.

1. To Expand Sales: Expansion of sales is the major motive for company's expansion into international business. Many of the world's largest companies derive half their sales from outside their home country. However, smaller companies also may depend on foreign sales. For example, Pan Vera, a U.S. biotechnology research firm, makes about 25% of its $7 million a year sales abroad and U.S. Small Business Administration estimates that small companies account for 31% of U.S. exports.

2. To Achieve higher rate of profits: As we have discussed in various management related subjects that the basic objective of the business firms is to earn profits. When domestic markets do not give a higher rate of profits, than business firms goes for foreign market, which gives higher rate of profits.. For example Hawlett Packard earned 85.4% of its profits from foreign market in 1994.

3. To acquire resources: Most companies search for the products, services & components produced in foreign countries. They also look for foreign capital, technologies & information they can use at the home country. As there is availability of advanced technology & managerial competence in Home countries that act as a pulling factors for business firms from the home country companies. The developing companies are attracted by the developed countries due to these reasons.

4. Limited home market: When the size of the home country's market is small due to low purchasing power of the people or smaller size of the populations, the companies go internationally. For example: ITC entered the European market due to the low purchasing power of the Indians with regard to high quality cigarettes.

DOMESTIC VS.INTERNATIONAL BUSINESS

International Business is different from domestic business. The following are the points of difference between International business & domestic business:

1. International business means carrying of business activities beyond national boundary whereas business activities in case of Domestic business are limited to the length and breadth of the country.

2. Transactions in International business are mostly intra-firm, apart from the inter-firm transactions. Goods and raw material flow between the parent company and the subsidiary company. Whereas transactions in Domestic business are inter-firm.

3. The another point of difference is that international business is typically more costly than domestic business. The reason is that a border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or a different culture.

4. Another difference between domestic and international trade is that factors of production such as capital and labour are typically more mobile within a country than across countries.

FACTORS LEADING TO GROWTH IN INTERNATIONAL BUSINESS

The past couple of decades have witnessed significant growth in International Business. After world war II, there has been a near continuous & extraordinarily & rapid growth in World Trade. The value of world exports increased from $61 billion in 1950 to $6,180 billion in 2000. The factors leading to the growth in International Business are – to expand sales, to acquire resources, to diversify sources of sales, & to minimize competitive risk. These factors would have applied in earlier period also. So, what has happened in recent decades to bring about the increased growth in International Business? The answer lies in the following questions:

1. Liberalization of government policies on cross border movement of trade & resources.
2. Advancement of technology
3. Growing entrepreneurship.
4. Increase in competition.

1. Liberalization of government policies on cross-border movement of trade & resources: Every country restricts the movement of goods and services and recources across its borders. Such restrictions make international business more expensive to undertake. The gradual liberalisation of trade restrictions & quotas, reductions in customs tariffs & the vigorous export promotion activities have also contributed to the growth of International Business.

2. Advancement of Technology: The past few decades have witnessed rapid advancement in product & technology. Many firms have imerged up with innovated products & improved technology. By increasing the demand for new products & services, technology has tremendous impact on International Business. As the demand increase, & so is the number of International business transactions increases.

3. Growing Entrepreneurship: Well established business houses like Birlas, Tatas have entered in foreign countries like USA, UK etc. New and dynamic entrepreneurs particularly in information technology and telecommunication have emerged in recent years.

4. Increase in Competition: It is the growing competition that has led to the growth of International Business in past few decades. Today companies can respond rapidly to many foreign sales opportunities. With increasing competition, firms have preferred not only to source raw material & intermediate goods from the least cost country but also to set up their units in different countries that minimizes the cost of operations & reduces the financial risk. The growing concept of cost minimization & risk reduction with a view to surviving in a competitive environment has thus led to rapid growth of Internationalisation.

PROBLEMS OF INTERNATIONAL TRADE

No one is perfect in the world that's why pencils have been erased. International Business do have problems. The various problems relating to international Business in developing countries are:

1. Tariffs Quotas & Trade Barriers
2. Foreign exchange Rate

3. Market Inefficiency
4. Corruption
5. Technological Pirating

1. Tariffs Quotas & Trade Barriers: The developed countries are having a number of tariffs & quotas restriction on import of products of special interest to developing countries.

2. Foreign exchange Rate: Currencies of countries are depreciated due to imbalances in the balance of payment, political instability & foreign indebtedness. This, in turn leads to instability in the exchange rates of domestic currencies in terms of foreign currencies.

3. Market Inefficiency: The developing countries market intelligence is far from adequate. WTO/UNCTAD has been trying to help them by carrying out studies for the benefit of developing countries. Still they are not able to match marketing network of Japanese trading companies.

4. Corruption: Corruption has become an international phenomenon. The higher rate bribes & kickbacks discourage the foreign investors to expand their operations.

5. Technological Pirating: Copying the original technology, producing imitative products, imitating other areas of business operations were common in Japan during 1950’s & 1960’s. This practice invariably alarms the foreign companies against expansion.

6. Others: There are a number of some other problems like political factors i.e. entry requirements, High cost, high fluctuations in prices, Raising of Environmental issues etc. which are faced by International Business in developing countries.