KUNTHAVAI NAACCHIYAR GOVERNMENT ARTS COLLEGE FOR WOMEN(A), THANJAVUR.

Department of Business Administration

Sub: International Business Administration

Code:18K5BB11

Unit-I

International Business-Definition-Nature of International Business, Difference between International Business and Domestic business, Advantages of International Business, Problems in International Business, Globalization-Positive and Negative impacts of Globalization.

INTERNATIONAL BUSINESS:

Business activities done across national borders is International Business. The International business is the purchasing and selling of the goods, commodities and services outside its national borders. Such trade modes might be owned by the state- or privately-owned organization. In which, the organization explores trade opportunities outside its domestic national borders to extend their own particular business activities, for example, manufacturing, mining, construction, agriculture, banking, insurance, health, education, transportation, communication and so on.

DEFINITION

"According to International Business Journal, 'International business is a commercial enterprise that performs economic activity beyond the bounds of its location, has branches in two or more foreign countries and makes use of economic, cultural, political, legal and other differences between countries."

Cambridge dictionary defines international business as – "the activity of trading goods and services between countries".

NATURE OF INTERNATIONAL BUSINESS

1. Accurate Information
2. Information not only accurate but should be timely
3. The size of the international business should be large
4. Market segmentation based on geographic segmentation
5. International markets have more potential than domestic markets

DIFFERENCE BETWEEN INTERNATIONAL BUSINESS AND DOMESTIC BUSINESS

Domestic Business is defined as the business whose economic transaction is conducted within the geographical limits of the country. International Business refers to a business which is not restricted to a single country, i.e. a business which is engaged in the economic transaction with several countries in the world

BASIS FOR COMPARISON	DOMESTIC BUSINESS	INTERNATIONAL BUSINESS
Meaning	A business is said to be domestic, when its economic transactions are conducted within the geographical boundaries of the country.	International business is one which is engaged in economic transaction with several countries in the world.
Area of operation	Within the country	Whole world
Quality standards	Quite low	Very high
Deals in	Single currency	Multiple currencies
Capital investment	Less	Huge
Restrictions	Few	Many
Nature of customers	Homogeneous	Heterogeneous
Business research	It can be conducted easily.	It is difficult to conduct research.
Mobility of factors of production	Free	Restricted

(Source: www.keydifferences.com)

ADVANTAGES OF INTERNATIONAL BUSINESS

1. A Country can Consume those Goods which it cannot Produce:

Commodities produced in India can be found in England and vice-versa. This helps England to enjoy those goods which he cannot produce in his country.

2. The Productive Resources of the World are Utilised to the Best Advantage of the Country:

Every country expects highest return from its resources and this lead to fall in price and better goods for consumption.

3. Heavy Price Fluctuations are Controlled:

If the price of any commodity goes up, the goods can be imported from abroad and its price can be brought down.

4. Shortages in Times of Famine and Scarcity can be met from Imports from Other Countries:

Surplus produce can be sent out to needy countries. Food scarcity in India and Europe in often met by surplus food-grains from the U.S.A.

5. Countries Economically Backward but Rich in Resources may Develop their Industries:

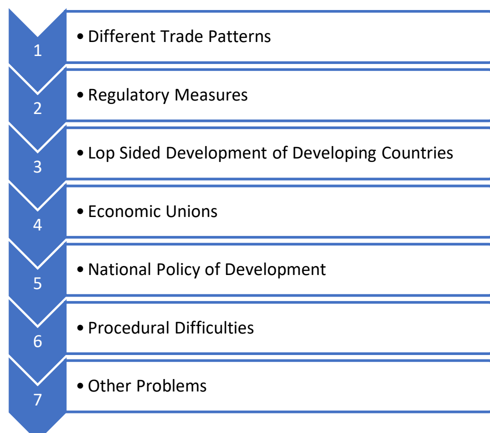
Indian people are opening industries with the idea of sending produced goods to foreign countries.

6. International Business Promotes Peace and Friendship:

No country however big it may be can claim to be self-sufficient. It will have to depend on other country for something. Free international business is essential for goodwill, peace and to meet any requirements of the nation.

(Source: https://www.economicsdiscussion.net/international-trade/international-business-advantages-and-disadvantages/13951)

PROBLEMS IN INTERNATIONAL BUSINESS



1. Different Trade Patterns:

International business has to deal with the business patterns among the various countries of the world. It has to take into account these business policies of various countries which govern their imports and exports. These policies and practices impose certain constraints and restrictions on international business.

2. Regulatory Measures:

Every country wants to export its surplus natural resources, agricultural produce and manufactured goods to the extent, it can and import only these goods and products which are not produced or manufactured within the country. For this purpose regulatory measures like tariff barriers (custom duties) non-tariff barriers, quota restrictions, foreign exchange restrictions, technological and administrative regulations, consulter formalities, state trading and preferential arrangements, trade agreements and joint commissions etc. Come in the way of free trade and unfettered flow of foreign business.

3. Lop Sided Development of Developing Countries:

Developed counters are equipped with sophisticated, technologies capable of transforming raw materials into finished goods on a large scale. While developing countries on the other-hand lack technological knowledge and latest equipment. It leads to the lop-sided development in the international business.

4. Economic Unions:

There is an increasing tendency among nations to form small groups of Economic Unions which help them to negotiate terms for the business with other countries.

5. National Policy of Development:

The country desirous of achieving self-sufficiency, follows a strategy of importing capital goods equipped with latest and sophisticated technology and restricting imports of less important consumer goods with a view to lowering down its import bill.

6. Procedural Difficulties:

Different countries have evolved different procedures, practices and documents in order to regulate the export trade. Some of these such as foreign exchange control regulations and others have been formulated after keeping in view the national objectives and have posed certain procedural problems to exporters and importers.

7. Other Problems:

Apart from the problems written above there are many other internal difficulties which restrict our export business and consequently affect the foreign exchange earnings.

They are:

(i) Business and industry have not recognised the importance of international business,

(ii) Inflation, high prices and black marketing are starting us in the face. If the situation persists it may put our price level beyond the means of our customers abroad, no matter how badly they need our export,

(iii) Our internal economy is being managed very badly in recent years. If it continues, we cannot supply our own essential need. What to say about supply to other nations?

(iv) Poor business ethics is also responsible for our international business.

(Source**:** https://www.economicsdiscussion.net/international-trade/problems-international-trade/7-main-problems-of-international-business/13949)

GLOBALIZATION:

Globalization is the spread of products, technology, information, and jobs across national borders and cultures. In economic terms, it describes an interdependence of nations around the globe fostered through free trade.(Source: https://www.investopedia.com/terms/g/globalization.asp)

International Monetary Fund (IMF) defines globalization as the growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services, freer international capital flows, and more rapid and widespread diffusion of technology.

POSITIVE AND NEGATIVE IMPACTS OF GLOBALIZATION

Positive Impacts of Globalization
1. Adopting to Globalization increase free trading opportunities between countries. This allows business organizations in developed countries to invest in developing countries.
2. As the communication between the countries becomes open sharing of information became easier due to globalization. This has also contributed to the increase in speed of transportation of products.

3. Countries joining together through globalization will remove the cultural barriers and make the world a global village. Globalization makes the countries adopt the factors that are beneficial in the long run.

4. There is also a possibility of less war between developed countries due to globalization.

The Negative Impact of Globalization is as follows
1. If the rules and regulations regarding the protection of the environment are less in underdeveloped countries, other developed countries can manufacture products that may harm the environment.

2. A majority of big industries prefer cheap labour people in a skilled and non-skilled category will go for the job in developed countries.

Even though there is some negative impact due to globalization, the positive effects are dominating. It is also possible to reduce the various risks involved

(Source: https://mywestford.com/blog/positive-and-negative-impacts-of-globalization)

Contents were taken from the following e-resources:

https://www.toppr.com/

http://www.simplynotes.in/mbabba/meaning-defination-and-features-of-international-business-management/

https://mywestford.com/blog/positive-and-negative-impacts-of-globalization

https://www.economicsdiscussion.net/international-trade/problems-international-trade/7-main-problems-of-international-business/13949

https://www.economicsdiscussion.net/international-trade/international-business-advantages-and-disadvantages/13951

www.keydifferences.com

UNIT-2

FDI-Definition. Types of FDI-Horizontal and Vertical FDI. Multinational Companies (MNCs)-Definition, Characteristics of MNCs, Arguments for and against MNC's. Benefits of FDI to host countries and to MNC's-Adverse effect of FDI to host countries.

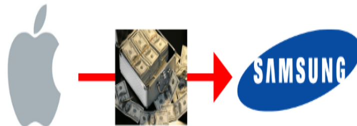
FDI-DEFINITION

Foreign direct investment (FDI) is where an individual or business from one nation, invests in another. This could be to start a new business or invest in an existing foreign owned business.

TYPES OF FOREIGN DIRECT INVESTMENT

Horizontal FDI

Horizontal FDI is where funds are invested abroad in the same industry. In other words, a business invests in a foreign firm that produces similar goods. For instance Nike, a US based firm, may purchase Puma, a Germany based firm. They are both in the industry of sportswear and therefore would be classified as a form of horizontal FDI.



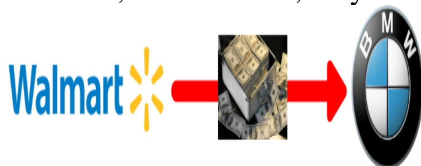
Vertical FDI

Vertical FDI is where an investment is made within the supply chain, but not directly in the same industry. In other words, a business invests in a foreign firm that it may supply or sell too.

For instance, Hersheys, a US chocolate manufacturer, may look to invest in cocoa producers in Brazil. This is known as backwards vertical integration because the firm is purchasing a supplier, or potential supplier, in the supply chain.
We then have forwards vertical integration. So this is where a firm invests in a foreign company that is further along in the supply chain. For instance, Hersheys may look to purchase a share in Alibaba; where it sells its products.

Conglomerate FDI

Conglomerate FDI is where an investment is made in a completely different industry. In other words, it is not linked in any direct way to the investors business. For instance, Walmart, a US retailer, may invest in BMW, a German automobile manufacturer.



(Source: https://boycewire.com/foreign-direct-investment-definition/)

MULTINATIONAL COMPANIES (MNCS)

Multinational Corporations or **Multinational** Companies are corporate organizations that operate in more than one country other than home country. TCS, Tech Mahindra, Deloitte are some of the **examples** of **MNCs** in India.

An enterprise operating in several countries but managed from one (home) country. Generally, any company or group that derives a quarter of its revenue from operations outside of its home country is considered a multinational corporation

(Source: http://www.businessdictionary.com/definition/multinational-corporation-MNC)

CHARACTERISTICS OF A MULTINATIONAL CORPORATION

The following are the common characteristics of multinational corporations:

1. Very high assets and turnover

To become a multinational corporation, the business must be large and must own a huge amount of assets, both physical and financial. The company's targets are high, and they are able to generate substantial profits.

2. Network of branches

Multinational companies maintain production and marketing operations in different countries. In each country, the business may oversee multiple offices that function through several branches and subsidiaries.

3. Control

In relation to the previous point, the management of offices in other countries is controlled by one head office located in the home country. Therefore, the source of command is found in the home country.

4. Continued growth

Multinational corporations keep growing. Even as they operate in other countries, they strive to grow their economic size by constantly upgrading and by conducting mergers and acquisitions.

5. Sophisticated technology

When a company goes global, they need to make sure that their investment will grow substantially. In order to achieve substantial growth, they need to make use of capital-intensive technology, especially in their production and marketing activities.

6. Right skills

Multinational companies aim to employ only the best managers, those who are capable of handling large amounts of funds, using advanced technology, managing workers, and running a huge business entity.

7. Forceful marketing and advertising

One of the most effective survival strategies of multinational corporations is spending a great deal of money on marketing and advertising. This is how they are able to sell every product or brand they make.

8. Good quality products

Because they use capital-intensive technology, they are able to produce top-of-the-line products.

(Source: https://corporatefinanceinstitute.com/resources/knowledge/strategy/multinational-corporation/)

ARGUMENTS FOR AND AGAINST MNC'S

ARGUMENTS FOR AND AGAINST MULTINATIONAL CORPORATIONS

BASIS OF ARGUMENT	IN FAVOUR	AGAINST
FDI as a Source of Capital	MNCs have abundant capital as well as access to international capital markets.	Not much capital transfer is taking place through MNCs rather most of investments is being financed locally.
	MNCs may assist in mobilizing local savings.	FDI is an expensive source of funds.
	MNCs may stimulate foreign aid flows.	A major share of profits are repatriated back to parent nation.
FDI as a Source of Technology	MNCs own a rich Technological know-how.	MNC technology may be too expensive
	Only a few countries can afford comprehensive R&D programs on their own therefore MNCs may be a souce of help.	Technology brought in by MNCs may not be appropriate for host nations.
	Benefits possible even if MNCs keep ownership of technology spillovers.	
Balance of Payment Effects	Shortage of forex for imports of investment goods a common development problem.	MNCs import a lot. Import-substituting MNCs, in particular, may create import dependence.
	Both export-oriented and import-substituting FDI should improve BoP.	MNCs repatriatiate profits.
Competitive and Anti-Competitive effects	MNC entry may stimulate competition, efficiency, and development	MNCs may outcompete local firms. Risk for foreign oligopolies and monopolies
	MNCs often enter industries where entry barriers for local firms are high	
Sovereignty and Autonomy Effects	Foreign ownership always carries a cost as foreign MNCs may insisit for the policies serving thier own interest than of the host country.	The sovereignty is put at stake for the sake of employment and tax revenue by host countries.

(Source: https://sg.inflibnet.ac.in/bitstream/10603/43627/6/06_chapter%201.pdf)

BENEFITS OF FDI TO HOST COUNTRIES AND TO MNC'S

Benefits of FDI to host countries

1. Increased Employment and Economic Growth

Creation of jobs is the most obvious advantage of FDI. It is also one of the most important reasons why a nation, especially a developing one, looks to attract FDI. Increased FDI boosts the manufacturing as well as the services sector. This in turn creates jobs, and helps reduce unemployment among the educated youth - as well as skilled and unskilled labour - in the country. Increased employment translates to increased incomes, and equips the population with enhanced buying power. This boosts the economy of the country.

2. Human Resource Development

This is one of the less obvious advantages of FDI. Hence, it is often understated. Human Capital refers to the knowledge and competence of the workforce. Skills gained and enhanced through training and experience boost the education and human capital quotient of the country. Once developed, human capital is mobile. It can train human resources in other companies, thereby creating a ripple effect.

3. Development of Backward Areas

This is one of the most crucial benefits of FDI for a developing country. FDI enables the transformation of backward areas in a country into industrial centres. This in turn provides a boost to the social economy of the area. The Hyundai unit at Sriperumbudur, Tamil Nadu in India exemplifies this process.

4. Provision of Finance & Technology

Recipient businesses get access to latest financing tools, technologies and operational practices from across the world. Over time, the introduction of newer, enhanced technologies and processes results in their diffusion into the local economy, resulting in enhanced efficiency and effectiveness of the industry.

5. Increase in Exports

Not all goods produced through FDI are meant for domestic consumption. Many of these products have global markets. The creation of 100% Export Oriented Units and Economic Zones have further assisted FDI investors in boosting their exports from other countries.

6. Exchange Rate Stability

The constant flow of FDI into a country translates into a continuous flow of foreign exchange. This helps the country's Central Bank maintain a comfortable reserve of foreign exchange. This in turn ensures stable exchange rates.

7. Stimulation of Economic Development

This is another very important advantage of FDI. FDI is a source of external capital and higher revenues for a country. When factories are constructed, at least some local labour,

materials and equipment are utilised. Once the construction is complete, the factory will employ some local employees and further use local materials and services. The people who are employed by such factories thus have more money to spend. This creates more jobs.
These factories will also create additional tax revenue for the Government, that can be infused into creating and improving physical and financial infrastructure.

8. Improved Capital Flow

Inflow of capital is particularly beneficial for countries with limited domestic resources, as well as for nations with restricted opportunities to raise funds in global capital markets.

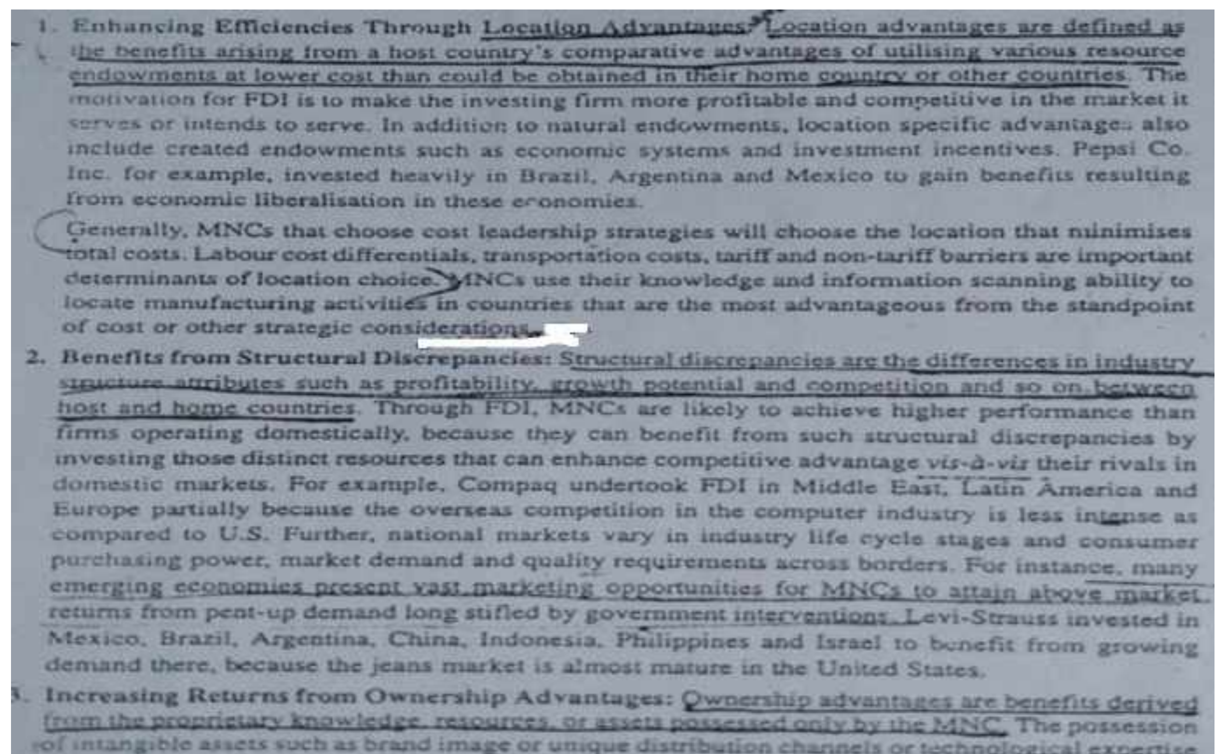
9. Creation of a Competitive Market

By facilitating the entry of foreign organisations into the domestic marketplace, FDI helps create a competitive environment, as well as break domestic monopolies. A healthy competitive environment pushes firms to continuously enhance their processes and product offerings, thereby fostering innovation. Consumers also gain access to a wider range of competitively priced products.

(Source: https://www.investindia.gov.in/team-india-blogs/advantages-foreign-direct-investment)

BENEFITS OF FDI TO MNC'S

- Enhancing efficiencies through location advantages
- Benefits from structural discrepancies
- Increasing returns from ownership advantages
- Growth from organizational learning



1. **Enhancing Efficiencies Through Location Advantages:** Location advantages are defined as the benefits arising from a host country's comparative advantages of utilising various resource endowments at lower cost than could be obtained in their home country or other countries. The motivation for FDI is to make the investing firm more profitable and competitive in the market it serves or intends to serve. In addition to natural endowments, location specific advantages also include created endowments such as economic systems and investment incentives. Pepsi Co. Inc. for example, invested heavily in Brazil, Argentina and Mexico to gain benefits resulting from economic liberalisation in these economies.

   Generally, MNCs that choose cost leadership strategies will choose the location that minimises total costs. Labour cost differentials, transportation costs, tariff and non-tariff barriers are important determinants of location choice. MNCs use their knowledge and information scanning ability to locate manufacturing activities in countries that are the most advantageous from the standpoint of cost or other strategic considerations.

2. **Benefits from Structural Discrepancies:** Structural discrepancies are the differences in industry structure attributes such as profitability, growth potential and competition and so on between host and home countries. Through FDI, MNCs are likely to achieve higher performance than firms operating domestically, because they can benefit from such structural discrepancies by investing those distinct resources that can enhance competitive advantage vis-à-vis their rivals in domestic markets. For example, Compaq undertook FDI in Middle East, Latin America and Europe partially because the overseas competition in the computer industry is less intense as compared to U.S. Further, national markets vary in industry life cycle stages and consumer purchasing power, market demand and quality requirements across borders. For instance, many emerging economies present vast marketing opportunities for MNCs to attain above market returns from pent-up demand long stifled by government interventions. Levi-Strauss invested in Mexico, Brazil, Argentina, China, Indonesia, Philippines and Israel to benefit from growing demand there, because the jeans market is almost mature in the United States.

3. **Increasing Returns from Ownership Advantages:** Ownership advantages are benefits derived from the proprietary knowledge, resources, or assets possessed only by the MNC. The possession of intangible assets such as brand image or unique distribution channels or technological expertise

skills from one country to another. FDI expands the market domain in which the MNC can deploy, exploit, or utilise its core competence developed at home. For example, IBM generates significant income from its voice recognition software used by many Chinese. This software, first developed in the U.S., did not generate sizeable income until a Chinese version was developed by the company's subsidiary in Beijing.

4. Growth from Organisational Learning: FDI creates the diversity of environments in which the MNC operates. This diversity exposes the MNC to multiple stimuli, allows it to develop diverse capabilities and provides it with ample learning opportunities than are available to domestic firms. Organisational learning has long been a key building block and major source of competitive advantage. Sustainable competitive advantages are only possible when firms continuously reinvest in building new resources or upgrade existing resources. FDI provides learning opportunities through exposure to new markets, new ideas, new cultures and even new competition. These opportunities result in development of new capabilities that may be applicable in similar markets. For example, many early movers entering China such as Motorola, Kodak, Philips, Sony realise that the relationship building skills they learned in China could be applied to their businesses in Hungry, Russia, Egypt, South East Asia and Latin America. Moreover, host country environments are often characterised by both market opportunities and uncertainties. These force MNCs to learn how to respond to local settings. They also learn from global alliances, joint ventures with foreign partners and other dealings through FDI. There are also risks and costs associated with FDI and learning is always not guaranteed.

ADVERSE EFFECT OF FDI TO HOST COUNTRIES.

ADVERSE EFFECT OF FDI ON HOST COUNTRIES

Although FDI can boost the competition, host countries sometimes worry that MNC subsidiaries may have greater economic power than domestic firms. This may be due to financial muscle of MNCs that can draw resources from other subsidiaries and parent organisation to sustain competition and push out indigenous players from market. Once they monopolise the market, they may raise the prices with harmful effects on the economy and consumers of host country. While green field investments increase competition, it is less clear if this is the case when the FDI takes the form of acquisition of an established enterprise in the host nation. This is because an acquisition does not result in a net increase in the number of players in the market hence the effect on competition is neutral. The acquisition of several firms in the same industry and their subsequent merger will reduce the competition. For example, Hindustan Lever Ltd acquired Dolops, Quality Icecream and MilRfood and increased its market share in Indian ice-cream market from zero percent to 74 per cent in a short time. In most countries, the competition regulators have the power to block acquisitions and mergers, which are likely to reduce the competition.

There are also some concerns about host country's balance of payment position. *First*, there may be higher level of profits repatriation and royalty payments year by year by the subsidiaries from host country. In this case host country's governments may like to restrict this flow by regulation. *Second*, when a foreign subsidiary imports large amount of parts, inputs and resources from other countries resulting in outflow of foreign exchange, it affect the balance of payment position of host country. Japanese auto- makers are known to resort to such practices. Here again local government may insist on certain minimum level of indigenisation of production.

(Source: International Business (Franchis cherulliam))

Entry of large giants may lead to the displacement of local businesses. Repatriation of profits if the firms do not reinvest profits back into the host country. This will lead to large capital outflows from the host country. It is common knowledge that India is one of the fastest growing economies of the world with plenty of development opportunities. Recognizing the tremendous growth potential of the country, the government of India recently amended the FDI policy in order to increase FDI equity inflows. To make India more investor-friendly, the government has undertaken reforms and simplified investing conditions to encourage foreign investment in different sectors such as digital media, contract manufacturing, coal mining, and single brand retail trade.

Contents were taken from the following e-resources:

http://www.businessdictionary.com/definition/multinational-corporation-MNC

https://corporatefinanceinstitute.com/resources/knowledge/strategy/multinational-corporation

https://sg.inflibnet.ac.in/bitstream/10603/43627/6/06_chapter%201.pdf

https://www.investindia.gov.in/team-india-blogs/advantages-foreign-direct-investment.