



International Business Dynamics

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Module 1

INTRODUCTION



MODULE 1: INTRODUCTION



- Evolution, Drivers and Challenges of IB as compared to Domestic Business, National and organizational competitive advantage over the world, Active players in multinational business.
- The International environment of IB - Political, Legal, Technological, Cultural, Demographic and Economic environment. Cross-cultural management, levels of culture, models to aid international managers.



BUSINESS



- *Business* refers to the organized efforts and activities of individuals to produce and sell goods and services for profit



WHAT IS INTERNATIONAL BUSINESS ?



- The exchange of goods & services, Resources, Knowledge, & Skills , among individuals & businesses in multiple/two or more countries.
- Transaction that are carried out across national borders to satisfy the objectives of individuals and organization



- **Africa**
- **Antarctica**
- **Asia**
- **Europe**
- **North America**
- **South America**
- **Australia**





International Business Definitions

- **Peter Drucker** says international business and international marketing are the art and science of creating customers abroad.





- Why should we go for international business?

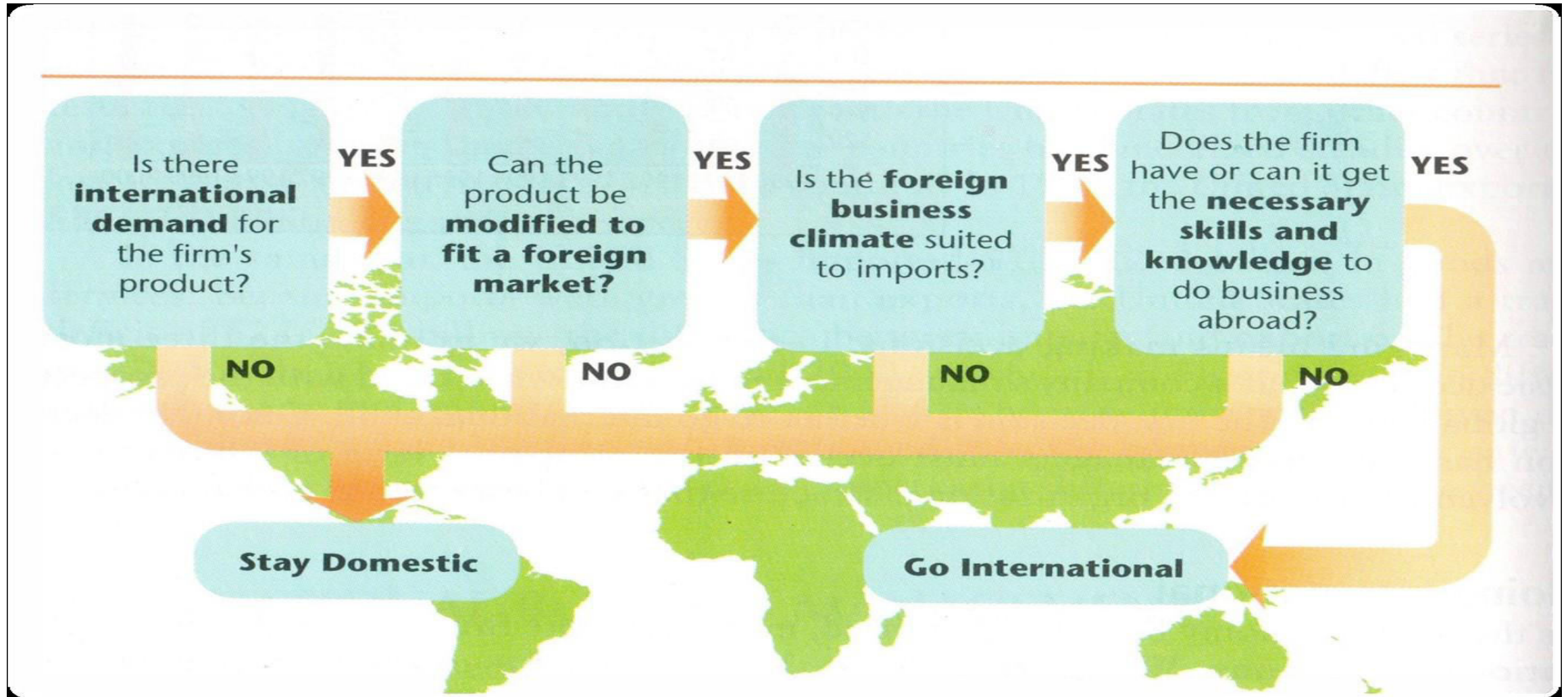
Why should we go for international business



- Profit advantage
- Expanding production capacities beyond the demand of the domestic country
- Competition
- Limited home market
- Political stability Vs political instability
- Availability of technology and managerial competence
- Nearness to raw material
- Strategic vision



GOING INTERNATIONAL





NATURE OF IB

1. Accurate Information & timely
2. The size of the international business
3. Market segmentation
4. International markets have more potential than domestic markets



Need for International Business



- Causes the flow of ideas, services, and capital across the world
- Offers consumers new choices
- permits the acquisition of a wider variety of products
- facilitates the mobility of labor, capital, and technology
- provides challenging employment opportunities
- reallocates resources, makes preferential choices, and shifts activities to a global level



STAGES OF INTERNATIONALIZATION



- Domestic Company
- International Company
- Multinational Company
- Global Company
- Transnational Company



STAGES OF INTERNATIONALIZATION



- **Domestic Company**

- Most international companies have their origin as domestic companies.
- The orientation of a domestic company essentially is ethnocentric.
- A purely domestic company operates domestically because it never considers the alternative of going international.
- A domestic company may extend its products to foreign markets by exporting, licensing and franchising



- International Company

- IC are importers and exporters, they have no investment outside of their home country.
- Focus on domestic practices but extend wings to foreign countries (Mere export-import)



- **Multinational Company**
- Different strategy for different market
- **Multinational companies** have investment in other countries, but do not have coordinated product
- offerings in each country. More focused on adapting their products and service to each individual local market.
- Ex: KFC , FIVE STAR



- **Global Company**

Either produce in one country and market globally or produce globally and market domestically

- Global companies have invested and are present in many countries. They market their products through the use of the same coordinated image/brand in all markets.
- Generally one corporate office that is responsible for global strategy.
- Emphasis on volume, cost management and efficiency.

Ex: Apple products , Dr. Reddy's pharmaceutical company

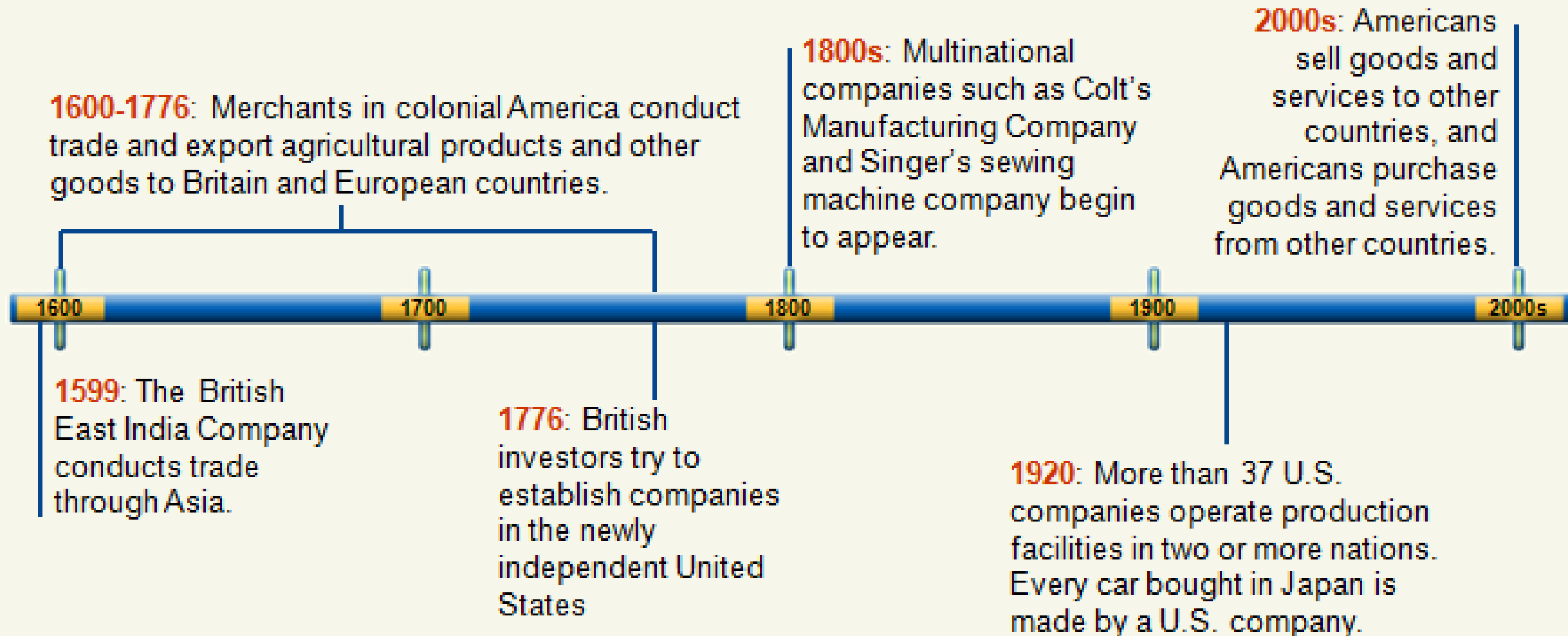




Transnational Company

- Produces, markets, invests and operates across the world
- Transnational companies are much more complex organizations. They have invested in foreign operations, have a central corporate facility but give decision-making, R&D and marketing powers to each individual foreign market.
- Ex: Beverages products pepsi, coca cola

The History of Global Business



EVOLUTION OF INTERNATIONAL BUSINESS



- International trade —————> International Marketing
- International Marketing —————> International Business



APPROACHES TO INTL. BUSINESS

Ethnocentric

Domestic companies view foreign markets as an extension to domestic markets

Polycentric

Companies establish foreign subsidiaries and empowers its executives

Regiocentric

Subsidiaries consider regional environment for policy/strategy formulation

Geocentric

Companies view the entire world as a single unit



1. ETHNOCENTRIC ORIENTATION:

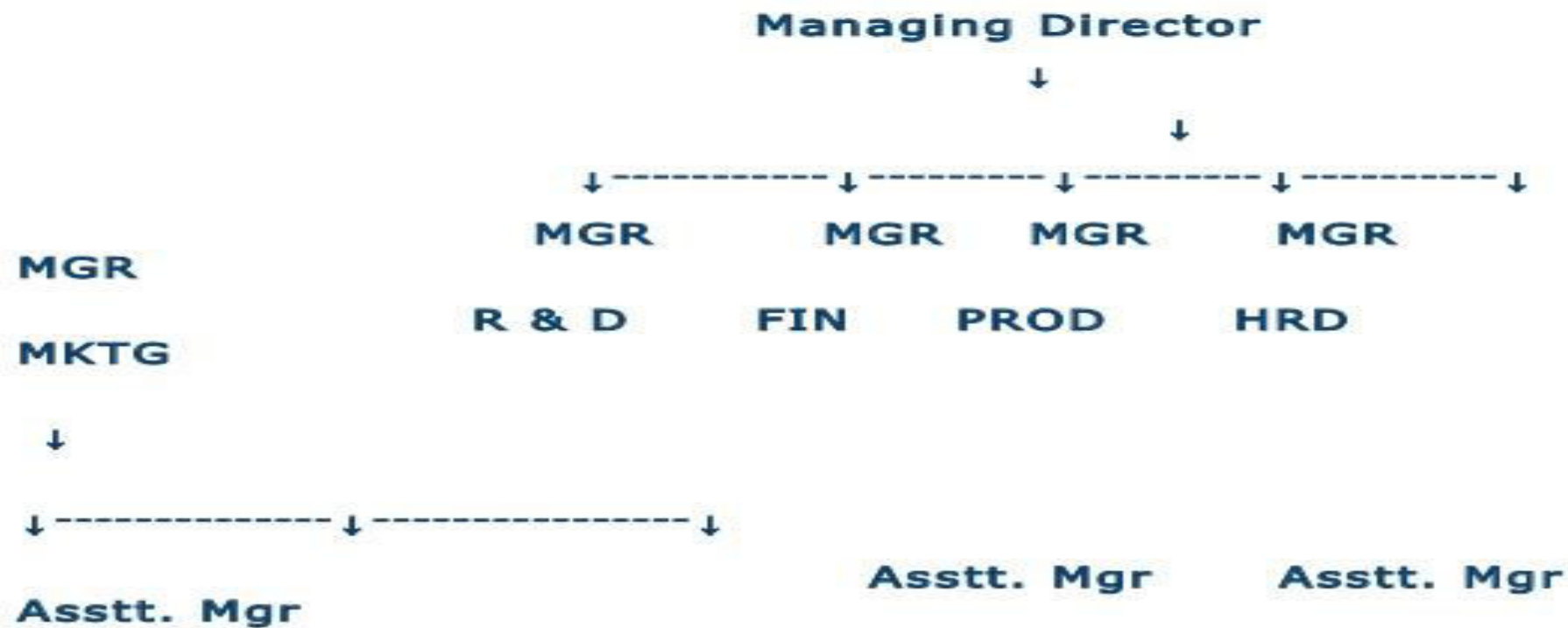
- The ethnocentric orientation of a firm considers that the products, marketing strategies and techniques applicable in the home market are equally so in the overseas market as well.
- In such a firm, all foreign marketing operations are planned and carried out from home base, with little or no difference in product formulation and specifications, pricing strategy, distribution and promotion measures between home and overseas markets.



- The firm generally depends on its foreign agents and export-import merchants for its export sales.



1. Ethnocentric approach Organization Structure





2. POLYCENTRIC OPERATION :

- When a firm adopts polycentric approach to overseas markets, it attempts to organize its international marketing activities on a country to country basis. Each country is treated as a separate entity and individual strategies are worked out accordingly.
- Local assembly or production facilities and marketing organizations are created for serving market needs in each country.



- Polycentric approach works better among countries which have significant economic, political and cultural differences and performance of these tasks are free from the problems created primarily by the environmental factors.



2. Polycentric approach

Organization Structure





3. REGIOCENTRIC ORIENTATION

- In Regio centric approach, the firm accepts a regional marketing policy covering a group of countries which have comparable market characteristics.
- The operational strategies are formulated on the basis of the entire region rather than individual countries.



- The production and distribution facilities are created to serve the whole region with effective economy on operation, close control and co-ordination.



South Africa countries

- [Angola](#), [Botswana](#), [Lesotho](#), [Mozambique](#), [Namibia](#), [South Africa](#), [Swaziland](#), [Zambia](#), [Zimbabwe](#).



4. GEOCENTRIC ORIENTATION :

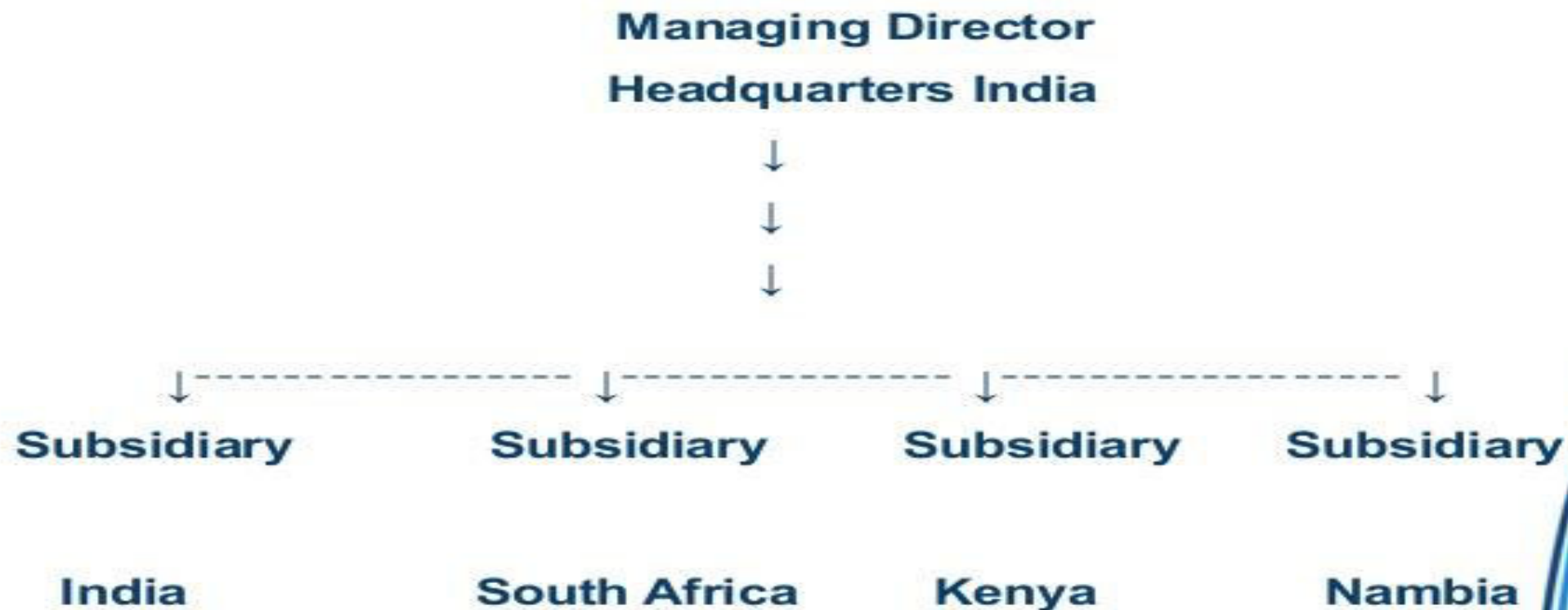
- In geocentric orientation, the firms accept a world wide approach to marketing and its operations become global.
- In global enterprise, the management establishes manufacturing and processing facilities around the world in order to serve the various regional and national markets through a complicated but well co-ordinate system of distribution network.



- There are similarities between geocentric and region centric approaches in the international market except that the geocentric approach calls for a much greater scale of operation.



4. Geocentric approach Organization Structure



Drivers of Globalization



- **Cost driver** companies consider the various lifestyle of the country before considering the price of the product and services to rendered



- **Technology driver** : increasing technology system, transportation, advancing in the level of world trade system



- **Government driver:** reducing trade tariffs and non trade tariffs, reducing the role of political policies



- **Competition driver:** organization becoming a global center, shift in open market system, Privatization, Liberalization



Few more other Drivers of Globalization

Rising living
standards

Less
protectionism

Lower
transport
costs

Digital
communication

Market
liberalisation

Diverging
consumer
cultures



Factors in Increased IB

- Increase in and expansion of technology
- Liberalization of cross-border trade and resource movements
- Development of services that support international business
- Growing consumer pressures
- Increased global competition
- Changing political situations
- Expanded cross-national cooperation

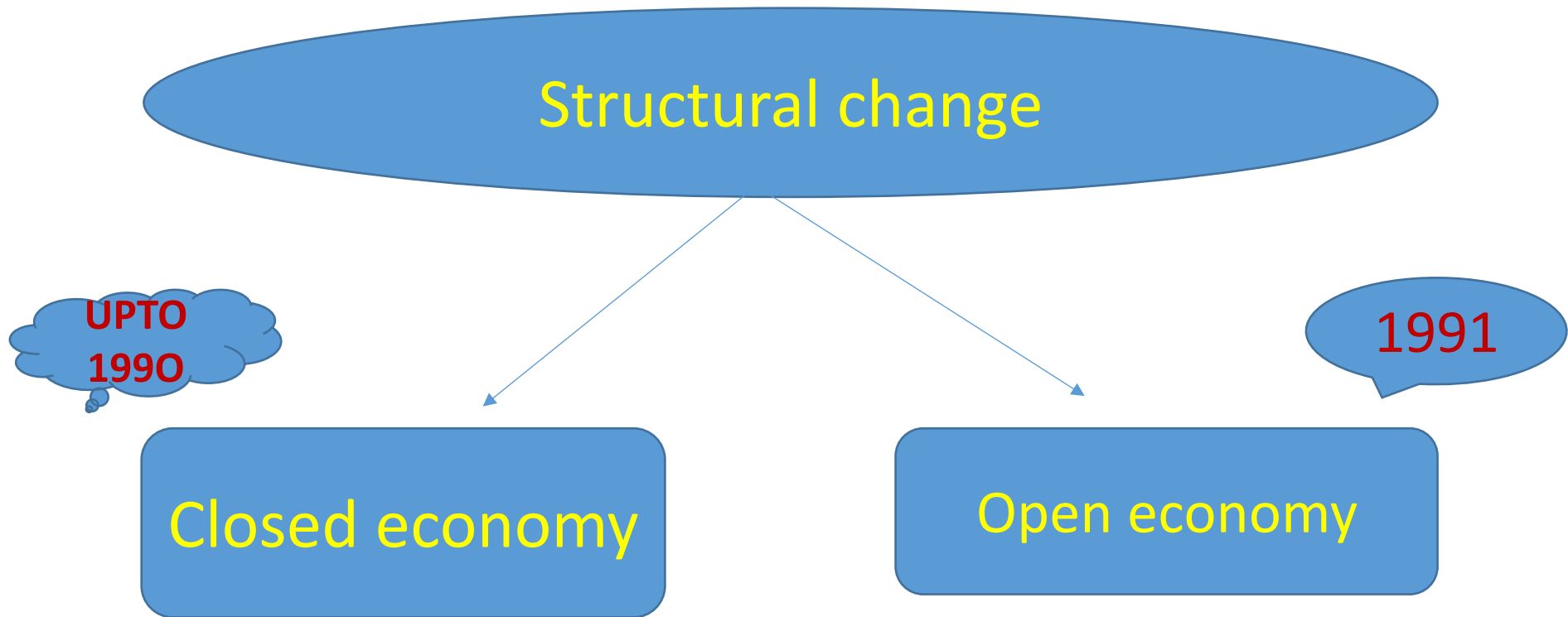


GLOBALIZATION

- The globally integrated business world.



GLOBALIZATION





Economic systems

- Capitalist economy
- socialist economy
- Mixed economy





Deficient
BALANCE OF
PAYMENT (BOP)

1990



NEW
ECONOMICAL
POLICY – LPG

1991



NEP (New Economical Policy 1991)

LPG

- Liberalization : To clear unwanted restriction
To Clear unwanted barriers
- Privatization : Assign the projects to private people
- Globalization means Integrated the world
(190 + countries)



GLOBALIZATION



- ✓ The globally integrated business world.
- ✓ Globalization has reduced the traditional barriers to cross-border trade and investment (distance, time zones, language, differences in government regulations, culture, business systems)



- Various economies including the former communist & socialist countries opened their economies to rest of the globe
- The shifts in globalization and IB have been at a fast rate after 1990



- The external environmental factors have been contributing significantly in global business



The drivers/factors of globalization

- Establishment of WTO
- Growth of regional integration
- Decline in trade barriers
- Decline in investment barriers
- Increase in FDI
- Technological change & growth of MNC s





WORLD TRADE
ORGANIZATION





- FACT FILE Location: Geneva, Switzerland
- Established: 1 January 1995
- Created by: Uruguay Round negotiations (1986-94)
- Membership: 123 TO 164



WORLD TRADE
ORGANIZATION



The Goal



- To improve the welfare of the peoples of the member countries.



WORLD TRADE
ORGANIZATION



- The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations.
- One of the youngest of the international organizations, the WTO is the successor to the General Agreement on Tariffs and Trade (GATT) established in the wake of the Second World War.



WORLD TRADE
ORGANIZATION

1. Regional integration

- The RI of the countries of the same region (or) area increases .

The size of the market , aggregate demand for products and services , quality of production , employment & ultimately the economic activity of the region

Ex: SAARC (South Asian Association for Regional Cooperation)

NAFTA (North American Free Trade Agreement)





- **SAARC is South Asian Association for Regional Cooperation.** The SAARC is an economic and geopolitical intergovernmental organization of eight countries which are located in South Asia. Its member states are India, Bangladesh, Bhutan, Nepal, the Maldives, Afghanistan, Pakistan and Sri Lanka.





2. Decline Trade barriers

- When the goods flow across the countries
- Government used to impose trade barriers like quotas , tariffs in order to protect domestic business from the competition of International business.
- Advanced countries after world war II agreed to reduce tariffs in order to encourage free flow goods



3. Decline inventory Barriers



- Global business firms invest capital in order to establish manufacturing and other facilities in foreign countries.
- Foreign govt impose barriers on foreign investment in order to protect domestic industry.
- various countries have been removing these barriers on FDI in order to encourage the growth of global business
- FERA (Foreign exchange Regulation Act)
- FEMA (Foreign exchange management Act)



4. Growth in foreign direct investment (FDI)



- The investment made by company in new manufacturing & marketing facilities in a foreign country is referred to as FDI





The reasons include :

- ✓ Increase in sales & profits
- ✓ Enter into rapidly growing markets
- ✓ Reduce costs
- ✓ Consolidate trade blocs to protect domestic markets
- ✓ Protect foreign markets & acquire technological & managerial know how



5.Strides in technology



- Technological change is amazing & phenomenal after 1980s
 - In fact is like a revolution in case of tele communication , information technology & transportation technology
 - Companies spread latest technology throughout globe & technology itself makes the global companies possible and fasten the process of globalization
- Ex: social media, digital marketing etc...





6. Changing the world GDP & world exports trends





7. Growth of multinational companies

- A multinational corporation / company is an organization doing business in more than one country .
- Transnational company products , markets, inventory , operations across the world.

Multinational Corporation



- “The essential of the MNC lies in the fact that its managerial headquarters are located in one country (home country), while the enterprise carries out operations in a number of the other countries (host countries).”
- A "multinational corporation" is also referred to as an international, transactional or global corporation.
- Ex: INFOSYS (home country : INDIA)
- IBM (home country : USA)

Features of MNCs :



- 1. MNCs have managerial headquarters in home countries, while they carry out operations in a number of other (host) countries.
- 2. A large part of capital assets of the parent company is owned by the citizens of the company's home country.
- 3. The absolute majority of the members of the Board of Directors are citizens of the home country.



- 4. Decisions on new investment and the local objectives are taken by the parent company.
- 5. MNCs are predominantly large-sized and exercise a great degree of economic dominance.
- 6. MNCs control production activity with large foreign direct investment in more than one developed and developing countries.
- 7. MNCs are not just participants in export trade without foreign investments.

MODES OF ENTRY





Modes of entry into International Business

1. EXPORTING
2. JOINT VENTURE
3. OUT SOURCING
4. FRANCHISING
5. TURN KEY PROJECTS
6. FOREIGN DIRECT INVESTMENT
7. MERGERS & ACQUISITIONS
8. LICENSING
9. CONTRACT MANUFACTURING
10. STRATEGIC ALLIANCE

1. EXPORTING



- It is the process of selling goods and services produced in one country to other country .
- Direct Exporting
- Indirect Exporting



Direct Exporting

- **Under direct export company capitalizing on economies of scale in production concentrated in the home country , establishes a proper system for organizing export functions and procuring foreign sales.**
- **Ex: International company**



- Indirect export involve exporting through domestically based export intermediaries . The exporter has no control over his product in the foreign market
- Ex: Domestic company

2. Joint venture



- **It is strategy used by companies to enter a foreign market by joining hands and sharing ownership and management with another company .**
- **It is used when two or more companies want to achieve some common objectives and expand international operations**



- It is used to meet shortage of financial resources , physical or managerial resources.
- Ex: Maruti Suzuki , ING VYSYA



Joint Ventures

- A joint venture is an entity formed between two or more parties to undertake economic activity together. The parties agree to create a new entity by both contributing equity, and then they share in the revenues, expenses, and control of the enterprise.
- **Sony-Ericsson** is a joint venture by the Japanese consumer electronics company Sony Corporation and the Swedish telecommunications company **Ericsson** to make mobile phones

3. OUTSOURCING



- It is cost effective strategy used by companies to reduce costs by transferring portions of work to outside suppliers rather than completing in internally .
- It includes both domestic and foreign contracting and also off shoring (relocating a business function to another country.
- Ex: amazon.com
sales services, BPO , KPO



4. Franchising

- It is a system in which semi-independent business owners (franchisees) pay fees and royalty to a parent company (franchiser) in return for the right to be identified by its trademarks, to sell its product or services , and often to use its business format or system.

Ex: KFC, MC Donald



5. Turn key projects

- It involves the delivery of operating industrial plant to the client without any active participation .
- A company pays a contractor to design and contract new facilities and train personal to export its process and technology to another country.
- Ex: PEARL BEVERAGES LIMITED (PBL)
PEPSI co.



- **Turn key projects may be various types:**

- a. **BOD: BUILD, OWNED & develop**
- b. **BOLD: Build , Owned, leased and Transferred**
- c. **BOOT: Build , owned , operate and Transfer**

6. Foreign direct investment (FDI)



- It is a mode of entering foreign market through investment
- Investment may be direct or indirectly through financial institutions.
- FDI influences the investment pattern of the economy and helps to increase overall development



- **It extend to which FDI is allowed in a country which is subjected to the government regulations of that country.**
- **It can be done by purchasing shares of a company , property and assets.**

7. Mergers & Acquisitions



- A merger is a combination of two or more distinct entities into one, the desired effect being accumulation of assets and liabilities of distinct entities and several other benefits such as economies of scale , tax benefits , fast growth and diversification etc.
- Ex: Syndicate bank merge with canara bank
All 7 state banks associated with SBI



Acquisitions

Acquisition implies acquisition of controlling interest in a company by another company .

It does not lead to dissolution of company whose shares are acquired. It may be a friendly or hostile acquisition or a bail out takeover.

Ex: MAHENDRA acquires Satyam soft ware
Facebook acquires What Sapp

8. Licensing



- **Licensing is a method in which a firm gives permission to a person to use it legally protected product or technology (trademarked or copy righted) and to do business in a particular manner, for an agreed territory**
- **Licenser & licensee**



- It is a very easy method to enter foreign markets as less control and communication is involved .
- The financial risk is transferred to the licensee and there is better utilization of resources.

9. Contract manufacturing



- When a foreign firm hires a local manufacturers to produce their product or a part of their product it is known as contract manufacturing



Contract manufacturing

- Contract manufacturing is outsourcing entire or part of manufacturing operations.
- E.g.: pharmaceuticals, Personal Care products etc
- The iPad and iPhone, which are products from Apple Inc., are manufactured in China by Foxconn. Hence, Foxconn is a contract manufacturer and Apple benefits from a lower cost of manufacturing devices



- This method utilizes the skills of a local manufacturer and help in reducing cost of production . The marketing and selling of the product is the responsibility of the international firm.

10. Strategic Alliance



- It is a voluntary formal agreement between two companies to pool their resources to achieve a common set of objectives while remaining independent entities .
- It is mainly used to expand the production capacity and increase market share for a product.





Examples of Alliances

- *Nokia and Microsoft in alliance to make Zune phone*
- *Star Alliance – Airlines alliances.*
- *Philips and Sony jointly launched the mini-CD.*
- *Nestlé and Fonterra Sign Agreement on Dairy Alliance for the America*
- *McDonald's with Disney, Coca-Cola & Walmart*
- *Motorola-Toshiba: In 1987- Toshiba to produce microprocessors & contribute access to the distribution network.*

International Business model



Stages

- Domestic
- International
- Multinational
- Global
- Transnational

Influence

Social and Cultural
Technological
Economic
Political

Goals

- Market Share
- High Profit
- Risk Avoidance
- Resource Acquisition
- Expand Business Capacities

Domestic
Business

International
Business

Advantages

- Low Price
- Variety of Goods
- High Living Standards
- Economic Growth
- Competitive Advantages

Approaches

- Ethnocentric
- Polycentric
- Regiocentric
- Geocentric

Influence

Export
Direct Investment
Licensing
Franchising
Turnkey Projects
Joint Venture
Mergers and Acquisition

Problems

- Political risk
- Foreign Debt
- Exchange Instability
- High Cost



Theories of International Business

- **1.Theory of Mercantilism**
- **2.Theory of Absolute Advantage**
- **3. Theory of Comparative Advantage**
- **4 .Heckscher-Ohlin Theory**
- **5.Product Life Cycle Theory**



1.Theory of Mercantilism

- According to Wild, 2000, the trade theory that states that nations should accumulate financial wealth, usually in the form of gold, by encouraging exports and discouraging imports is called mercantilism.
- Mainly Great Britain, France, the Netherlands, Portugal and Spain used mercantilism during the 1500s to the late 1700s.



- The economic development was prevented when the mercantilist countries paid the colonies little for export and charged them high price for import.
- The main problem with mercantilism is that all countries engaged in export but was restricted from import, prevention from development of international trade

2. Theory of Absolute Advantage



- The Scottish economist Adam Smith developed the trade theory of absolute advantage in 1776.
- A country that has an absolute advantage produces greater output of a good or service than other countries using the same amount of resources.



- Contrary to mercantilism Smith argued that a country should concentrate on production of goods in which it holds an absolute advantage.



- The theory of absolute advantage destroys the mercantilist idea that international trade is a zero-sum game.
- According to the absolute advantage theory, international trade is a positive-sum game, because there are gains for both countries to an exchange.



- Unlike mercantilism this theory measures the nation's wealth by the living standards of its people and not by gold and silver.



	<i>Bolt of Cloth</i>	<i>Barrel of Wine</i>
France	30	40
Germany	100	20

Exhibit 4.2

Example of Absolute Advantage (Labor Cost in Days of Production for One Ton)



- There is a potential problem with absolute advantage.
- If there is one country that does not have an absolute advantage in the production of any product, will there still be benefit to trade, and will trade even occur?
- The answer may be found in the extension of absolute advantage, the theory of comparative advantage.

3. Theory of Comparative Advantage



- The most basic concept in the whole of international trade theory is the principle of comparative advantage, first introduced by David Ricardo in 1817.



- The principle of comparative advantage states that a country should specialize in producing and exporting those products in which it has a comparative, or relative cost, advantage compared with other countries and should import those goods in which it has a comparative disadvantage.



Examples of National Comparative Advantage

- China is a low labor cost production base
- India's Bangalore region offers a critical mass of IT workers
- Ireland's repositioning enabled a sophisticated service economy
- Dubai, a previously obscure Emirate, has been transformed into a knowledge-based economy





Examples of Firm Competitive Advantage

- Dell's prowess in global supply chain management
- Nokia's design and technology leadership in telecommunications
- Samsung's leadership in flat-panel TV
- Herman Miller's design leadership in office furniture (e.g., Aeron chairs)



4. Heckscher-Ohlin Theory



- In the early 1900s an international trade theory called factor proportions theory emerged by two Swedish economists, Eli Heckscher and Bertil Ohlin.



- This theory is also called the Heckscher-Ohlin theory. The Heckscher-Ohlin theory stresses that countries should produce and export goods that require resources (factors) that are abundant and import goods that require resources in short supply.



- This theory differs from the theories of comparative advantage and absolute advantage since these theory focuses on the productivity of the production process for a particular good.

5. Product Life Cycle Theory



- **Raymond Vernon developed the international product life cycle theory in the 1960s.**
- The international product life cycle theory stresses that a company will begin to export its product and later take on foreign direct investment as the product moves through its life cycle.



- Eventually a country's export becomes its import. Although the model is developed around the U.S, it can be generalized and applied to any of the developed and innovative markets of the world.
- This was an applicable theory at that time since the U.S dominated the world trade.



- Today, the U.S is no longer the only innovator of products in the world. Today companies design new products and modify them much quicker than before.
- **Companies are forced to introduce the products in many different markets at the same time to gain cost benefits before its sales declines.**

INTERNATIONAL BUSINESS ENVIRONMENT

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graph TD; IBE[INTERNATIONAL BUSINESS ENVIRONMENT] --> INTERNAL[INTERNAL]; IBE --> EXTERNAL[EXTERNAL]; INTERNAL --> OS[Organisational Structure]; INTERNAL --> P[Production]; INTERNAL --> F[Finance]; INTERNAL --> M[Marketing]; INTERNAL --> HR[HR]; INTERNAL --> RD[R&D]; EXTERNAL --> EME[External Micro Environment]; EXTERNAL --> EMO[External Macro Environment]; EME --> SH[Shareholders]; EME --> CR[Creditors]; EME --> BFI[Bankers & Financial Institutions]; EME --> CO[Competitors]; EME --> SU[Suppliers]; EMO --> MI[Market & Intermediary]; EMO --> CU[Customers]; MI --> SCF[Social & Cultural Factors]; MI --> TF[Technological Factors]; MI --> EC[Economic]; MI --> PO[Political]; MI --> IF[International Factors]; MI --> NF[Natural Factors];
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INTERNAL

Organisational
Structure

Production

Finance

Marketing

HR

R&D

External Micro
Environment

External Macro
Environment

Shareholders

Creditors

Bankers &
Financial
Institutions

Competitors

Suppliers

Market &
Intermediary

Customers

Social
& Cultural
Factors

Technological
Factors

Economic

Political

International
Factors

Natural Factors

SOCIAL AND CULTURAL ENVIRONMENT



- Food habits and International business
- Dressing habits and International business
- Cross-Cultural communication process and Negotiations
 - **Low-context cultures:** *people convey explicit and clear*
Ex: USA, Canada , Germany and Switzerland
 - **High-context culture:** *people convey indirect and the expressive manner*
Ex. India, Japan, Saudi Arabia and middle eastern countries



SOCIAL AND CULTURAL ENVIRONMENT

- **Cultural Universals:** Irrespective of religion Ex. Sports, software
- **Communication:** There are 5000 spoken languages in world

Social Environment



- Religion
- Family System
- Motivation and achievement
- Power distance
- Individualism vs collectivism
- Risk-taking Behavior

ECONOMIC ENVIRONMENT



- Economic system: It is an organization of institution to satisfy human needs/wants
- Economic systems are based on resource allocation



There are three types of economic system

- Capitalist economy
- Socialist economy
- Mixed economy



Countries classified by income

- **Low income countries**
Ex: India, Pakistan and Bangladesh
- **Lower middle income countries** China, Indonesia and Sri Lanka
- **Upper middle income countries**
 - Brazil, Hungary, Malaysia, Mexico and Saudi Arabia
- **Higher income countries**
 - USA, UK, Japan, Italy Australia



World bank refers to

- **low and lower middle income countries as developing countries**
- **Higher – income countries are referred to developed countries**

Technological Environment



- Influence of technology
- Investment in technology
- Technology and economic development
- Technology and international competition
- Technology transfer
- Technology transfer as innovation
- Technology and globalization

POLITICAL ENVIRONMENT



- Political ideology is the body of complex ideas, theories and objectives
- Political ideology of the people in the same country vary widely due to the variation in culture, ethnic group, tribal, community, religious and economic groups



- **Democracy** : Pure democracy aims that all citizens should be equal politically and legally and should enjoy freedom
- **Dictatorship** is extreme to democracy

Legal Environment



- Common Law
- Civil Law
- Theocratic Law
- Property right : *Private Action & Public Action*
- Protection of IPR (Intellectual property rights)
- Labour Law



- Types of political systems

- Appraisal of political systems helps us in having an idea of political systems and their impact on international business
- Government may be parliamentary or absolutist
- Parliamentary is open
- Absolutist is closed

- Government may be classified into

- Two party system
- Multi party system
- One party dominated system

SOCIAL AND CULTURAL ENVIRONMENT



CULTURE

- **Prescriptive:** the kinds of behavior acceptable in the society Ex: consumption of Alcoholic
- **Socially Shared:** culture is based on social interaction and creation Ex: Child marriages
- **Learned:** culture is acquired through learning but not inherently genetically
- **Subjective:** People of different cultures have different ideas about the same object Ex: Marriages dowry
- **Cumulative:** culture is accumulated circumstances the hundreds or thousands of year
- **Dynamic:** culture is goes on changing. New ideas are added and old ideas are dropped. Ex: Food and diet

Demographic Environment



- Age structure.
- Gender.
- Income distribution.
- Family size.
- Family life cycle.
- Occupation.
- Education.
- Social class.



CHARACTERISTICS/FEATURES OF INTERNATIONAL BUSINESS



- Regional Integration
- Declining Trade Barriers
- Declining Investment Barriers
- Growth in FDI
- Strides in Technology
- Growth of MNCs

PROBLEMS OF INTL BUSINESS



- Political factors
- Huge foreign indebtedness
- Exchange instability
- Entry requirements
- Tariffs, quotas and trade barriers
- Corruption
- Bureaucratic practices of Govt
- Technological pirating
- Quality Maintenance

PART OF EXPERIENTIAL LEARNING



I Ask the students to describe how international business has affected them in their day so far.

I can ask them about who made the clothes they're wearing, what type of food they ate for breakfast or lunch, what type of cell phone they have and where it was made, where their car was design and manufactured, where the components for their computer was manufactured, and so on.

Many students will be surprised at just how often international business affects their daily lives

Dear students prepare the individual report

THANK YOU



MODULE 2: GLOBALIZATION

JAGADEESH BABU.MK



MODULE 2: GLOBALIZATION

Routes of globalization, Modes of International Business-Organizing international business – international designs, factors influencing choice of a design, issues in organization design. Conflict management, reconciliation, adjudication and arbitration issues, supporting Institutions, Negotiations.



GLOBALIZATION

- IMF defines globalization as, “the growing economic interdependence of countries worldwide through increasing volume and variety of cross border transactions in goods and services and of international capital flows and also through the more rapid and widespread distribution of technology”



Stages of Globalization

- Stage1: Imperialism - a policy of extending control or authority over foreign territories by means of acquisition or maintenance of empires either through direct conquest or through indirect methods of exerting control on the politics and/or economics of other countries.
- The Age of Imperialism began when the Europeans – Spain, France, Britain, Germany, Belgium – conquered and partitioned the Caribbean, Latin America, Africa , Asia, Australia and the Pacific. Modern imperialism is driven by the activities of multinational corporations.



Stages of Globalization (cont'd)

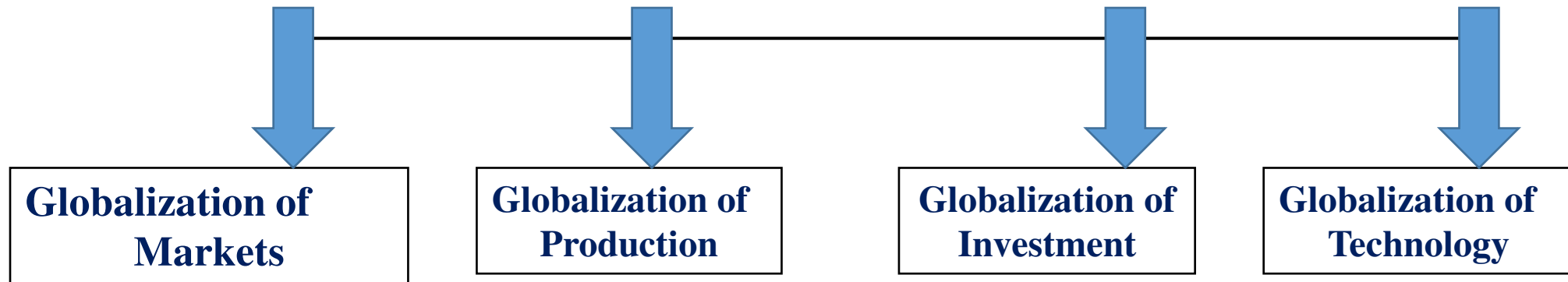
- Stage 2: Colonialism – the extension of a nation's sovereignty over territories outside its boundaries, often to facilitate economic control over their resources, labour and markets.
- The territories conquered by the imperialist powers were eventually settled. During colonialism the European culture was promoted as superior to native culture.

History of Globalization



- 1870-1913- was the first wave of globalization. Cut short by World War I. Association of Nations started during this time by Woodrow Wilson
- 1945-1973- renewed life towards the adoption of international organizations such as the UNO, IMF and the World Bank (Breton Woods Agr.)
- 1975 to present the third phase of globalization

COMPONENTS OF GLOBALISATION



GLOBALIZATION OF MARKETS



- Globalization of markets refers to the process of integrating and merging of the distinct world markets into a single market

EXAMPLE: Coca-Cola, Pepsi, McDonald's burgers, Levis Jeans etc.,



REASONS FOR GLOBALIZATION OF MARKETS

- Large scale industrialization enabled mass production
- Risk reduction by diversification
- Increase profits and achieve goals
- Adverse business environment in home country
- Demand for their products in foreign markets
- Failure of domestic companies to cater the needs of customers



GLOBALIZATION OF PRODUCTION

- Globalization of production is locating the manufacturing facilities in a number of locations around the globe.

EXAMPLE: Jet airlines Boeing 777 and Swan optical



REASONS

- ✓ **Impositions of imports by the foreign country**
- ✓ **Availability of high quality raw materials and components**
- ✓ **Availability of inputs at low cost**
- ✓ **Skilled human resource at low cost**
- ✓ **Liberal labour laws**
- ✓ **To reduce cost of transport**
- ✓ **To cater to varying tastes of customers**



Globalization of Investment

Globalization of investment refers to investment of capital by a global company in any part of the world.



REASONS:

- **Increase in volume of global trade**
- **Limitations of exporting and importing**
- **Liberalization**
- **Avoid restrictions**



Globalization of Investment

- ✓ Acquisition
- ✓ Joint ventures
- ✓ Long term loans
- ✓ Issuing equity, shares, debentures, bonds'
- ✓ Global deposit receipt



GLOBALIZATION OF TECHNOLOGY

- Latest technology and distinctive competencies
- Technological collaboration
- Usage of technology by paying royalty



PROCESS OF GLOBALIZATION

- Domestic company export to foreign countries through the dealers or distributors of the home country
- The domestic company exports to foreign countries directly on its own



- The domestic company becomes an international company by establishing production and marketing operations in various key foreign countries



- The company replicates a foreign company in the foreign country by having all the facilities including R&D, full fledged human resource



- The company becomes a true foreign company by serving the needs of foreign customer just like the home country company serves

FEATURES OF GLOBALIZATION



- Operating and planning to expand business throughout the world
- Erasing the difference between domestic and foreign markets
- Buying and selling goods and services from any country to any country in the world



- Global orientation in strategies, organizational structure, organizational culture and managerial expertise
- Setting the mind and attitude to view the entire globe as a single market
- product planning and development are based on market consideration of the entire world



- Establishing manufacturing and distribution facilities in any part of the world based on the feasibility and viability rather than national consideration
- Sourcing the factors of production and inputs like raw materials, machinery, finance, human resources , technology and managerial skills from entire world



What Is an Organizational Structure?

- An organizational structure is a system that outlines how certain activities are directed in order to achieve the goals of an organization. These activities can include rules, roles, and responsibilities.



- The organizational structure also determines how information flows between levels within the company.
- **For example**
- In a centralized structure, decisions flow from the top down,
- while in a decentralized structure, decision-making power is distributed among various levels of the organization.

Basic Organizational Structures



- ✓ Initial Division Structures
- ✓ International division structure
- ✓ Global Structural Arrangements

There are three types of global structures

- a) Global Product Division
- b) Global Area Division
- c) Global Functional Division

- ✓ GLOBAL MATRIX STRUCTURE
- ✓ Transnational Network Structures



Basic Organizational Structures



- Initial Division Structures

- **Export arrangement**

- Common among manufacturing firms, especially those with technologically advanced products

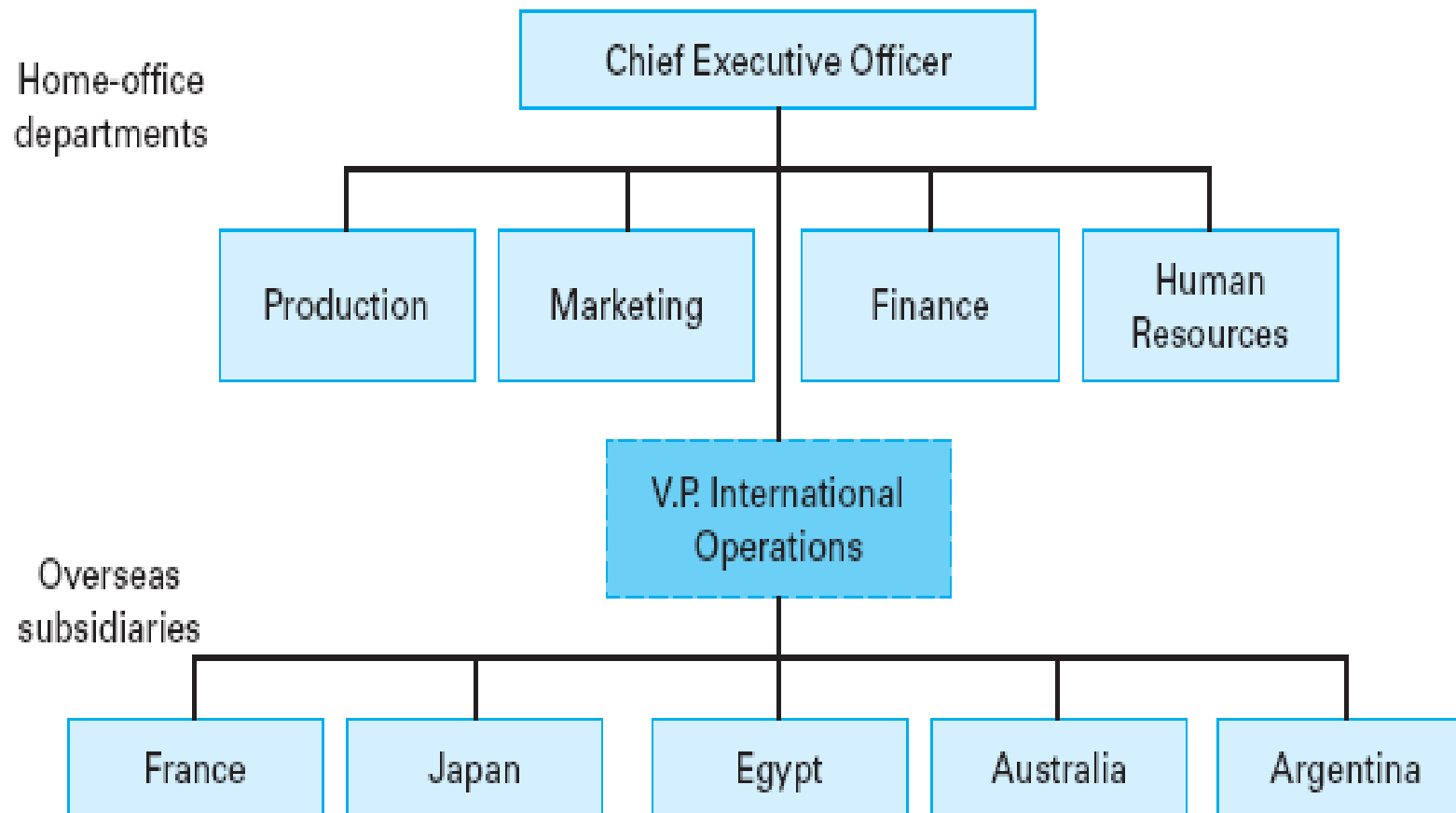




- **On-site manufacturing operations**
 - In response to local governments when sales increase
 - Need to reduce transportation costs
- **Subsidiary**
 - Common for finance-related businesses or other operations that require onsite presence from start



Use of Subsidiaries During the Early Stage of Internationalization



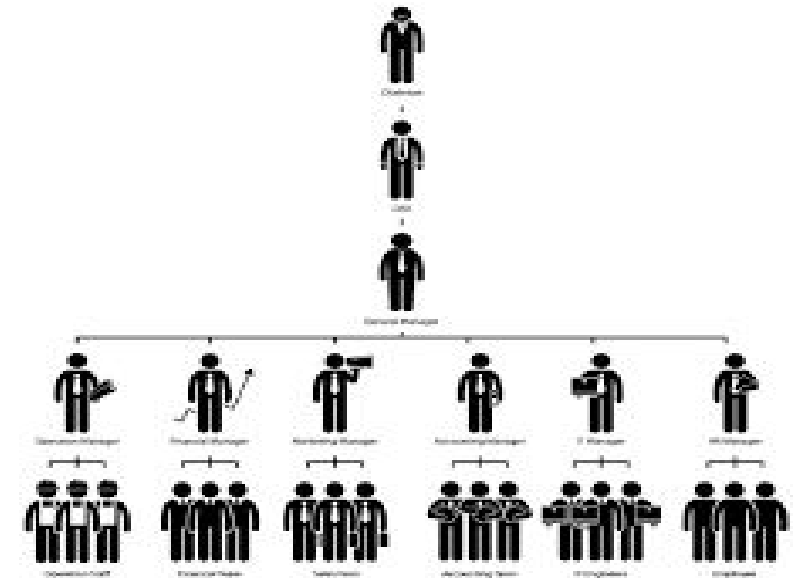


Basic Organizational Structures

❖ International division

structure

- Structural arrangement that handles all international operations out of a division created for this purpose.





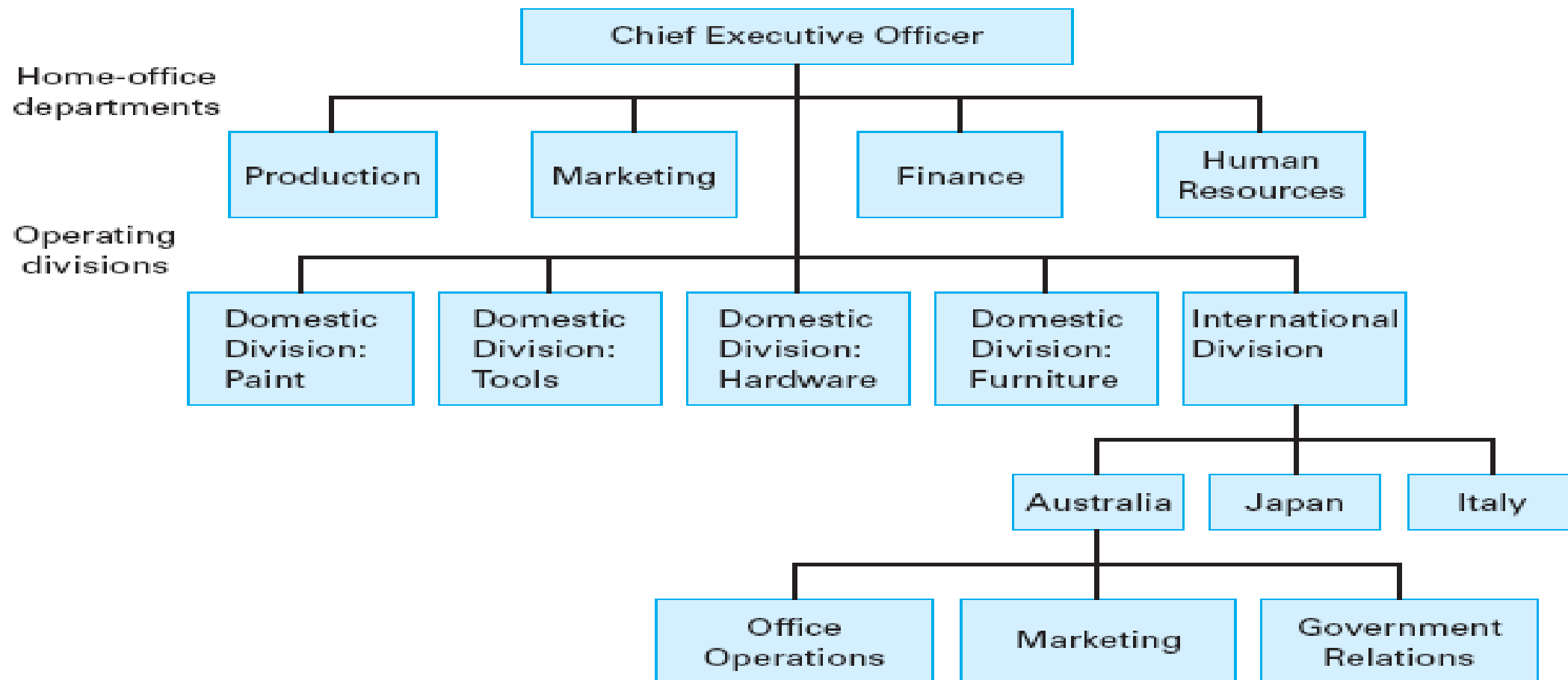
❖ **Advantages**

- Assures international focus receives top management attention
- Unified approach to international operations
- Often adopted by firms still in developmental states of international business operations

An International Division Structure



(Partial Organization Chart)



Basic Organizational Structures

Global Structural Arrangements



There are three types of global structures

1. Global Product Division
2. Global Area Division
3. Global Functional Division





Global Product Division

Global Product Division

- Structural arrangement in which domestic divisions are given worldwide responsibility for product groups.





• Advantages

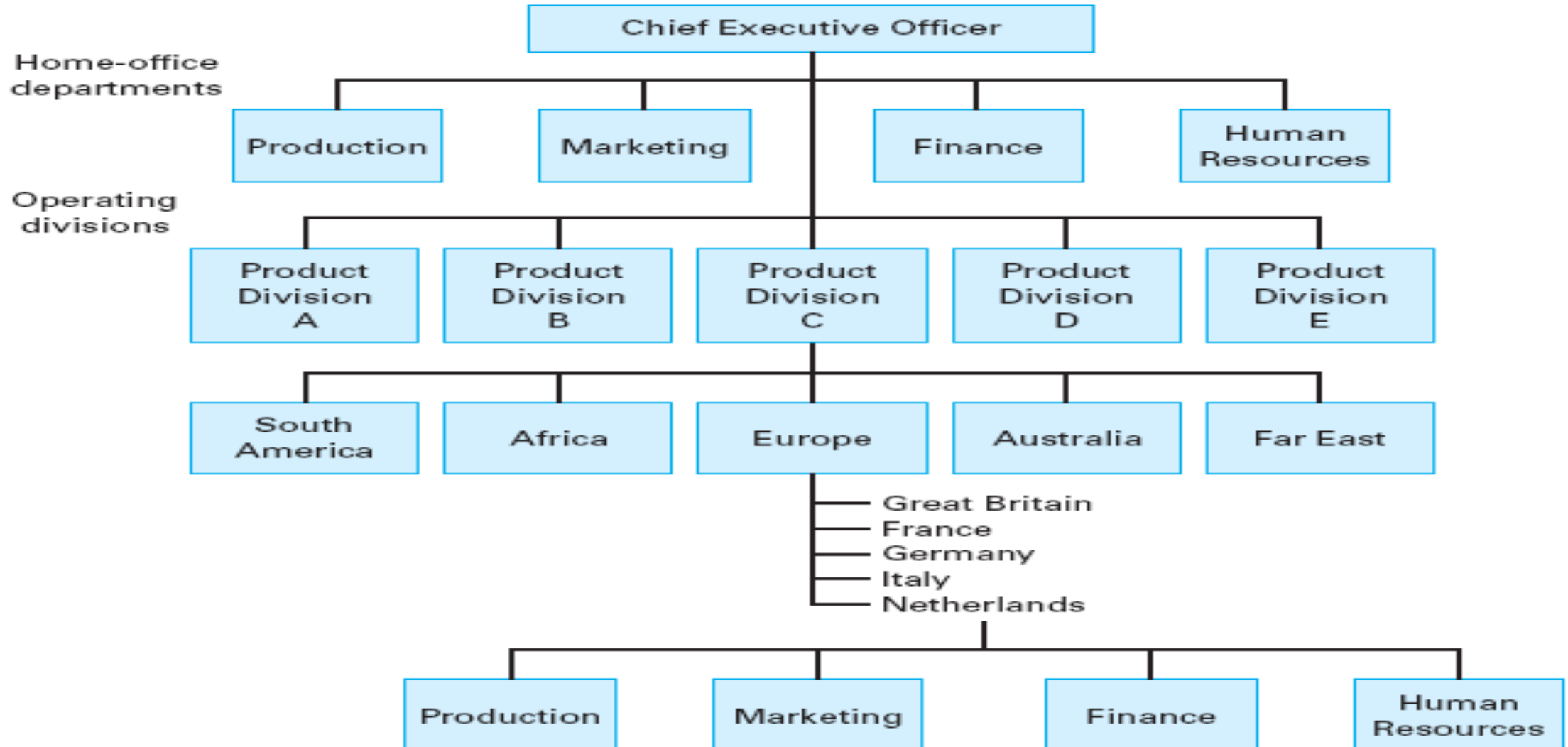
- Global product divisions operate as profit centers
- Helps manage product, technology, customer diversity
- Ability to cater to local needs
- Marketing, production and finance coordinated on product-by-product global basis



A Global Product Division Structure



(Partial Organization Chart)





Global Area Division

- Structure under which global operations organized on geographic basis.



- ## Advantages

- International operations put on same level as domestic operations
- Global division managers are responsible for all business operations in designated geographic area
- Often used by firms in mature businesses with narrow product lines
- Firm is able to reduce cost per unit and price competitively by manufacturing in a region

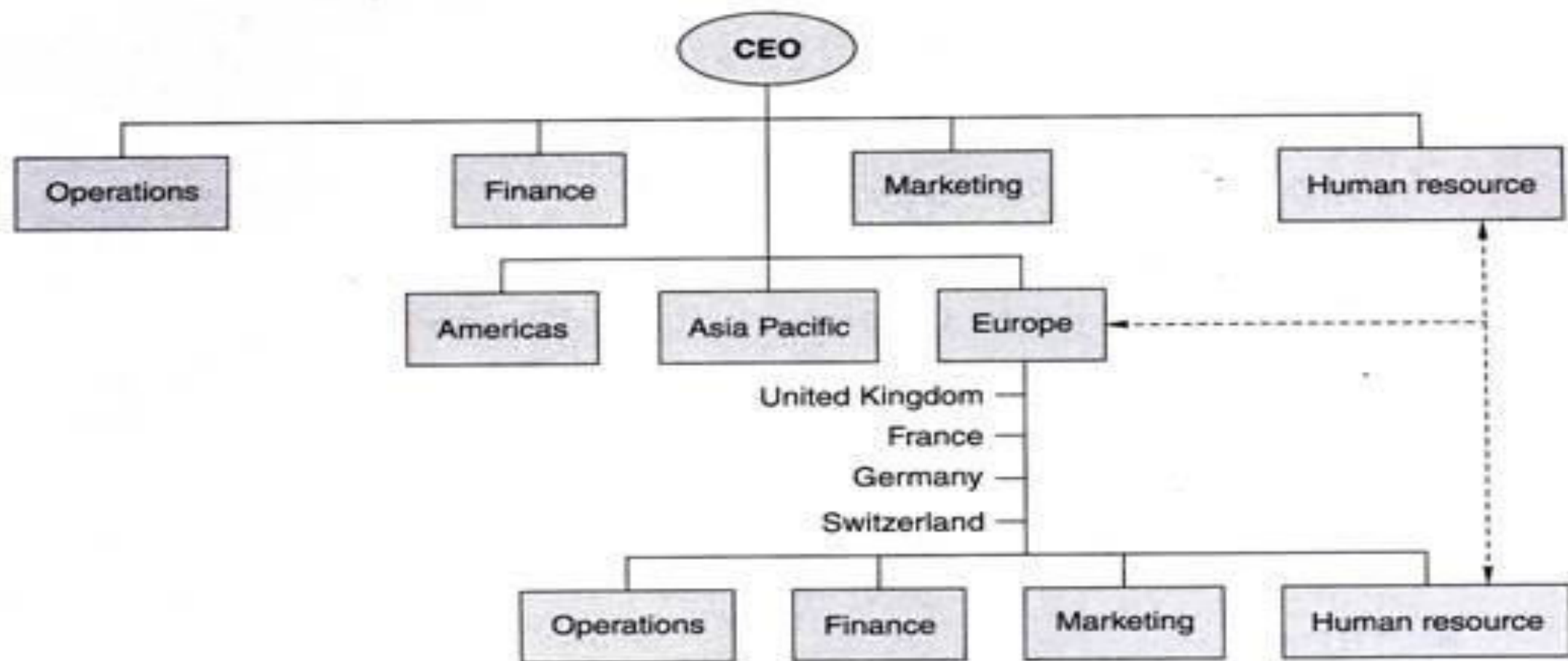
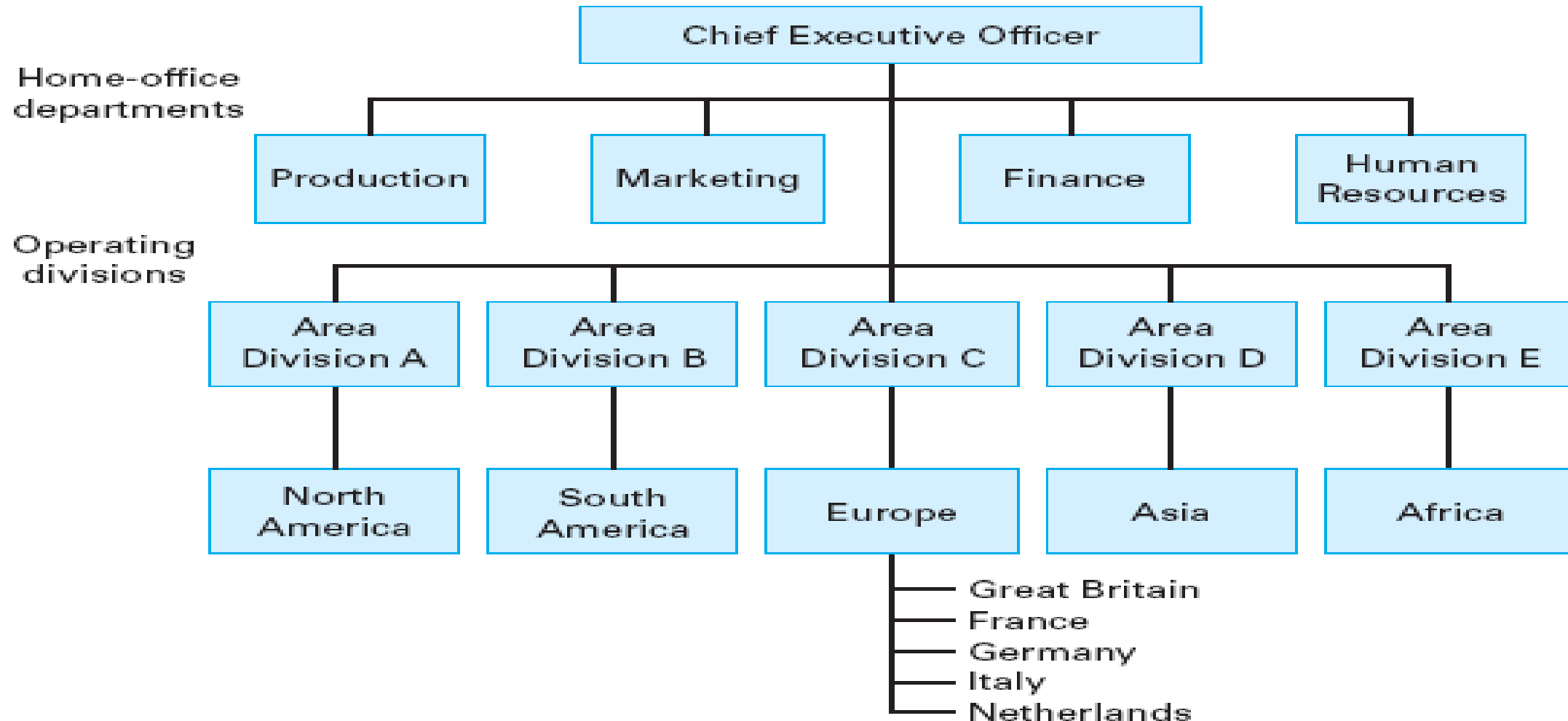


Fig. 17.6 Global geographic structure



A Global Area Division Structure

(Partial Organization Chart)





Global Functional Division

- Structure that organizes worldwide operations primarily based on function and secondarily on product.
 - Approach used mainly by extractive companies such as oil and mining



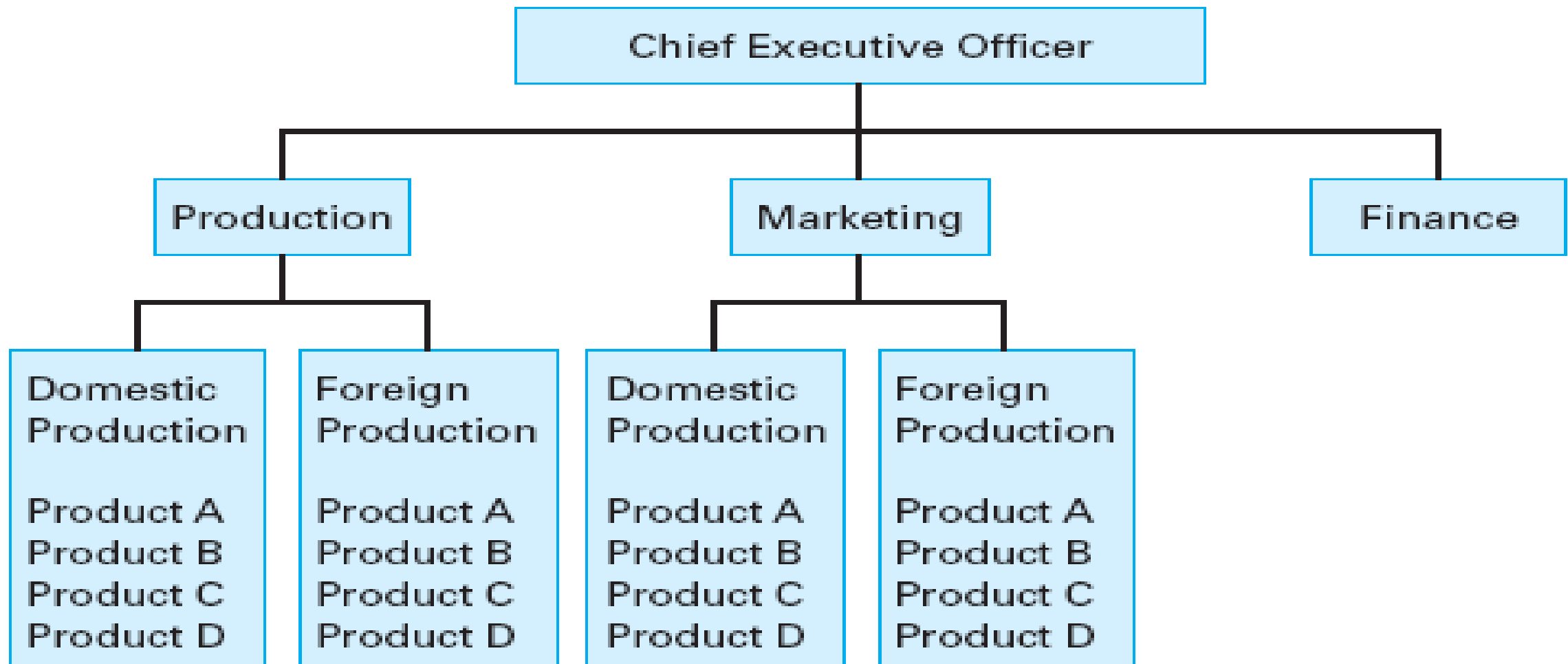
- ## Advantages

- Favored by firms needing tight, centralized coordination and control of integrated production processes and by firms involved in transporting products and rare materials between geographic areas
- Emphasizes functional expertise, centralized control, relatively lean managerial staff

A Global Functional Division Structure



(Partial Organization Chart)





Mixed /Matrix Organization Structures

- **Mixed organization structure**
 - Structure is a combination of global product, area, or functional arrangements.



- Advantages

- Allows the organization to create the specific type of design that best meets its needs
- As matrix design's complexity increases, coordinating personnel and getting everyone to work toward common goals

GLOBAL MATRIX STRUCTURE

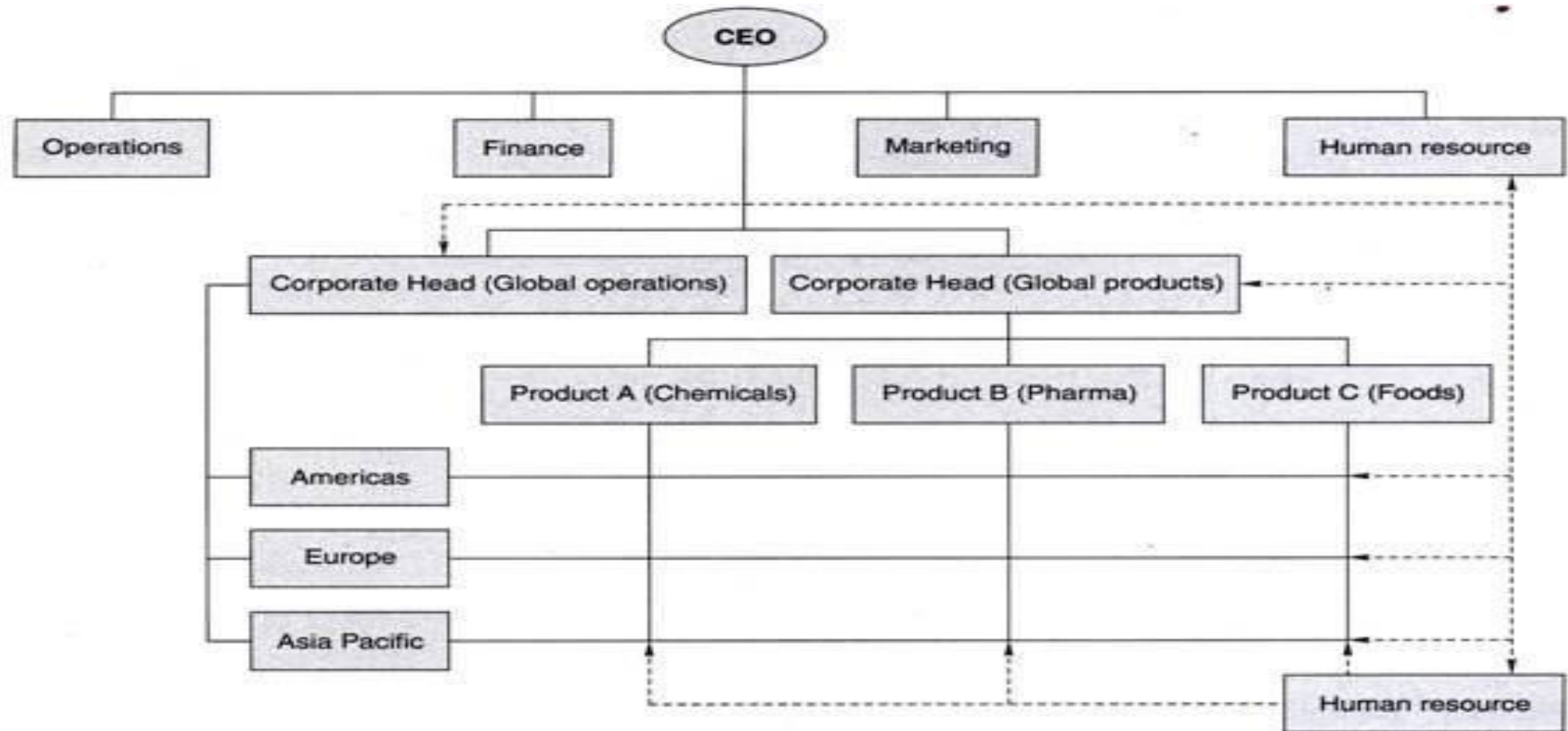


Fig. 17.7 Global matrix structure

Transnational Network Structures

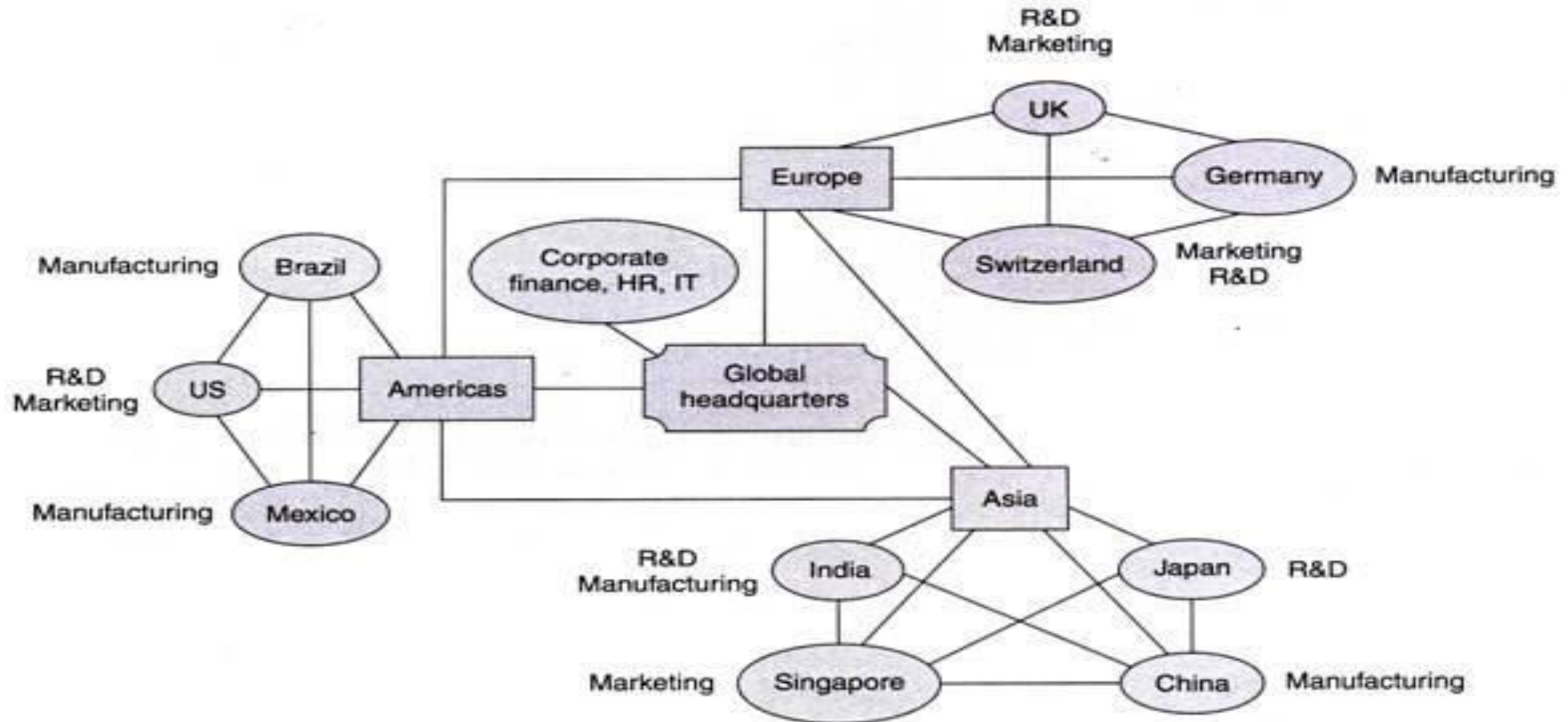


- Multinational structural arrangement combining elements of function, product, geographic design, while relying on network arrangement to link worldwide subsidiaries.
- At center of the transnational network structures are nodes, which are units charged with coordinating product, functional, and geographic information

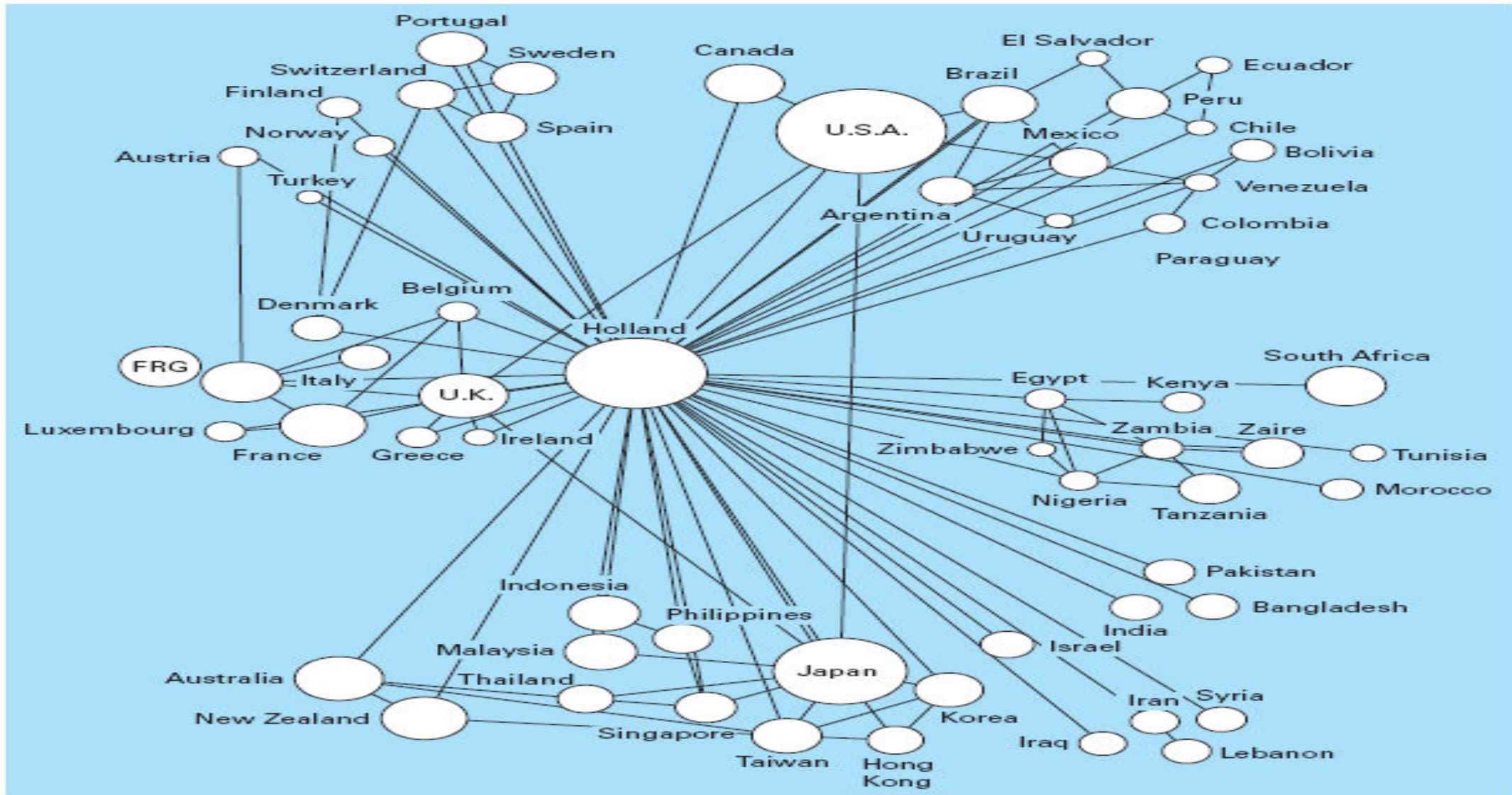


- Different product line units and geographic area units have different structures depending on what is best for their particular operation

Transnational Network Structures



The Network Structure of N.V. Phillips





Factors Affecting Organizational Design

Although many things can affect the choice of an appropriate structure for an organization, the following five factors are the most common:

- **Size**
- **Life cycle**
- **Strategy**
- **Environment**
- **Technology**





INTRODUCTION OF CONFLICT

**Whenever two individuals opinion in different ways,
a conflict arises.**



- In Layman's language conflict is nothing but a fight either between two individuals or among group members.



Definition of Conflict

- Conflict: a strong disagreement or collision of values, interests or intentions among individuals, groups, organizations, communities, and nations.

Conflict mostly arises



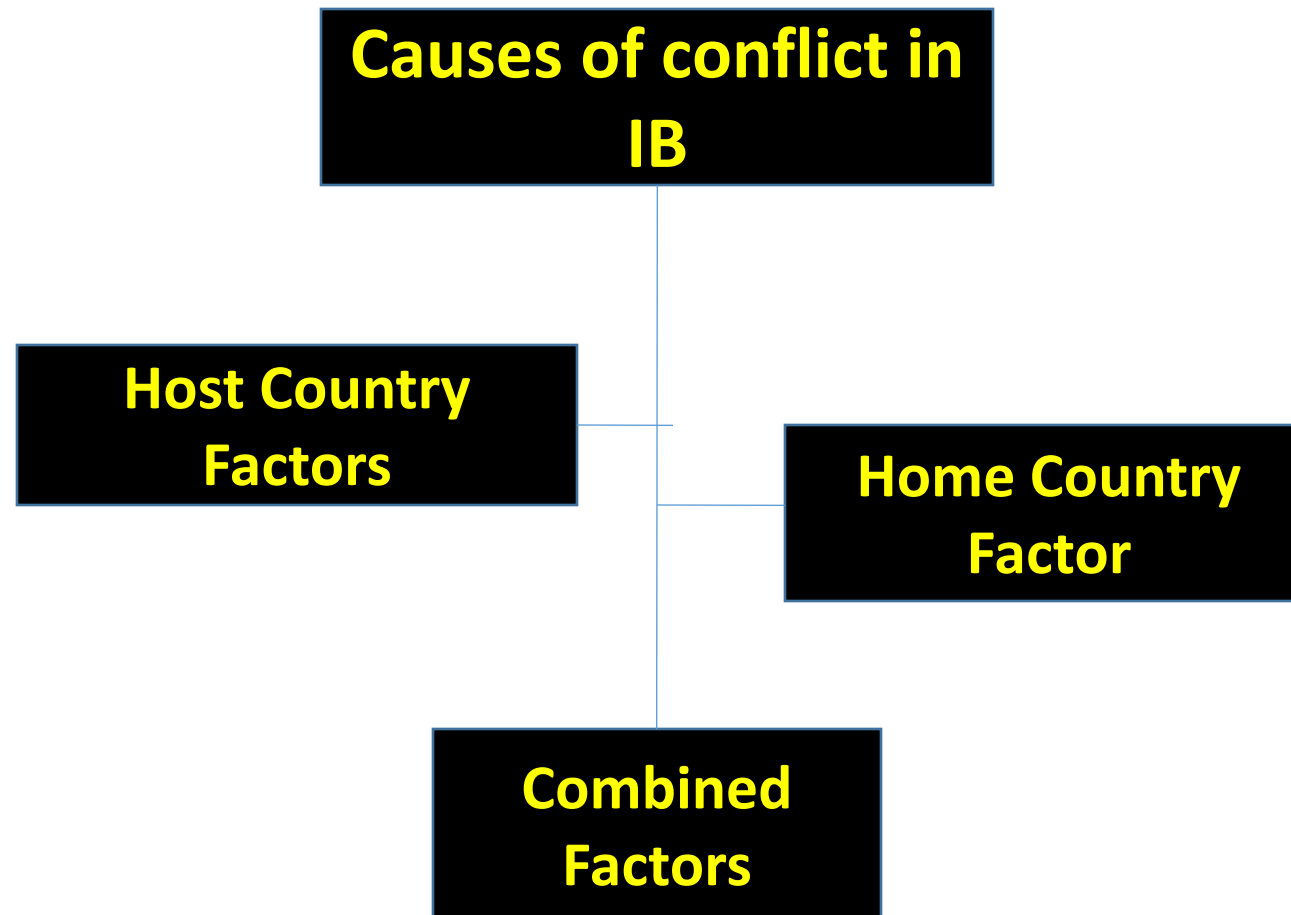
- Home country's companies
- Home country's government
- Home country's customer
- Home country's society

Conflict mostly arises



- Host country's companies
- Host country's government
- Host country's customer
- Host country's society

FACTORS CAUSING CONFLICT IN INTERNATIONAL BUSINESS



HOME COUNTRY FACTORS



- ❖ Export and import Control
- ❖ Balance of Payments
- ❖ Local Industry
- ❖ Local Jobs
- ❖ Dumping
- ❖ National Security
- ❖ Approvals



HOST COUNTRY FACTORS

- ❖ Information Disclosure
- ❖ Regulation and Competition
- ❖ Employment
- ❖ Technology
- ❖ Balance of payments
- ❖ Taxation
- ❖ Size and Equity
- ❖ Sovereignty



COMBINED FACTORS

- Nationality
- Business Practices
- Taxation
- Local Laws



Conflict in MNC

- Macro economic area :
(Structural Factors & Exploitation of natural resources)
- Production area
- Marketing area
- Finance area
- Human resource area



- Social and ethical area
- Environmental issues
- Competing
- Company Level Conflicts

Business conflict



- ✓ From boarder problem
- ✓ From violation of an agreement
- ✓ From dumping activities
- ✓ Miscommunication
- ✓ Not supporting one country by another in international organization
- ✓ Different exchange rate and inflation
- ✓ Culture, value system and local rules

Examples of conflict



- Conflict between US and China

- In term of exchange rate

- In terms of breaking rule of WTO



- Conflict between China and EU

demolishing competition by exporting the prices at loss
(pound 20 billion)

CONFLICTS RESOLUTIONS ACTIONS IN INTERNATIONAL BUSINESS



1) Contracts

2) Resolving Disputes

○Adaptation

○Re-Negotiation

○Mediation

3) Local Courts, Local Remedies

4) Principle of Committee



conflict resolution action

Level 1 = company to company

- Contract
- Resolve dispute
 - adaptation
 - renegotiation
 - mediation

(personal etiquette is also important)

Other actions



- Local Courts, local remedies
- Principle of comity



Relation of country and its company

Level 2 = country to country

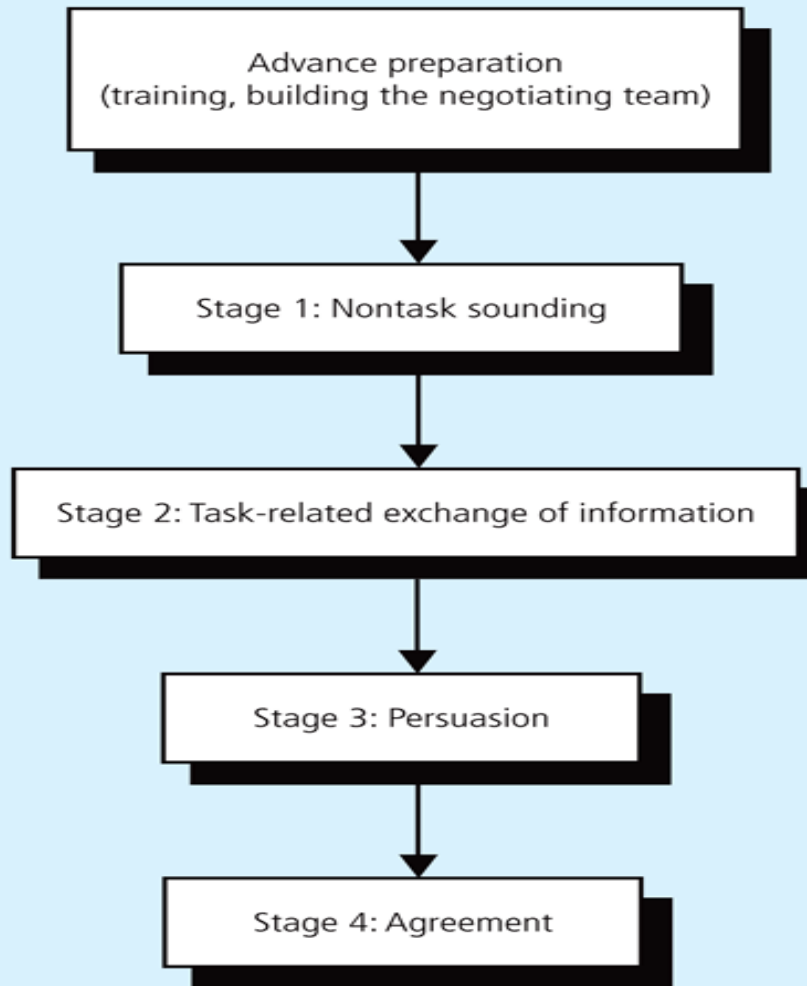
- Constant interaction
 - Solving the problems
 - Formulating the policies
 - Incentives to the firm
 - Constant interaction with host country
- for easy access to the foreign market

Business Negotiations



- The process of **bargaining between two or more parties** to reach a solution that is mutually acceptable

Stages in the International Negotiation Process



Source: Adapted from Graham, J. L. (1985). The influence of culture on the process of business negotiations: An exploratory study.

International Negotiation Process



- 1) Non task sounding—establish rapport(getting to know one another)**
- 2) Task-related exchange—exchange of background, needs and preferences**



3) Persuasion—negotiation, attempts to modify positions (changing persons /group attitude behavior towards events ,idea ,object by using written/spoken words or visual tools to convey information , feelings)

4) Agreement—conclusion and accord is reached



Stage 1: Non task Sounding

- Time needed to establish relationships
- Entertaining
- Establishing trust
- Status of negotiators
- Variations in importance across cultures

Stage 2: Task-Related Exchange of Information



- **Most important in some background**
- **Explanations of initial bargaining positions**
- **Differences in bargaining room across cultures**

Stage 3: Persuasion



- **Attempts to modify other party's position**
- **Tactics used to persuade**
 - **Direct/honest – Threats**
 - **trick – Misrepresentations**
- **Timing of concessions**
 - **Throughout or at end**

Stage 4: Agreement



- Concessions and persuasion end in agreement
- Importance of follow-through
- Final outcome
 - Use of formal written
 - Informal handshake
- Differences in idea of contract

Types of Behavior During Negotiation Process



- ***Substantive behavior***

facilitates the negotiation process such as

- ✓ Initiation,
- ✓ Acceptance,
- ✓ Rejection,
- ✓ Accommodation,
- ✓ Retraction.



• *Strategic behavior*—

Influences the expectation and the actions of the other side such as

- ✓ commitment,
- ✓ exchange,
- ✓ demands,
- ✓ treat,
- ✓ ingratiation.



- *Persuasive behavior*—

supports arguments and presents evidence in support of claims a negotiator makes such as the use of statistical information or expressive language.



- ***Task behavior***—

promotes focus on the issue such as providing and requesting information, or clarification.



- *Affective behavior*—

shows expression of feelings such as humor, touchiness, or social correctness.



- *Procedural behavior*—

moves the discussion along such as references to procedure or time.

Behavior in the Stages of Negotiation: Differences Across Low- and High-Context Cultures



Stage of Negotiation	Low-Context Culture	High-Context Culture
Stage 1: Nontask Sounding	• Briefly exchange social niceties • Will get to the point (i.e., stage 3) quickly • Not especially concerned with status of other group	• Will want to know all about you and your company • Long presentations and meetings in order to get to know you • Give careful attention to age, rank, status of other negotiators
Stage 2: Task-Related Exchange of Information	• Relatively brief stage • Young, ambitious, likely to do well	• Among the longer stages • Advantage given to older, higher-status team member
Stage 3: Persuasion	• Argumentative • The most important stage • “To the point” negotiating style • Cost-benefit approach; face saving not very important	• Declarative • The least important stage • More guarded style • Face saving very important
Stage 4: Concession/ Agreement	• Favor or require detailed written contract • Decision/agreement is impersonal • Profit motive determines agreement	• Less emphasis on long contracts • Deal is sealed on the basis of the contextual variables • Good setting necessary for final agreements



GLOBALIZATION : ADVANTAGES



- **Free flow of capital, technology**
- **Industrialization**
- **Production facilities throughout the world**
- **Increase in production and consumption**
- **Lower prices and high quality**



- **Jobs and Incomes**
- **Higher standard of living**
- **Balanced Human development**
- **Welfare and wealth**



DISADVANTAGES

- **Kills domestic business**
- **Exploits human resource**
- **Unemployment and underemployment**
- **Widening gap between rich and poor**



- **Transfer of natural resources**
- **National sovereignty at stake**
- **Commercial and political colonialism**

MODE OF GLOBALIZATION



- Acquisition of foreign companies
- Joint ventures
- Long term loans
- Issuing equity shares, debentures and bonds
- Global deposits receipts

DRIVERS OF GLOBALIZATION



- **Establishment of the world trade organization:**
 - Government of the member countries of general agreement on trade and tariff (GATT) concluded the Uruguay round negotiation on the 15th December 1994. according to Uruguay meeting they came with a political support “strengthen the world economy and lead to more trade, investment, employment and income growth throughout the world” WTO was established on 1st Jan 1995.
 - This is to facilitate the implementation, administration and operation and further the objectives of this agreement and on the multinational trade agreement



- **Declining trade barriers:**

- **International trade occurs when the goods flow across the countries. Government used to impose trade barriers like quotas and tariffs in order to protect domestic business from the competition of international business.**
- **Advanced countries after world war 2 agreed to reduce tariffs in order to encourage free flow of goods. Thus reduction of tariffs and other trade barriers contributed for the growth of global trade**



- Declining investment barriers:
 - Global business firm invest in order to establish manufacturing and other facilities in foreign country. Foreign government impose barriers on foreign investment in order to protect domestic industry.
 - Various countries have been removing these barriers on foreign direct investment



Growth in foreign direct investment:

- There are number of reasons for the growth of FDI. Which is also a drivers of globalization

Strides in technology:

- Technological changes has dramatically diverged global company to globalization
 - Microprocessors and telecommunications
 - The internet and world wide web
 - On-line globalization
 - Transportation technology



- Growth of multinational companies

Growth of multinational and transactional company are spreading their operation in manufacturing, finance and other functional areas. Which are been the drivers of globalization

TRADE LIBERALIZATION



- **Integration of the economy of a country with the rest of the world economy is called globalization.**
- **Indian government globalised economy by announcing economic liberalization in 1991.**
- **Integrated global economy were sown as early as 1940's when steps were taken to establish**
 - **International Monetary Fund**
 - **International Bank for Reconstruction and Development**
 - **General Agreement on Tariffs and Trade**

Entry Strategies and Ownership Structures



- Export/import
- Wholly-owned subsidiary
- Mergers/acquisitions
- Alliances/joint ventures
- Licensing
- Franchising

Entry Strategies and Ownership Structures

Export/Import



- Exporting and importing are often the only available choices for small and new firms wanting to go international
- Also permits larger firms to begin international expansion with minimum investment and minimum risk
 - Permits easy access to overseas markets
 - Paperwork can be turned over to export management company or handled through the firm's export department
- Strategy is usually transitional in nature

Entry Strategies and Ownership Structures

Wholly Owned Subsidiary



- **Wholly owned subsidiary**
 - An overseas operation is totally owned and controlled by an MNC.
 - MNCs using a wholly owned subsidiary want total control and believe that managerial efficiency is better without outside partners
- Some host countries worry that the MNC could drive out local enterprises
- Home country unions sometimes view foreign subsidiaries as an attempt to “export jobs”
- Today many MNCs opt for mergers, alliances, or joint ventures rather than a fully owned subsidiary

Entry Strategies and Ownership Structures Mergers and Acquisitions



- **Mergers and acquisitions**
 - The cross-border purchase or exchange of equity involving two or more companies.
- The strategic plan of merged companies often calls for each to contribute a series of strengths toward making the firm a highly competitive operation

Entry Strategies and Ownership Structures Alliances and Joint Ventures



Alliance

- Any type of cooperative relationship among different firms.

International joint venture (IJV)

- Agreement under which two or more partners from different countries own or control a business.
- There are two types of alliances and joint ventures
 1. Non-equity ventures
 2. Equity joint ventures



Advantages of alliances and joint ventures include

- Improvement of efficiency
- Access to knowledge
- Justifying political factors
- Overcoming collusion or restriction in competition

Strategic Alliance Recommendations



When forming a strategic alliance firms should

1. Know their partner well before alliance is formed.
2. Expect differences in alliance objectives among potential partners headquartered in different countries.
3. Realize that having desired resource profiles does not guarantee that they are complementary to the firm's resources.
4. Be sensitive to alliance partner needs.
5. After identifying the best partner, work on developing a relationship of trust

Entry Strategies and Ownership Structures

Licensing



- **Licensing**

- An agreement that allows one party to use an industrial property right in exchange for payment to the other party.
- The licensee may avoid entry costs by licensing to a firm already there
 - Licensor usually is a small firm lacking financial and managerial resources
- Companies spending large share of revenues of R&D are likely to be licensors



Franchising

- An arrangement in which one party (the franchisor) permits another (the franchisee) to operate an enterprise using its trademark, logo, product line, and method of operation in return for a fee.
- Widely used in fast-food and hotel/motel industries
- With minor adjustments for the local market, this can result in highly profitable international business
 - The franchisor gets a new stream of income and the franchisee gets a proven concept or product/service that can quickly be brought to market

THANK YOU



WTO AND TRADING BLOCKS

MODULE 3

JAGADEESH BABU.MK



WTO AND TRADING BLOCKS



- WTO and LPG policies, Its Implications on India
- Regional Trade Blocks, Integration between countries, levels of integration and impact of integration. International strategic alliances, nature, benefits, pitfalls, scope, how to make alliances work.



GATT

- The **General Agreement on Tariffs and Trade (GATT)** was originally created by the **Bretton Woods Conference** as part of a larger plan for **economic recovery after World War II**.
- The GATT's main purpose was to **reduce barriers to international trade**





- This was achieved through the **reduction of tariff barriers, quantitative restrictions** and subsidies on trade through a series of different agreements.





- The GATT was **an agreement**, not an organization.
- Originally, the GATT was supposed to become a full international organization like the **World Bank or IMF** called **the International Trade Organization**





- The **agreement was not ratified**, so the GATT remained simply **an agreement**.
- The functions of the GATT have been **replaced by** the **World Trade Organization**





OBJECTIVES OF GATT

- ✓ To raise **standard of living**
- ✓ To ensure **full employment** and a large and steadily growing volume of real income and effective demand
- ✓ To develop the full **use of the resource** of the world
- ✓ To expand production and international trade





GATT trade rounds

- **Geneva Round – 1947**
- **Annecy Round – 1949**
- **Torquay Round – 1951**
- **Geneva Round - 1955-1956**
- **Dillon Round - 1960-1962**
- **Kennedy – 1964**
- **Tokyo Round - 1973-1979**
- **Uruguay Round - 1986-1994**



• GATT trade rounds



- **Geneva Round – 1947** The first round's duration was 7 months. 23 countries took part in the round. The main focus was Tariffs Signing of GATT, 45,000 tariff concessions affecting \$10 billion of trade.
- **Annecy Round – 1949** The second round took place in 1949 in Annecy, France. 13 countries took part in the round. The main focus of the talks was more tariff reductions.
- **Torquay Round – 1951** The third round occurred in Torquay, England in 1950. 38 countries took part in the round. 8,700 tariff concessions were made totaling the remaining amount of tariffs to $\frac{3}{4}$ of the tariffs which were in effect in 1948.



- **Geneva Round - 1955-1956** The fourth round returned to Geneva in 1955 and lasted until May 1956. **Twenty-six countries took part in the round.** **\$2.5 billion in tariffs** were eliminated or reduced.
- **Dillon Round - 1960-1962** The fifth round occurred once more in Geneva and lasted from 1960-1962. The talks were named after U.S. Treasury Secretary and former Under Secretary of State, Douglas Dillon, who first proposed the talks. **26 countries took part in the round.** Along with reducing over **\$4.9 billion in tariffs**, it also **yielded discussion relating to the creation of the European Economic Community (EEC).**



- **Kennedy - 1964** The sixth round's duration was 37 months. 62 countries took part in the round and the main focus was Tariffs, **Anti-dumping**. Its achievement was Tariff concessions worth \$40 billion of world trade
- **Tokyo Round - 1973-1979** Reduced tariffs and established new regulations aimed at controlling the proliferation of **non-tariff barriers** and **voluntary export restrictions**. 102 countries took part in the round. Concessions were made on \$190 billion worth.



- **Uruguay Round - 1986-1994** The Uruguay Round began in 1986. It was the most ambitious round to date, hoping to expand the competence of the **GATT to important new areas such as service, capital, intellectual property, textiles, and agriculture. 123 countries took part in the round.**
- The Uruguay Round was also the first set of multilateral trade negotiations in which developing countries had played an active role



- Last Director general of GATT and first Director general WTO is **PETER SUTHERLAND**



ACTIVITIES OF GATT



- ✓ Tariff bargaining
- ✓ Bargaining on non- tariff trade barriers (QUOTA)
- ✓ Elimination of quantum restriction
- ✓ Settlement of disputes between contracting parties





WORLD TRADE ORGANIZATION

- **WTO was established on January 1, 1995**
- **WTO is the embodiment of the Uruguay Round results and the successor to GATT**
- **Government became member of the WTO on its first day**





- **As of December 2000 there are 142 members of the WTO and 34 countries have an observer status**
- **March 2014 total members were 159**
- **Current total members of WTO 164**





- The WTO is the world's largest international economic organization, with 164 member states representing over 98% of global trade and global GDP. 197.2 million Swiss francs (approx. 220 million US\$) in 2020





Functions of WTO

- Administering and implementing the multilateral and plurilateral trade agreements which together make up WTO
- Acting as a forum for multilateral trade negotiation
- Seeking to resolve trade disputes

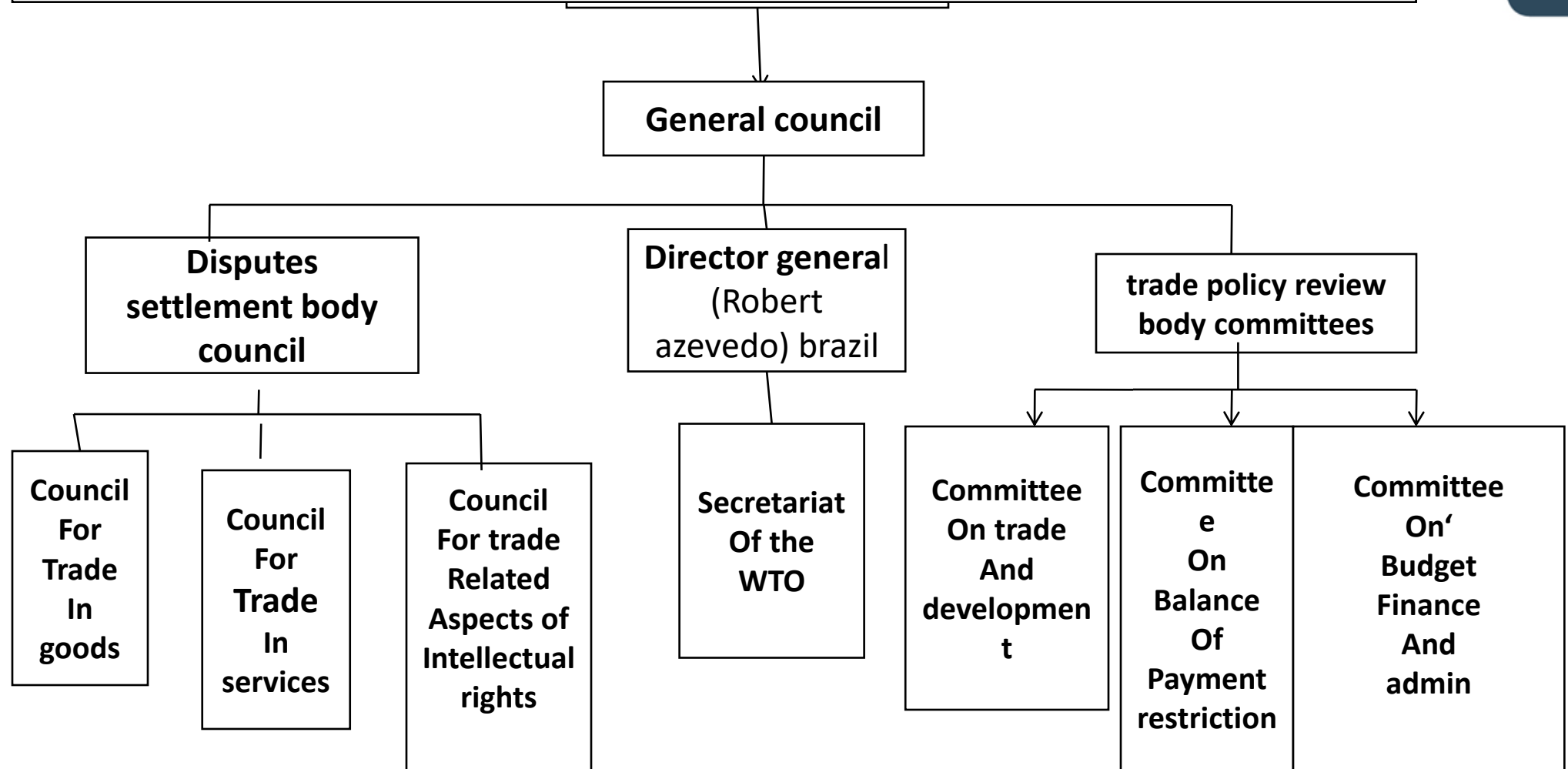




- Overseeing national trade policies
- Cooperating with other international institution involved in global policy making



Structure of WTO





Ministerial conference: Ministerial Conference is the **highest hierarchical level** in the organizational structure.

- ✓ All the member countries of WTO are the representative of the ministerial conference
- ✓ The ministerial conference has the authority to make decision on all matters relating to multilateral trade agreements





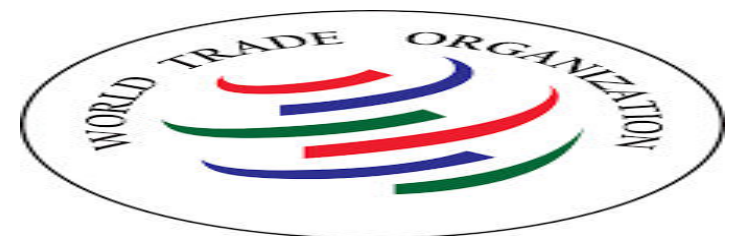
- **General council:** General council is the executives body of the WTO
 - General council reports its decision and activities to the ministerial conference
 - There are forms of general council
 - Dispute settlement body
 - Trade policy review body





Council: The third level in the hierarchy is council

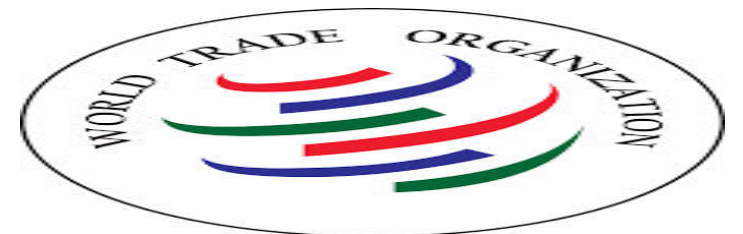
- **Council for trade in goods:** This council supervise the implementation and functioning of all agreement relating to trade in goods
- **Council for trade in service:** This council overseas the implementation of all the agreement relating to trade in services
- **Council for trade related aspects of intellectual property rights:** This council overseas the implementation



Committees:



- Various councils specified earlier, constitute committee for administering the arrangement
 - ✦ **Committees on trade and development:** This committee is concerned with the issues concerning developing countries and particularly least developed countries





✧ **Committee on balance of payments:** some WTO members countries resort to trade restrictive measures with a view to cope with their balance of payments problems





- **Committee on budget, finance and admin:** this committee deals with the issues relating to the budget, finance and administration of WTO





- **Management bodies:** Plurilateral agreement of the WTO have their management bodies. These management bodies report to the general council

WTO provides a more powerful mechanism to solve disputes over trade among the members countries



Difference between GATT and WTO



- **GATT**

- It is a set of rules and multilateral agreement
- It was designed with an attempt to establish International Trade Organization
- It was applied on a provisional basis

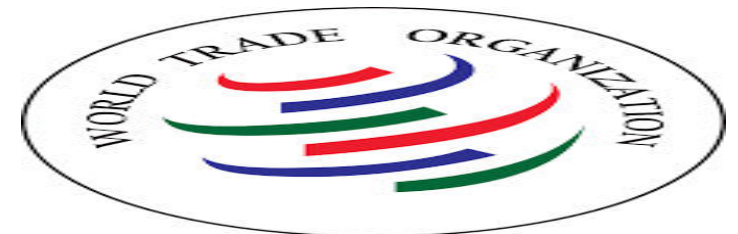
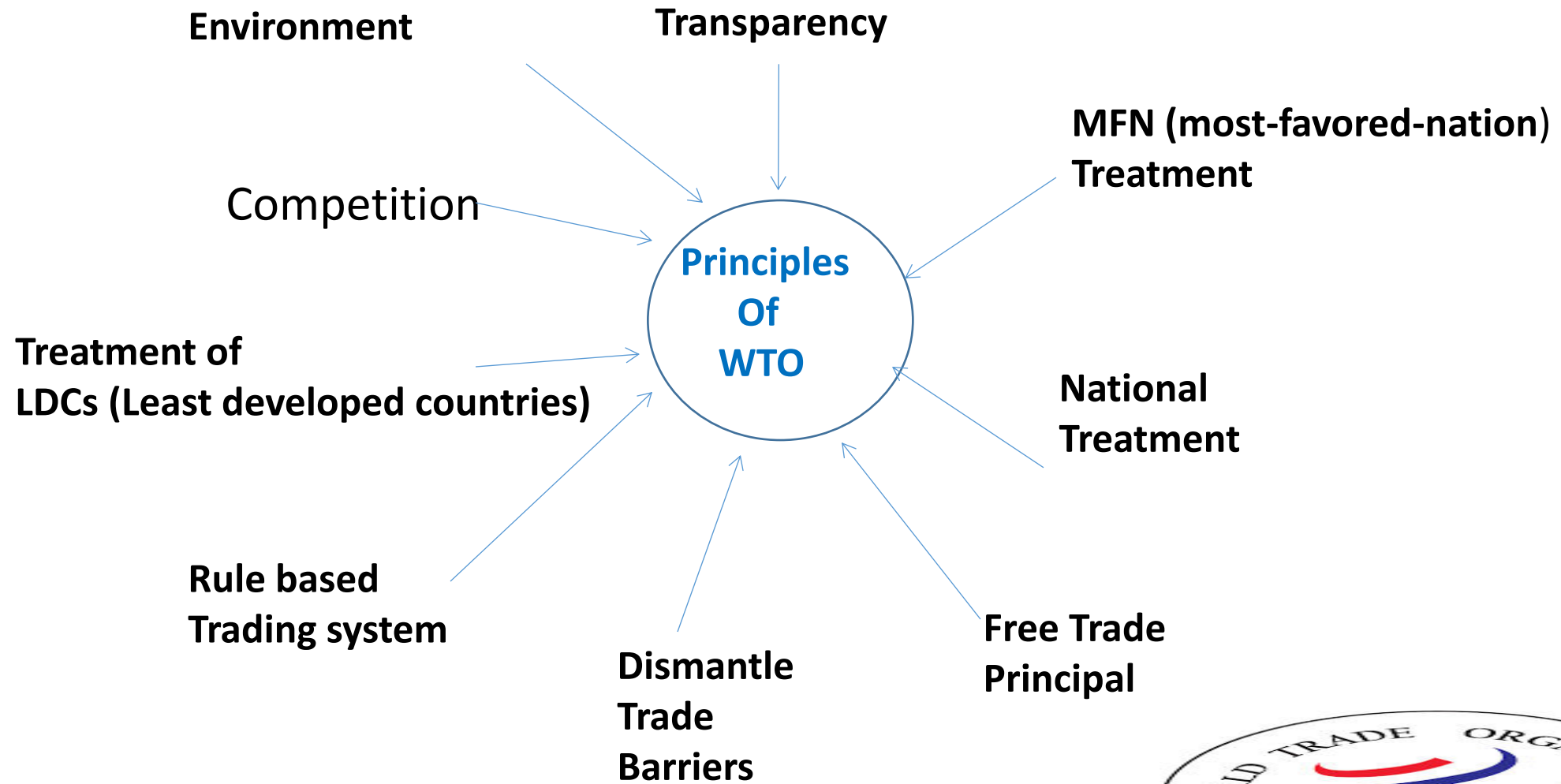
WTO

- It is a permanent institution
- It is established to serve its own purpose
- Its activities are full and permanent



- Its rules are applicable to trade in merchandise goods
 - GATT was originally a multilateral instrument, but plurilateral agreement were added at a later stage
 - Its disputes settlement system was not faster and automatic
- Its rules are applicable to trade in merchandise and trade in services and trade in related aspects of intellectual property
 - Its agreements are almost multilateral
 - Its disputes settlement systems is fast and automatic

Principles of WTO

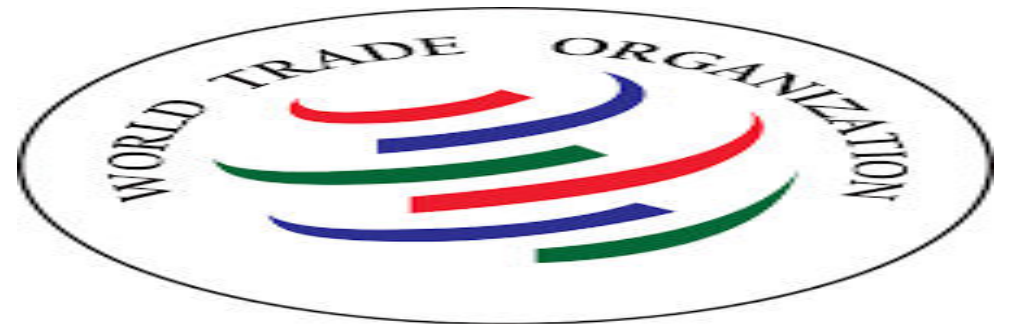




MFN Treatment

(most-favored-nation)

For example, if a nation reduces tariffs by 5% for one nation, the MFN clause states that all WTO members will have their tariffs cut by 5% into that nation.



Indian International Trade Policy



- Traditionally, the main **objective of** the Indian International Trade Policy has been **to protect its market from foreign competition.**





- Up until the 1980s, India was **not interested in exporting** its goods and services abroad and **not ready to open its economy to foreign investments**.



- The aim of its **economic policy** was to ensure the country's independent development (**the *swadeshi* principle**).
- At the end of the **1980s**, India was one of the most **closed economies in the world**.



Indian International Trade Policy

- The implementation of the International Monetary Fund's **1991 Structural Adjustment Program**
- India launched a **new policy (LPG)** of privatization, liberalisation and globalization of its economy, and a multidimensional trade policy.



- India was a founding member of the General Agreement on Tariffs and Trade (GATT) in 1947 and of the World Trade Organization (WTO) in 1995, and so has actively participated in the different rounds of negotiations.



on it's way to be integrated with the world economy

- The famous Goldman Sachs report :

The Path to (2050) states that, among **Brazil, Russia, India and China, India will grow the fastest over the next 30 to 50 years by leveraging its demographic advantages** and through continued development



Today's India is one of the fastest growing Democratic Market Economy, well

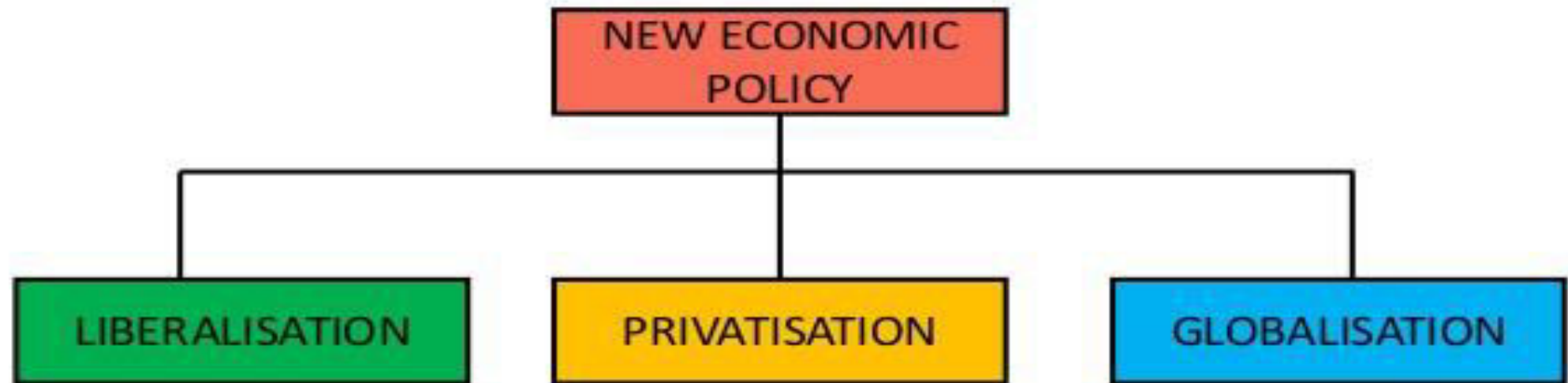
Before COVID 19

India's GDP will exceed **Italy's** in 2016, **France's** in 2019,
Germany's in 2023 and **Japan's** in 2032

**INDIA TO BECOME THE 3RD LARGEST ECONOMY IN
THE WORLD BY 2032**



BRANCHES OF NEW ECONOMIC POLICY



New economical policy (LPG) 1990



- **Liberalization**
- **Privatization**
- **Globalization**



LPG

The economy of India had undergone significant policy shifts in the beginning of the 1990s.

This new model of economic reforms is commonly known as the **LPG or Liberalization, Privatization and Globalization model**.



Reasons for implementing LPG

- Large and growing fiscal imbalances.(Gross fiscal deficit rose to 12.1% of GDP in 1991)
- Growing inefficiency in the use of resources.
- Low foreign exchange reserves.(\$1.2 billion in January 1991)



- High inflation rate.(13.87% in year 1990-91)
- The low annual growth rate of Indian economy stagnated around 3.5% from 1950s to 1980s, while per capita income averaged 1.3%.

Liberalization



- Liberalization refers to relaxation of government restrictions in areas of economic policies.
- when government liberalizes trade it means it has removed the tariff, subsidies and other restrictions on the flow of goods and service between countries.



- ✓ The fruits of liberalization reached their peak in 2007, when India recorded its highest GDP growth rate of 9%.
- ✓ With this, India became the second fastest growing major economy in the world, next only to China.



- ✓ The growth rate has slowed significantly in the first half of 2012. An OECD (Organization for economic cooperation and development, French) report states that the average growth rate 7.5% will double in a decade, and more reforms would speed up the pace.



Privatization

- ✓ It refers to the **transfer of assets or service** functions from **public to private ownership or control** and the opening of the closed areas to private sector entry.



- Privatization can be achieved in many ways- **franchising, leasing, contracting, etc.** Capital markets should be sufficiently developed to be able to absorb the disinvested public sector shares.

Advantages



- Privatization may help in reviving sick units which have become a liability on the govt.
- It helps the profit making public sector units to modernize and diversify their business.



- It helps in making public sector units more competitive. Without government financial backing, capital market and international market forces public sector to be efficient.
- It reduces political influence on decision-making of managers.

Disadvantages



- Privatization encourages monopoly, power in the hands of big business houses and thus greater disparities in income and wealth.
- Privatization may result in lop-sided development of industries in the country.



- The **limited resources** of the private individuals **cannot meet** some of the vital tasks which alter the very character of the economy.
- The private sector **may not uphold** the **principles of social justice and public welfare**.

Successful Privatizations in India



- **Lagan jute machinery company limited (LJMC)**

Gross turnover: pre-privatization= Rs. 6 million (April-june 2000),

post-privatization= Rs. 24 million (July-september 2000)

- **Modern food industries limited (MFIL)**

Share value went up from Rs. 2138 on 30th Dec.(prior to sale) to Rs. 3247 on 25th Feb.(post sale).

- **Para deep Phosphates Limited (PPL)**

Net profit: pre sale= Rs. -57.95 Cr., post sale= Rs. 23.96 Cr.



- Bharat aluminium company limited (BALCO)
- Hotel Corporation of India limited (HCI)
- Hindustan Zinc limited (HZL)

Globalisation



➤ Economic globalization is the increasing economic interdependence of national economies across the world through a rapid increase in cross-border movement of goods, service, technology and capital.



- Current globalization trends can be largely accounted for by developed economies integrating with less developed economies by means of foreign direct investment
- The reduction of trade barriers as well as other economic reforms and, in many cases, immigration.



Foreign Direct Investment

- Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country.



- A 2012 UNCTAD (united nations conference on trade & development) survey projected India as the second most important FDI destination after China.
- India ranked third in the list of most attractive FDI destinations as per Ernst & Young's 2012 survey.



FDI in India

FDI caps in various sectors:

- Defense 26%
- Insurance 49% (earlier 26%)
- Telecom 100% (earlier 74%)
- Single brand retailing 100%
- Multi brand retailing 51%
- Civil aviation 49%



- <https://www.youtube.com/watch?v=QUxeG4aMjoU>



Multi National Corporation

Multinational corporation (MNC) is a enterprise that manages production or delivers services in more than one country can also be referred to as an international corporation.



Multi National Corporation



- First MNC in world



First MNC in India



Indian MNC



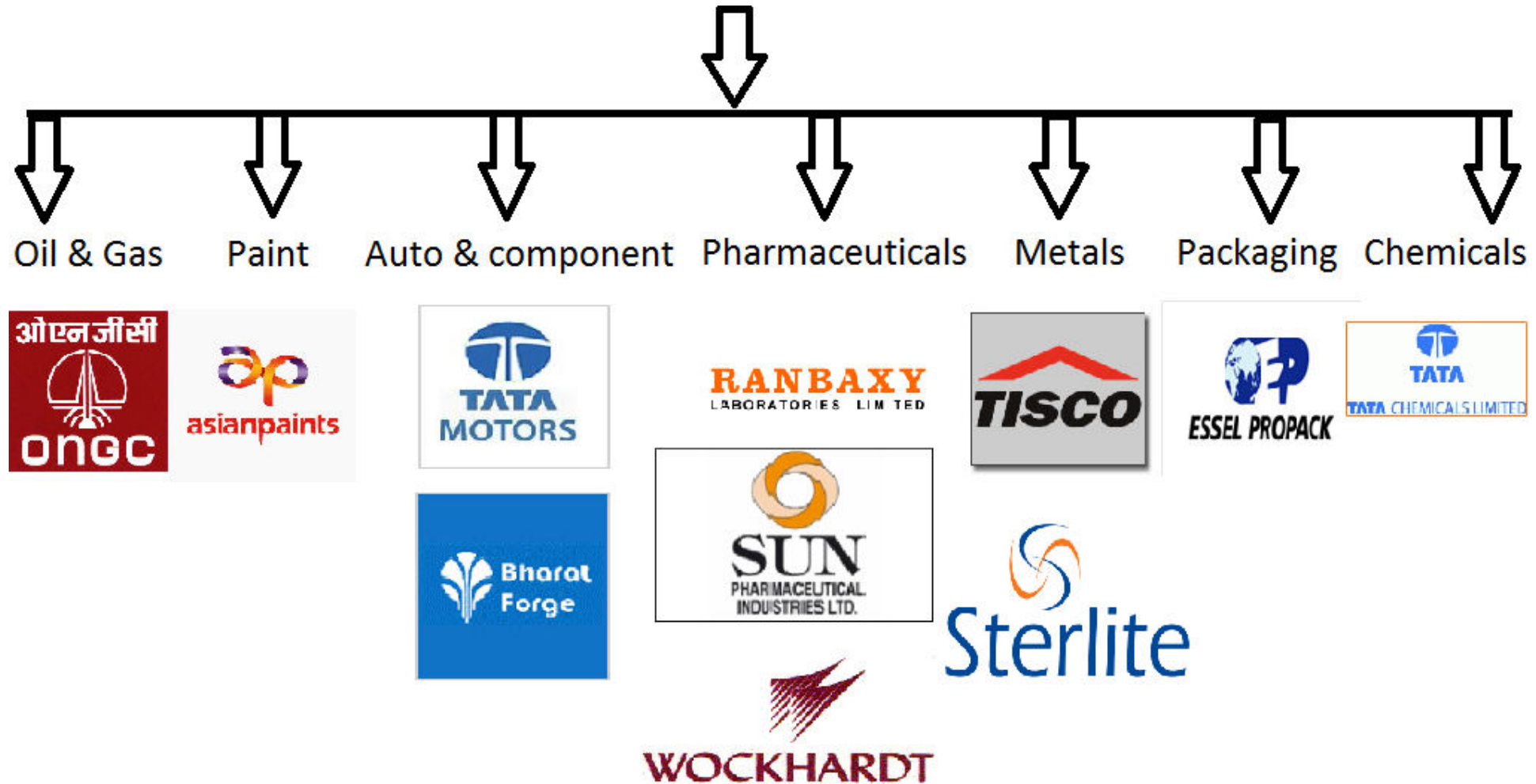
MNCs in India



In India MNCs are attracted towards:

- India's **large market potential**. India presents a remarkable business opportunity by virtue of its sheer size and growth.
- India's **vast population** and increasing its **purchasing power**.
- India is also emerging as the **manufacturing and sourcing location** of choice for various industries.

Indian MNCs



Advantages



- Globalization of under developed countries improves the efficiency of resource
- Reduce the capital output ratio and increase labor productivity



- Increase the **inflow of capital**, **update technology** that gives a **boost** to the average **growth rate of the economy**.
- **Restructures the production** and **trade pattern** in a capital scarce, labor abundant economy in favor of labor-intensive goods and techniques.

Disadvantages



- Globalization is helping the developed economies more than the developing economies.
- Multinational companies and Chinese goods will flood the market at cheaper rates and there will be no takers for local products.



- Entry of **MNC supermarket and hypermarket chains** would cause severe displacement of small and unorganized shopkeepers and traders.
- None of the multinationals that has set up manufacturing plants in India has signed any technology transfer agreement with any Indian company.



Effects of Globalisation

- India's share in the world export which had fallen **0.53% in 1991**, has reversed trends and has improved to **1.60% in 2013**.
- **Our foreign currency reserves** which had fallen to barely \$1 billion in June, 1991 rose substantially to about **\$277.72 billion in October, 2013**.

Effects of Globalisation



- Exporters are responding well to sweeping reforms in exchange rate and trade policies. The average growth of export has been more than **20% per annum since 2002-03**.
- Exports now finance nearly **65%** of imports, compared to only **60%** in the later half of the eighties.
-



Main organizations facilitating globalisation

Some of the international organisations which facilitate the process of globalisation:

- International Monetary Fund (IMF)
- World Bank
- World Trade Organisation (WTO)

Kinds of economic integration



- **Free Trade Area**
- **Customs Union**
- **Economic Union**
- **Common Market**

KINDS OF ECONOMIC INTEGRATION



- **Free Trade Area:** Group of countries agreeing to abolish all trade restrictions



- **ASEAN Free Trade Area**

Free trade area in South East Asia founded 1992.

Includes: Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand, Vietnam, Laos, Myanmar and Cambodia.



- **SAFTA**

South Asia free trade area based around the Indian sub-continent.

Includes Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.



- **African Union**

55 countries of the continent of Africa.

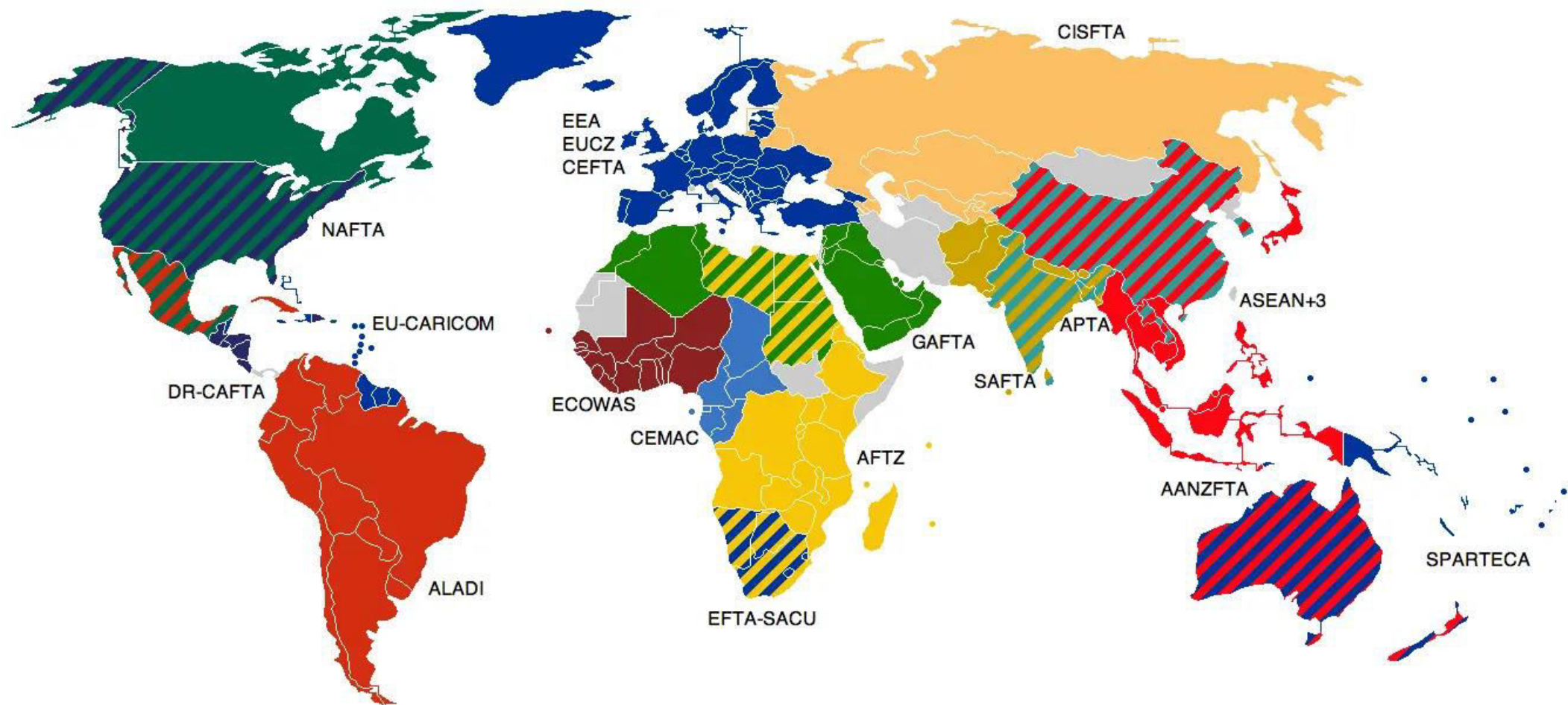
Created to forge closer political and economic ties.

It has aspirations to become a free trade area.



- **NAFTA** – North Atlantic Free Trade Association.

A free trade area between Canada, US and Mexico





- **Customs Union:**

- (i) Member countries **abolish all restrictions**
- (ii) They adopt a **uniform commercial policy of barriers and restrictions**



- **European Union** – The most integrated trading block.

The EU27 have free trade and common regulations and are part of a customs union.



- **Mercosur** –

- ✓ A southern American trading block formed in 1991. Includes full members of Argentina, Brazil, Paraguay and Uruguay.
- ✓ With associate members including Bolivia, Chile, Colombia, Ecuador. Developed from free trade area to become customs union.

Common Market:



- (i) Member countries **abolish all restrictions**
- (ii) They adopt a **uniform commercial policy of barriers and restrictions**
- (iii) They allow **free movement of human resource and capital**



Economic Union:

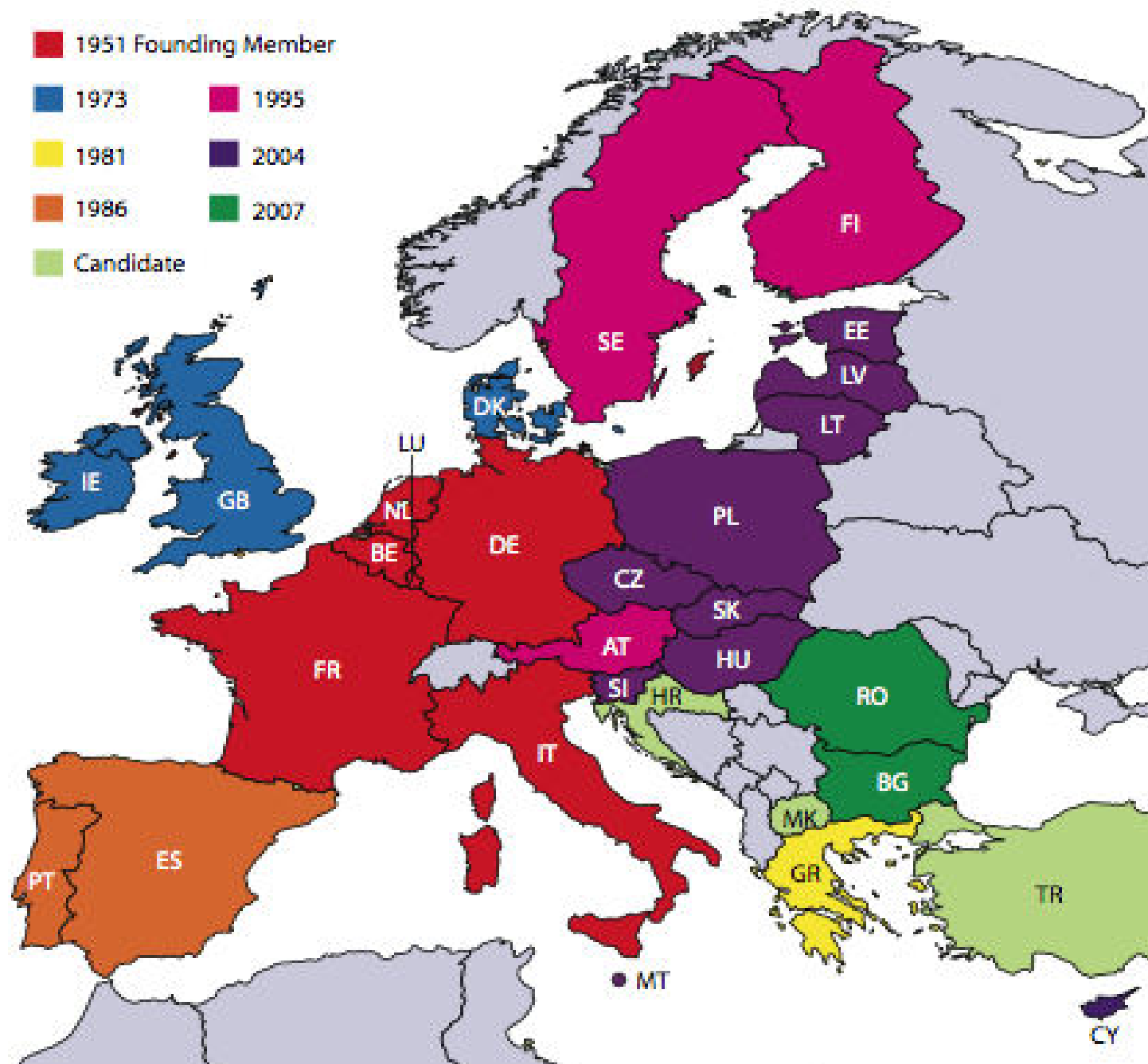
- i) Member countries **abolish all restrictions**
- (ii) They adopt a **uniform commercial policy** of barriers and **restrictions**
- (iii) They allow **free movement of human resource and capital**
- (iv) Achieve **uniformity in monetary and fiscal policy**

EUROPEAN UNION



Evolutionary stages

- European coal and steel community
- European common market/European economic community
- European economic union



Member countries:

AT: Austria (€)
BE: Belgium (€)
BG: Bulgaria
CY: Cyprus (€)
CZ: Czech Republic
DK: Denmark
EE: Estonia
FI: Finland (€)
FR: France (€)
DE: Germany (€)
GR: Greece (€)
HU: Hungary
IE: Ireland (€)
IT: Italy (€)
LV: Latvia
LT: Lithuania
LU: Luxembourg (€)
MT: Malta (€)
NL: Netherlands (€)
PL: Poland
PT: Portugal (€)
RO: Romania
SK: Slovakia (€)
SI: Slovenia (€)
ES: Spain (€)
SE: Sweden
GB: United Kingdom

Candidates:

HR: Croatia
MK: Former Yug. Rep. of Macedonia
TR: Turkey



ACTIVITIES OF EU

- Elimination of customs duties, quantitative restrictions with regard to exports and imports of goods among member countries.
- Establishment/formulation of a common custom tariff and common commercial policy with regard to non-member countries

Coun...



- Abolition of all obstacles for movement of persons, services and capital among member countries.
- Common policy in agriculture and transport



- Programs to coordinate the economic policies and disequilibrium in balance of payments of member countries.
- Establishment of European Social fund
- Establishment of European Investment Bank.

ORGANISATION OF EU

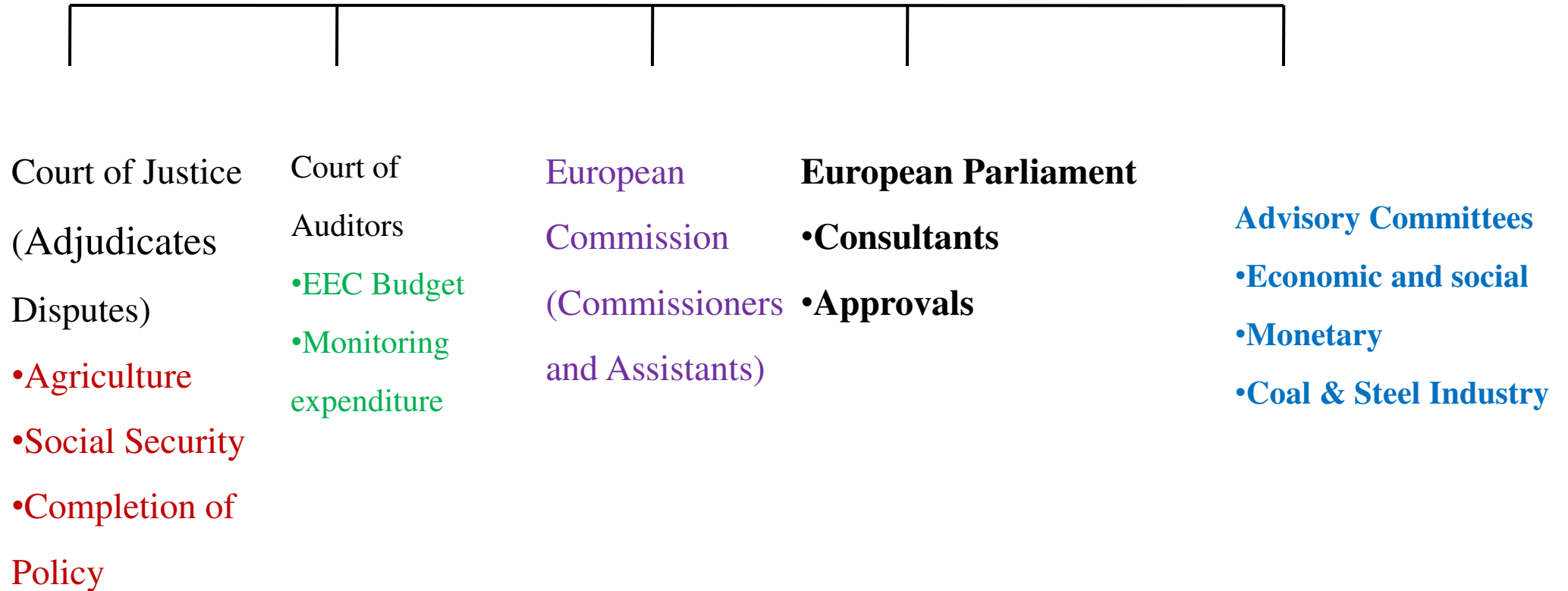


- European council is the administrative body of the EU.
- Each member country is represented by a minister in this council



- Each member country holds presidency for 6 months on rotation basis.
- The committee of permanent representatives called ‘Corper’ acts as secretariat of the council.

ORGANISATION OF EU





NORTH AMERICAN FREE TRADE AGREEMENT-NAFTA

- NAFTA came into being on January 1, 1994.
- USA, Canada and Mexico together formed NAFTA
- Initial agreement was between USA and Canada in 1989 which was later extended to Mexico.



OBJECTIVES OF NAFTA

- To create **new business opportunities** particularly in Mexico
- Enhance **competitive advantage of companies** operating in USA, Canada and Mexico.
- Reduce **price of products and services**



- Enhance **industrial development**
- To provide stable and predictable environment for investors
- To develop industries in **Mexico**, thereby reducing migration from Mexico to USA
- Improve and consolidate political relationship among member countries



MEASURES AS PER AGREEMENT OF NAFTA

- Simplification and harmonization of product standards in member countries
- Opening up of government procurement markets in member countries
- Protection of IP rights of NAFTA members



- Free flow of employees and business people among member countries
- Pollution control among USA-Mexico border

ASEAN-ASSOCIATION OF SOUTH EAST ASIAN NATIONS

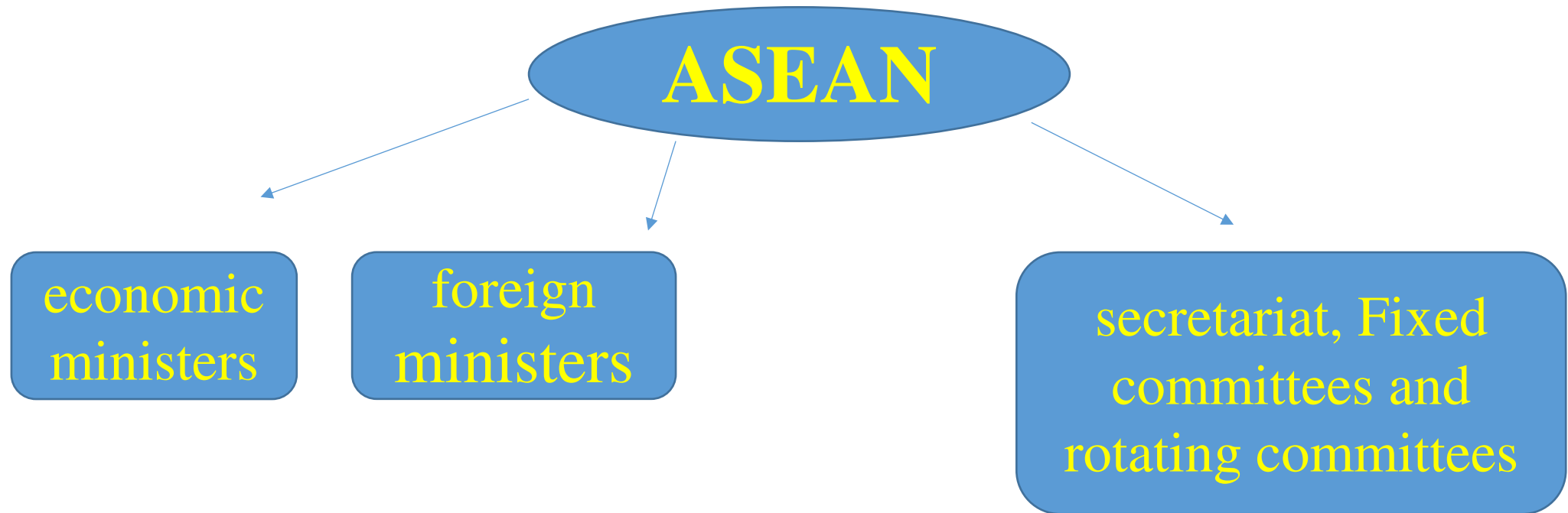


- A group of 6 members Singapore, Brunei, Malaysia, Philippines, Thailand and Indonesia in 1992 to establish a Common Effective Preferential Tariffs(CEPT) plan which resulted in creation of ASEAN.

.



- **Organization structure** includes ASEAN economic ministers, ASEAN foreign ministers, ASEAN secretariat, Fixed committees and rotating committees





INDIA AND ASEAN

- India became a sectorial dialogue partner of ASEAN in 1992. The sectors were trade, investment, tourism and science and technology
- India became a full dialogue partner of ASEAN during fifth ASEAN summit in Bangkok in 1995



AFTA-Asian Free Trade Area

- AFTA was formed in September 1994.
- AFTA was formed to develop ASEAN trade



OBJECTIVES

- To encourage inflow of foreign investment into this region
- To establish free trade area in the member countries
- To reduce tariff of the products produced in ASEAN countries

SAARC



- SAARC stands for South Asian Association for Regional Co-operation
- India, Bangladesh, Bhutan, Pakistan, the Maldives, Nepal and Sri Lanka established SAARC on Dec 8, 1985.



- Afghanistan joined SAARC in April 2007.



- The Secretarial work is done by SAARC secretariat located in **Nepal**.
- The **secretary-General** is the **chief of the secretariat**

OBJECTIVES OF SAARC



- To improve the quality of life and welfare of people
- To develop region economically, socially, culturally
- To provide opportunity for the people to live in dignity
- To enhance self-reliance of members



- To extend co-operation to other trade blocks
- To enhance co-operation with developing countries
- To have unity among member countries



ORGANIZATION STRUCTURE



- The council of SAARC is the highest policy making body
- The council is represented by the heads of the Government of the member countries
- The Council meets once in two years



- This council is assisted by council of ministers
- The council of ministers is represented by foreign ministers of member countries
- The council of ministers are assisted by standing committee which consists of foreign secretaries of member countries

TECHNICAL COMMITTEE



- This consists of representative of all member countries

FUNCTIONS

- Formulating projects and programmes in their respective areas
- Monitoring and implementing projects
- Submitting the reports to the standing committee through the program committee

TECHNICAL COMMITTEE



- The technical committees of SAARC includes
 - Agriculture
 - Environment
 - Rural Development

Cont..



- Tourism and transport
- Communications
- Health and population activity
- Science and technology

STANDING COMMITTEE



- Monitoring and co-ordinating the programmes
- Determining inter-sectoral priorities
- Mobilizing co-operation within and outside the region
- Standing committee is assisted by Programming committee

PROGRAMMING COMMITTEE



This includes the senior officials of the member countries. The functions are

- Scrutinizing budget of the secretariat
- Finalizing annual schedule of the secretariat
- Carrying out the activities assigned by the standing committee
- Analyzing reports of technical committees and SAARC regional centers and submitting them to the standing committee.



ESCAP

- Economic and Social commission for Asia and The Pacific
- ESCAP has 48 members countries
- The original name of ESCAP was Economic commission for Asia and far east



- ESCAP's geographical area is as follows:

East: Cook Island

West: Azerbaijan

North: Mongolia

South: Australia and New Zealand



APEC

- APEC stands for **Asia Pacific Economic co-operation**
- It looks for facilitating economic growth, co-operation, trade and investment in Asia Pacific region.



- APEC has **21 members** referred as 'Member Economies' which accounts for more than a third of the world's population(2.6 billion people), approximately 60% of world's GDP and about 47% of world trade.
- It is the most economically dynamic region in the world



PURPOSE AND GOALS

- To enhance the economic growth and prosperity of Asia-Pacific region
- To reduce tariff and trade barriers
- Creation of an environment for safe and efficient movement of goods, services and people across borders



OPERATION OF APEC

- Every year one of the 21 APEC member economies play host to APEC meetings and serves as the APEC Chair.
- The APEC host economy is responsible for chairing the Annual meetings of APEC.
- APEC is not a donor organization. It's activities are centrally funded by small annual contributions from APEC members economies.





MERCOSUR



- The treaty signed by Argentina, Brazil, Paraguay and Uruguay on March 26, 1991 created Mercosur.
- Mercosur is South America's largest trade block.



OBJECTIVES

- Free transit of transportation goods, services and factors between the member states.
- Fixing of a common external tariff and adopting common trade policy
- Co-ordination of macro-economic and sectoral policies of member states in areas of foreign trade, agriculture, transport and communications etc.,

India Liberalization Stage - Strategies Developed



- ✓ **Government's role changed to Regulator from Licensor**
- ✓ **All Licenses Rationalized**
- ✓ **Active participation of private sector**
- ✓ **FDI being Welcomed (100%) - Automatic Route**



- ✓ **Barriers Dismantled & Procedures Simplified**
- ✓ **Indian Industries Actively Investing Abroad**
- ✓ **Bureaucracy - Less Government is Good Governance**
- ✓ **Allowing Market Forces to Govern the Efficient Allocation of Resources with Minimum State Intervention**
- ✓ **Reducing and rationalising foreign trade barriers**

Removal of Industrial Licensing and Registration:



- Previously private sector had to obtain license from Govt. for starting a new venture. In this policy private sector has been freed from licensing and other restrictions.



- **Industries licensing is necessary for following industries:**

- (i) Liquor
- (ii) Cigarette
- (iii) Defence equipment
- (iv) Industrial explosives
- (v) Drugs
- (vi) Hazardous chemicals

Economic Scenario : Post Liberalisation



- ✓ **India - One of the fastest growing economies in the world**
- ✓ **Average GDP growth (2005 -2018) : 7.0 % per annum**
- ✓ **Average annual growth (2005 -2018)**

Agriculture & Allied : + 2.1 % per annum

Industry : + 6.6 % per annum

Services : + 8.8 % per annum



- ✓ **Average Per Capita Income growth (2005 -2018): 3.8 % per annum**
- ✓ **Inflation down to a single digit level continuously for the last ten years**
- ✓ **Foreign exchange reserves increased from US \$ 2 b (March 1991)**
 - **to US \$ 145 b (September 2005)**
- ✓ **Merchandise Exports : +20 % average rate of growth in last three years**
- ✓ **Booming Services Exports from US \$ 4.6 b in 1990-91 to US \$ 51.3 b in**
 - **2004-05**

Economic Scenario : Post Liberalization



- **Balance of payments surplus (US \$ 26 b in 2004 - 05)**
- **External Debt Service Ratio down from 26.2 % in 1995 to 6.2 % in 2005**
- **Foreign Direct Investment (FDI) : Average +US \$ 5 b pa in the last five years.**
- **Foreign Portfolio Investment : US \$ 11.4 b in 2003-04 and US \$ 8.9 b in 2004-05**



- ✓ Reforms continuing and have unleashed dynamic forces – putting the economy on a route of supreme economic growth in the future
- ✓ The Indian Government is working in close co-operation with industry and trade to mitigate the remaining problems and constraints
- ✓ Broad consensus across the political spectrum on the need for and direction of the reforms. Some issues still need to be resolved

Disinvestment



- Disinvestment can also be defined as the action of an organisation selling or liquidating an asset or subsidiary.
- The government appointed a committee under the chairmanship of C. Rang Rajan to study and recommend new measures to make privatization more effective. The committee submitted its report in 1993 which suggested the sectors where privatization was needed and also suggested government to set up an autonomous body to monitor disinvestment.

Disinvestment Commission



The five member Disinvestment Commission was set up on August 7, 1996. Major tasks of the commission are:

- To prepare long term disinvestment program
- To determine extent of disinvestment in each PSU
- To decide on instrument, pricing and time.
- To supervise sales process

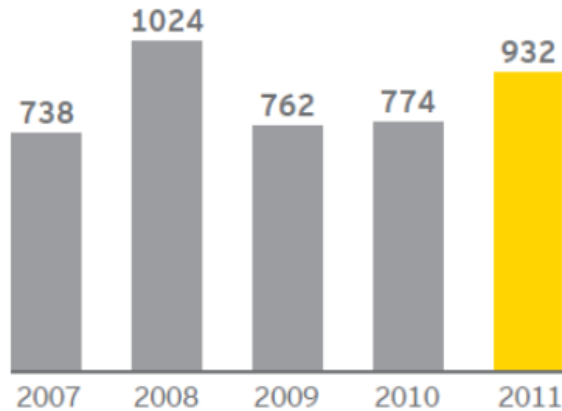
As on 31 October 2013, the 50 Central Public Sector Enterprises (CPSEs) listed on the stock exchanges contributed about 15% of the total market capitalization.

FDI in India

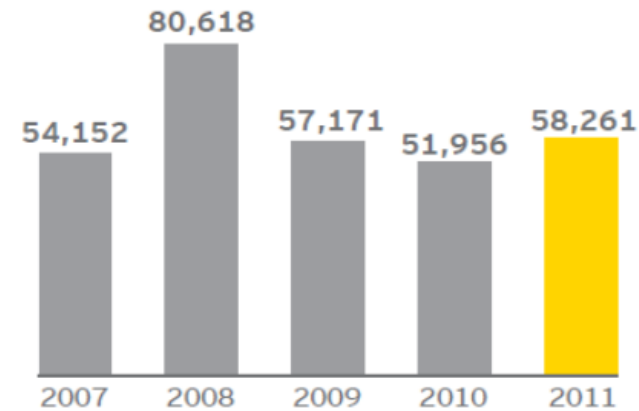


FDI trend in India:

Number of FDI projects in India



FDI by value (US\$ million) in India



Investment breakdown by functions (2011)

FDI type 2011	Number of FDI projects	Job creation	FDI value (US\$ million)
FDI in manufacturing	320	144,449	41,092
FDI in services	479	79,578	12,601
FDI in strategic functions	50	8,725	1,639
FDI in other functions	83	22,664	2,929
Total	932	255,416	58,261

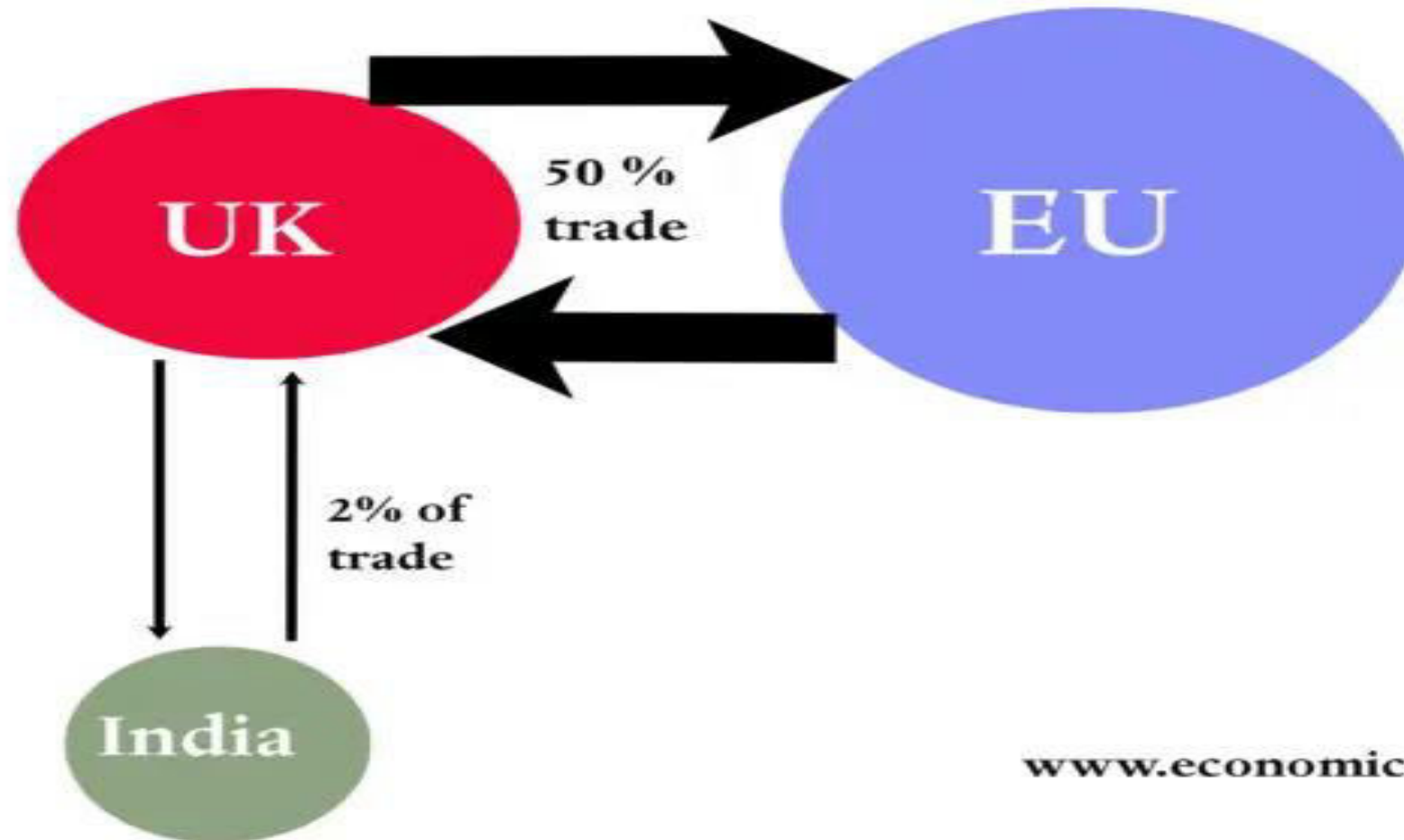
Source: fDi Intelligence.

Manufacturing includes: manufacturing, logistics, distribution and transportation, electricity.

Services includes: sales, marketing and support, business services, design, development and testing, customer contact center, technical support center, maintenance and servicing, ICT and internet infrastructure, shared services center.

Strategic functions includes: headquarters, R&D, education and training.

Other functions includes: retail, construction, recycling, extraction.



THANK YOU



GLOBAL TRADE & INVESTMENT

MODULE 4

JAGADEESH BABU MK

MODULE 4: GLOBAL TRADE AND INVESTMENT



- Theories of global trade and investment, Mercantilism, theory of absolute advantage, theory of comparative advantage, factor endowment theory, product life cycle theory, Porter's national competitive advantage.
- FDI- in World Economy, horizontal and vertical FDI, benefits of FDI to home and Host Country. FDI- Indian Scenario. EXIM TRADE- Export and Import financing, Export marketing, EXIM policy, Balance of payments. Roles of Institutions connected with EXIM trade.

Mercantilism



- A country's wealth is measured by its holdings of gold and silver
- A country's goal should be to enlarge holdings of gold and silver by
 - Promoting exports
 - Discouraging imports

1.Theory of Mercantilism



- According to Wild, 2000, the trade theory that states that
- Nations should **accumulate financial wealth**, usually in the **form of gold**, by encouraging **exports** and discouraging **imports** is called mercantilism.



- **Mainly Great Britain, France, the Netherlands, Portugal and Spain used mercantilism during the 1500s to the late 1700s.**



- The economic development was prevented when the **mercantilist countries** paid the colonies **little for export** and charged them **high price for import**.



- The **main problem** with mercantilism is that all countries **engaged in export** but was **restricted from import**, prevention from development of international trade



Mercantilism

➤ Prevailed in 1500 - 1800

- Export more to “stronger” than we import to amass gold, expand kingdom
- Zero-sum vs positive-sum game view of trade

➤ Government intervenes to achieve a surplus in exports

- King, exporters, domestic producers: happy
- Subjects: unhappy because domestic goods stay expensive and of limited variety

Absolute & Comparative Advantage



Adam Smith

- 1723-1790
- Scottish moral philosopher and economist
- “Father of Modern Economics”
- Wrote “The Wealth of Nations”
- Famous for writing about....

Absolute Advantage



➤ **Individual** – Exists when a person can produce more of a certain good/service than someone else in the same amount of time **or** can produce a good using **the least** amount of resources.



- **National** – Exists when a country can produce more of a good/service than another country can in the same time period **or** can produce a good using the least amount of resources.

2. Theory of Absolute Advantage



- The Scottish economist Adam Smith developed the trade theory of absolute advantage in 1776.



- A country that has an absolute advantage produces greater output of a good or service than other countries using the same amount of resources.



- **Contrary to mercantilism** Adam Smith argued that a country should concentrate on **production of goods** in which it holds an absolute advantage.



- The theory of absolute advantage destroys the mercantilist idea that international trade is a zero-sum game.



- According to the absolute advantage theory, international trade is a **positive-sum game**, because there are **gains** for both countries to an exchange.



- Unlike mercantilism this theory measures the nation's wealth by the living standards of its people and not by gold and silver.

Assumption of the theory



- Trade is between to Countries
- Only two commodities are trading
- Free trade existing between countries
- The only the element of cost of production



	<i>Bolt of Cloth</i>	<i>Barrel of Wine</i>
France	30	40
Germany	100	20

Exhibit 4.2

Example of Absolute Advantage (Labor Cost in Days of Production for One Ton)



- There is a potential problem with absolute advantage.
- If there is one country that does not have an absolute advantage in the production of any product, will there still be benefit to trade, and will trade even occur?
- The answer may be found in the extension of absolute advantage, the theory of comparative advantage.

Production Possibilities without Trade



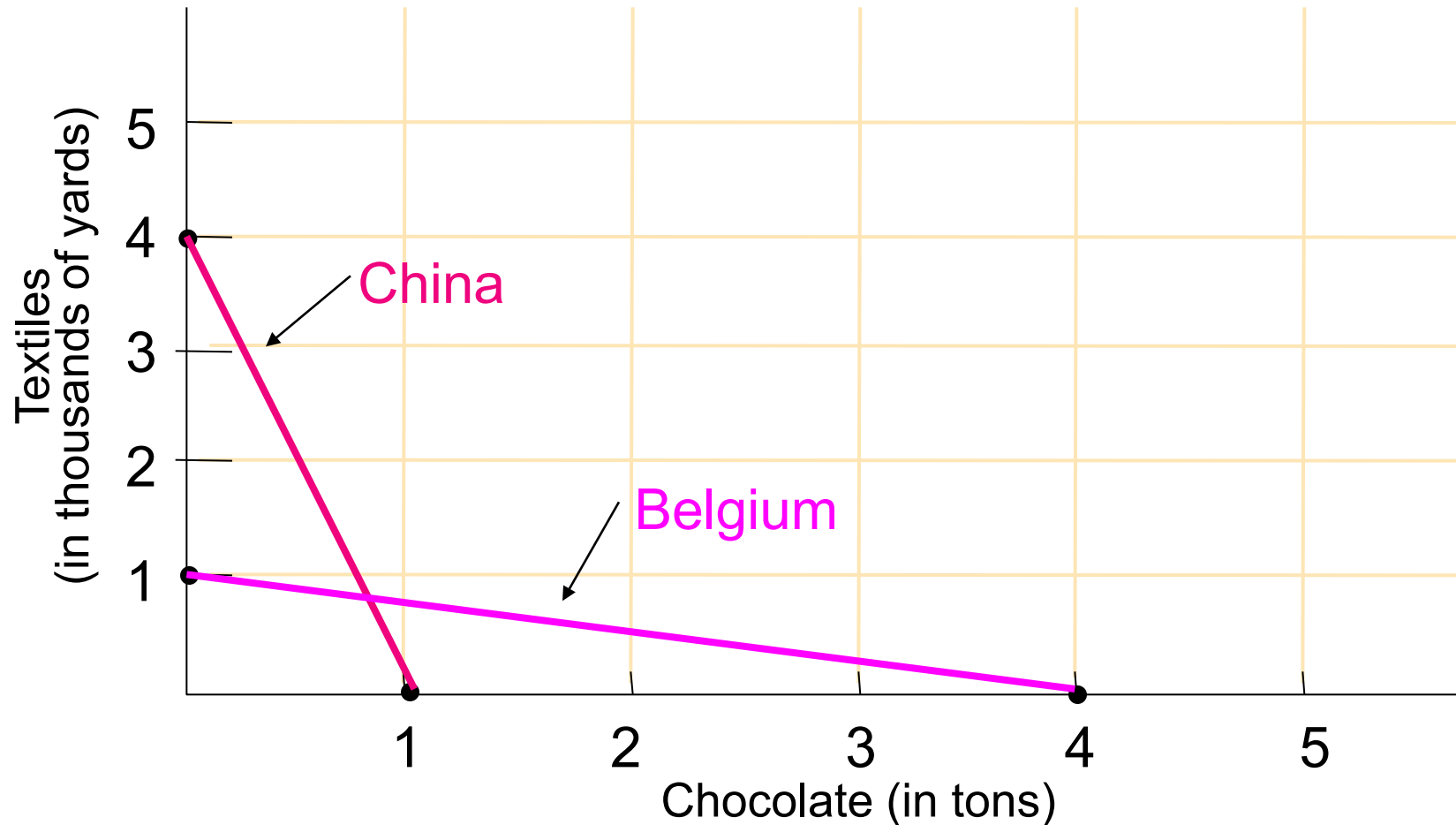
- China can produce 4,000 yards of textile per day or 1 ton of chocolate per day.
- Belgium can produce 1,000 yards of textile a day or 4 tons of chocolate per day.

Production Possibilities without Trade



- china has a absolute advantage in producing textiles.
- Belgium has a absolute advantage in chocolate.

Production Possibilities without Trade



Production Possibilities without Trade



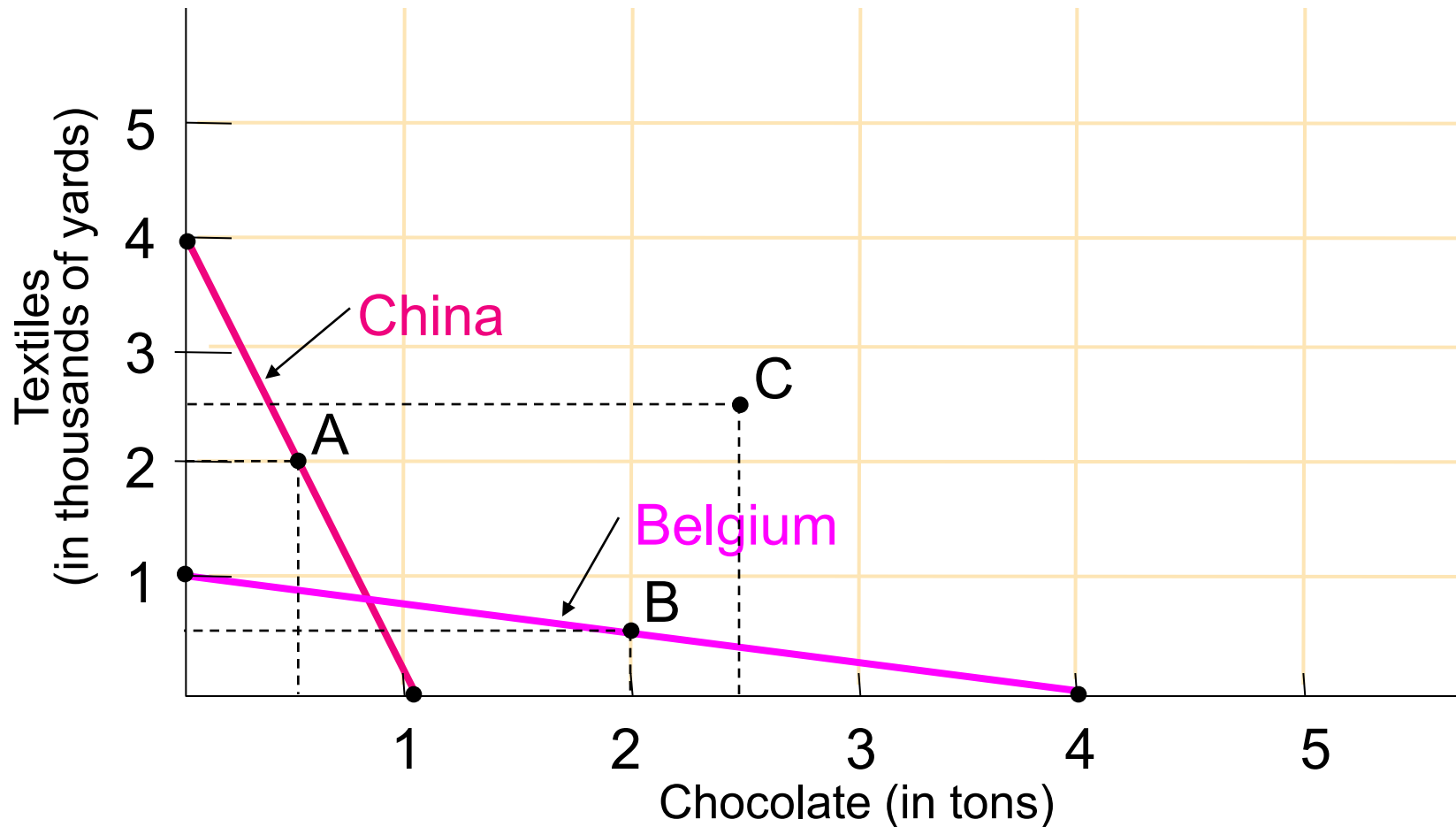
- china has chosen to produce 2,000 yards of textiles and 0.5 tons of chocolate.
- Belgium has chosen to produce 500 yards of textile and 2 tons of chocolate.

Production Possibilities without Trade



China and Belgium's Individual Possibilities		
	Textile per day	Chocolate per day
China	2,000 yards	0.5 ton
Belgium	500 yards	2 tons
Total	2,500 yards	2.5 tons

Production Possibilities without Trade



Production Possibilities without Trade



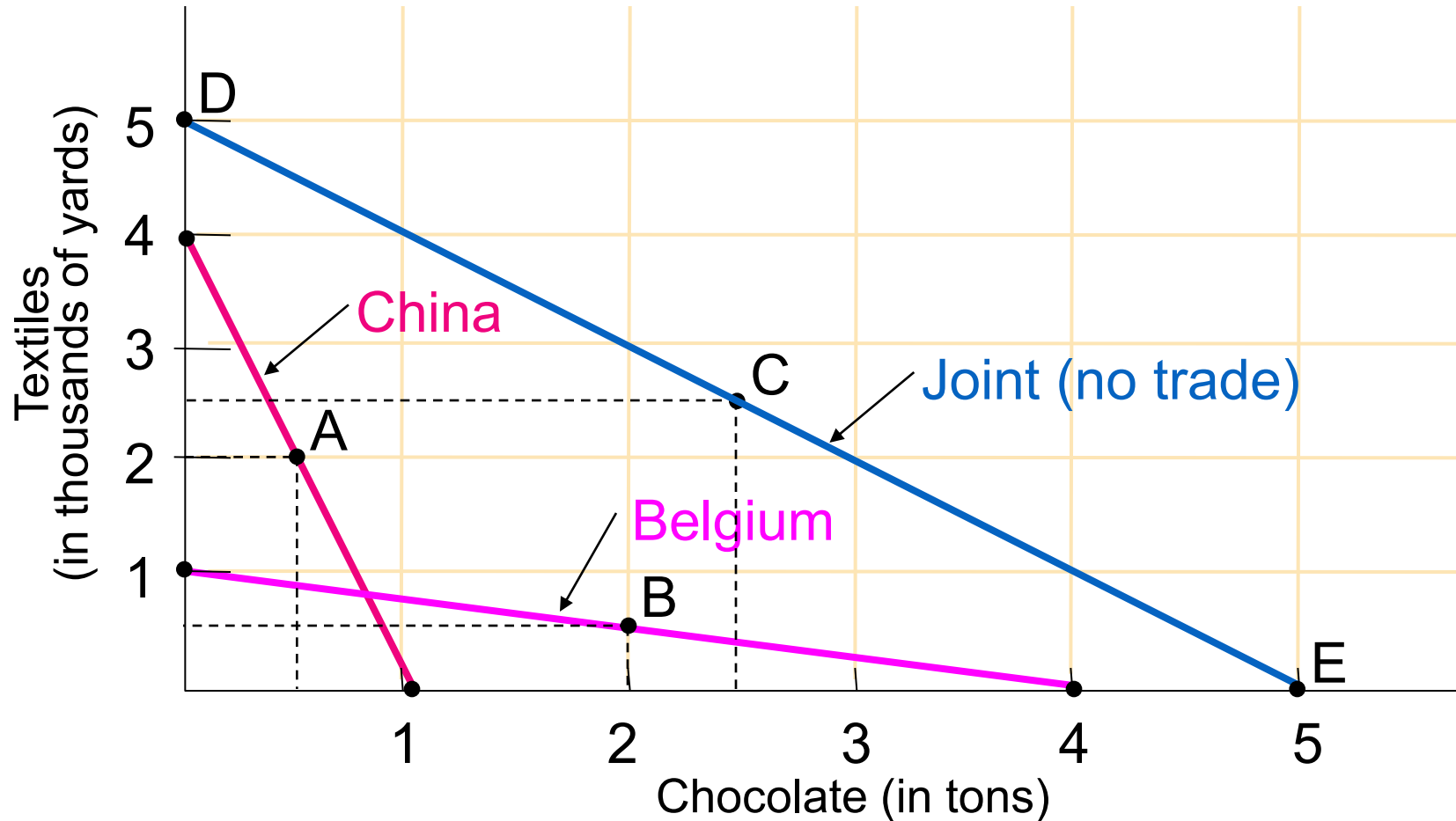
- **Point A:** The combination of textile and chocolate chosen by China.
 - **Point B:** The combination of textile and chocolate chosen by Belgium.
 - **Point C:** The joint combination without trade.

Production Possibilities without Trade



- The two extreme combinations are both countries producing only textile (point D) and both producing only chocolate (point E).
- The combined production possibilities curve with no trade is drawn by connecting these two points.

Production Possibilities without Trade



Production Possibilities with Trade



- This is where each nation is focusing on that activity for which it has a **comparative advantage**.
- China produces 4,000 yards of textile.
- Belgium produces 4 tons of chocolate.

Production Possibilities with Trade



	Combined Production Possibilities		
	No Trade	Specializing and Trade	Gains to Trade
Fabric	2,500 yards	4,000 yards	1,500 yards
Chocolate	2.5 Tons	4 tons	1.5 Tons

Criticism



- No absolute advantage
- Variety of resources
- Transport cost
- Absolute advantage for many products

Theory of Comparative Advantage



Comparative Advantage

- A nation having absolute disadvantages in the production of two goods with respect to another nation has a comparative or relative advantage in the production of the good in which its absolute disadvantage is less



Assumptions of the theory

- ❖ There is no trade barriers
- ❖ The only element of cost of production is labour.
- ❖ Trade is between two Countries
- ❖ Only two commodities are trading
- ❖ There is no transport cost
- ❖ Full employment

Theory of Comparative Advantage



	Japan	India
Pens	50	60
Audio System	6	2

Trade With the two countries



The trade agreement of the two countries one audio system for 17.5 pens

	Price without trade	Price with trade
Japan	1 audio system=10 pens($60/6=10$)	1 audio system=17.5 pens
India	1 audio system=25 pens($50/2=25$)	1 audio system=17.5 pens



Summing up

- Specialization leads to **higher production**
- Everyone has different Opportunity costs
- everyone has comparative advantage in something.
- It is comparative and **not** absolute advantage the basis for mutual gain.



Implication of trade theory

- Efficient allocation of **global resources**
- Maximization of **Global production** at the **least cost**.
- **Demand for resources and production** among world nation will be optimize.
- It is better for the countries to **specialize in those products**.
- It is better for the countries to buy other goods.

Criticism



- Two countries in the trade
- No transportation cost
- Two product
- Comparative advantage theory deals with products but not services.

product life cycle

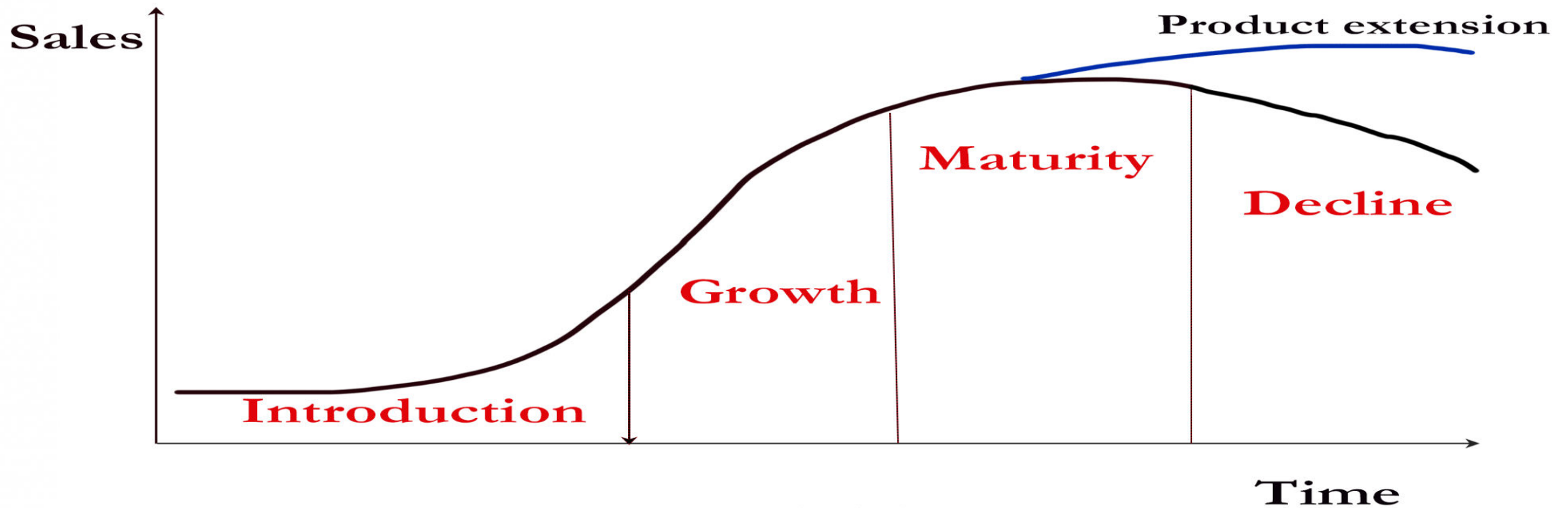


- The **product life cycle** is the process a **product** goes through from when it is first introduced into the market until it declines or is removed from the market.
- The **life cycle** has four stages - introduction, growth, maturity and decline

PRODUCT LIFE CYCLE



Product Life Cycle



Product Life Cycle Theory



- According to this theory the **international product life cycle consists of three stages:**

Stages in the International Product Life Cycle



New Product Stage



Maturing Product Stage



Standardized Product Stage



- **New product stage :**

- *Innovation introduced (usually in a developed country) in response to **local demand**.*

- *Limited export*



Maturing product:

- *Expanding in capacity to meet domestic and foreign demands.*
- *Domestic and foreign competitors emerge.*



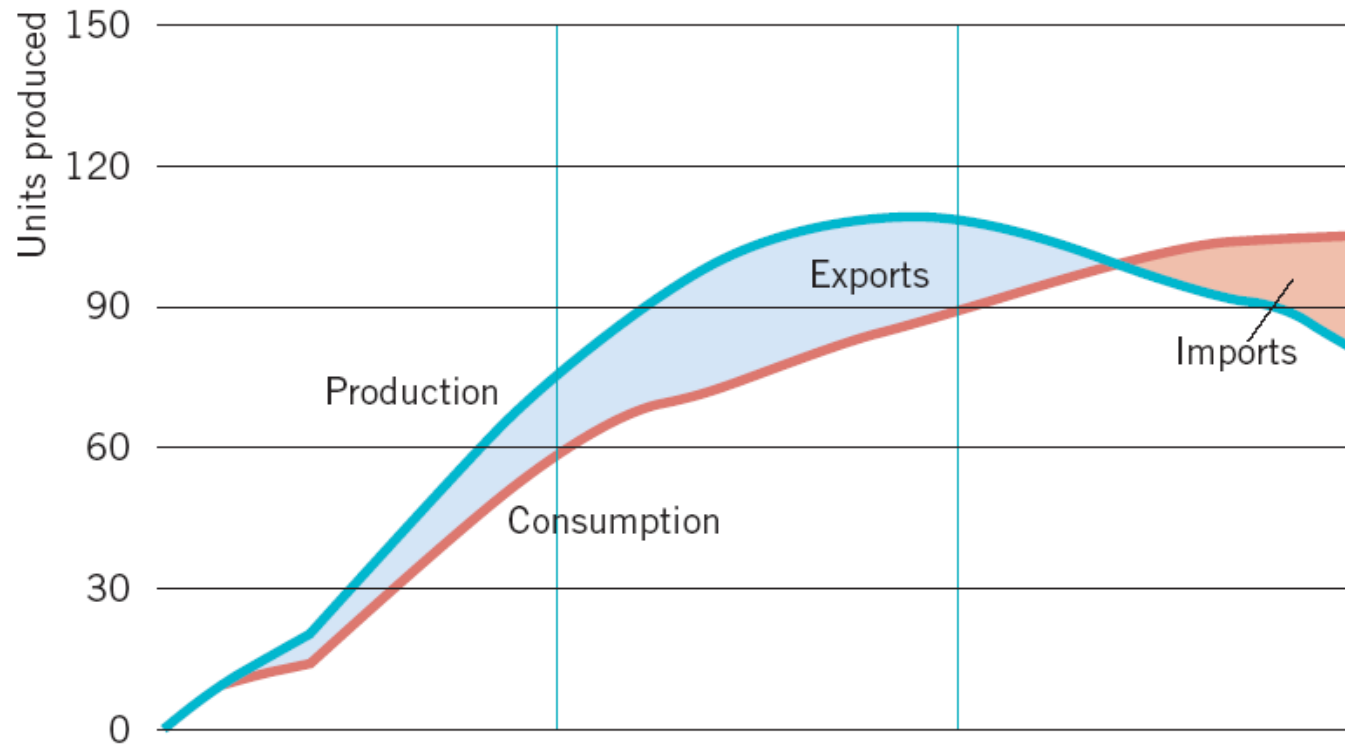
- **Standardized product:** *The market for the product stabilizes.*
- *Product becomes more of a commodity. **Shifting manufacturing to countries with low labor cost.***
- *The product now is being imported to the innovating country.*



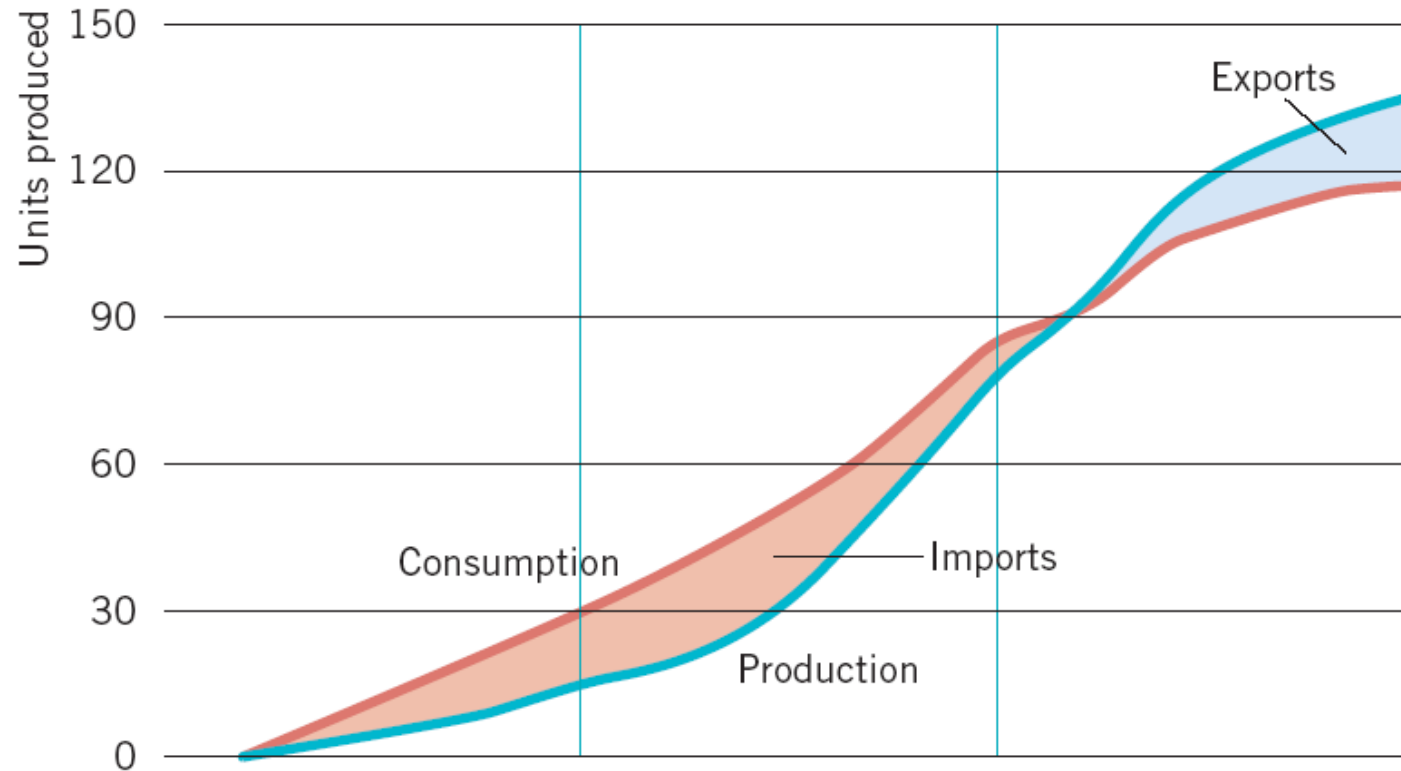
- *In summary*

- *domestic production in stage 1,*
- *peaks in stage 2,*
- *and falls in stage 3.*

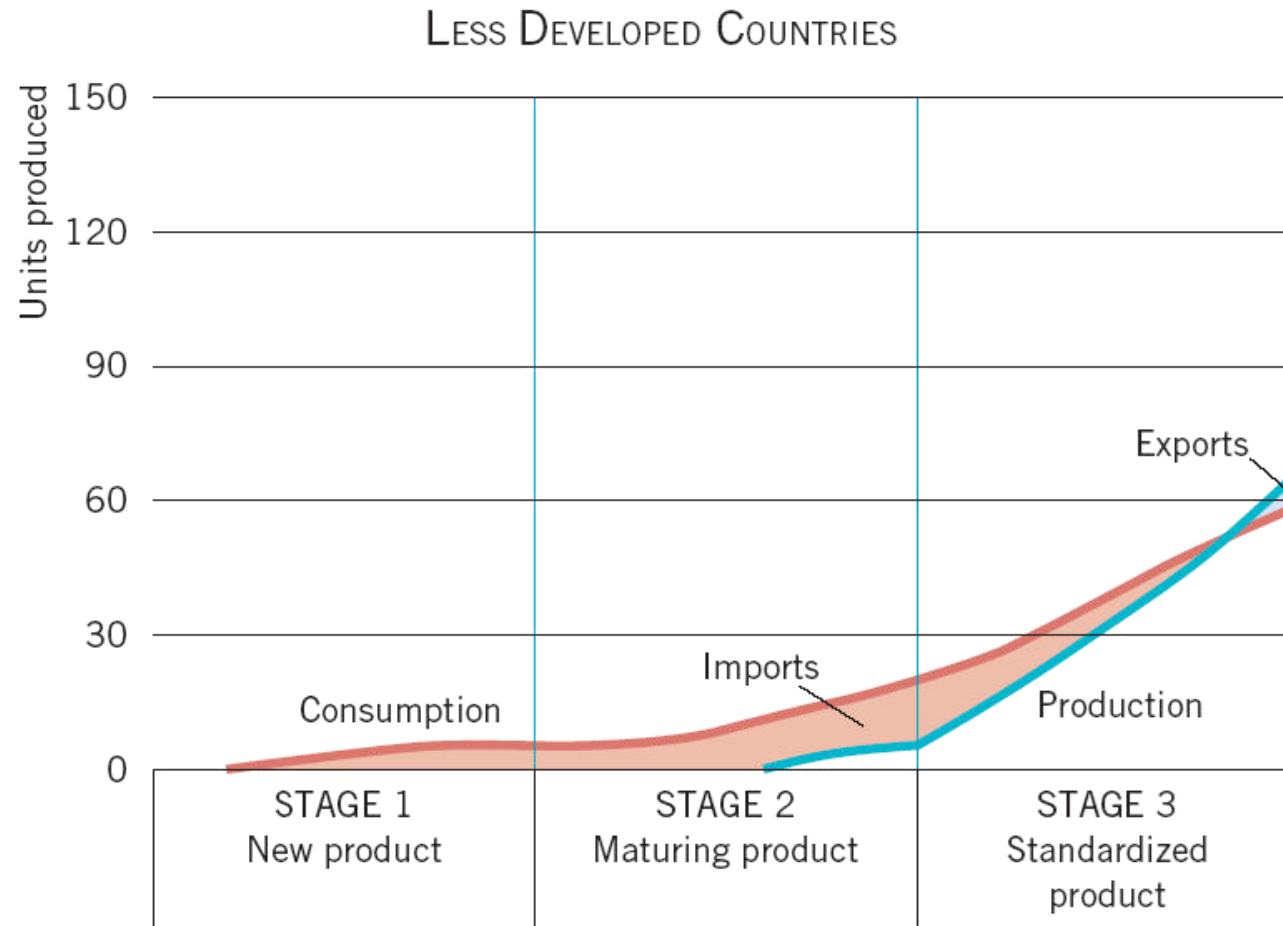
The International Product Life Cycle: Innovating Firm's Country



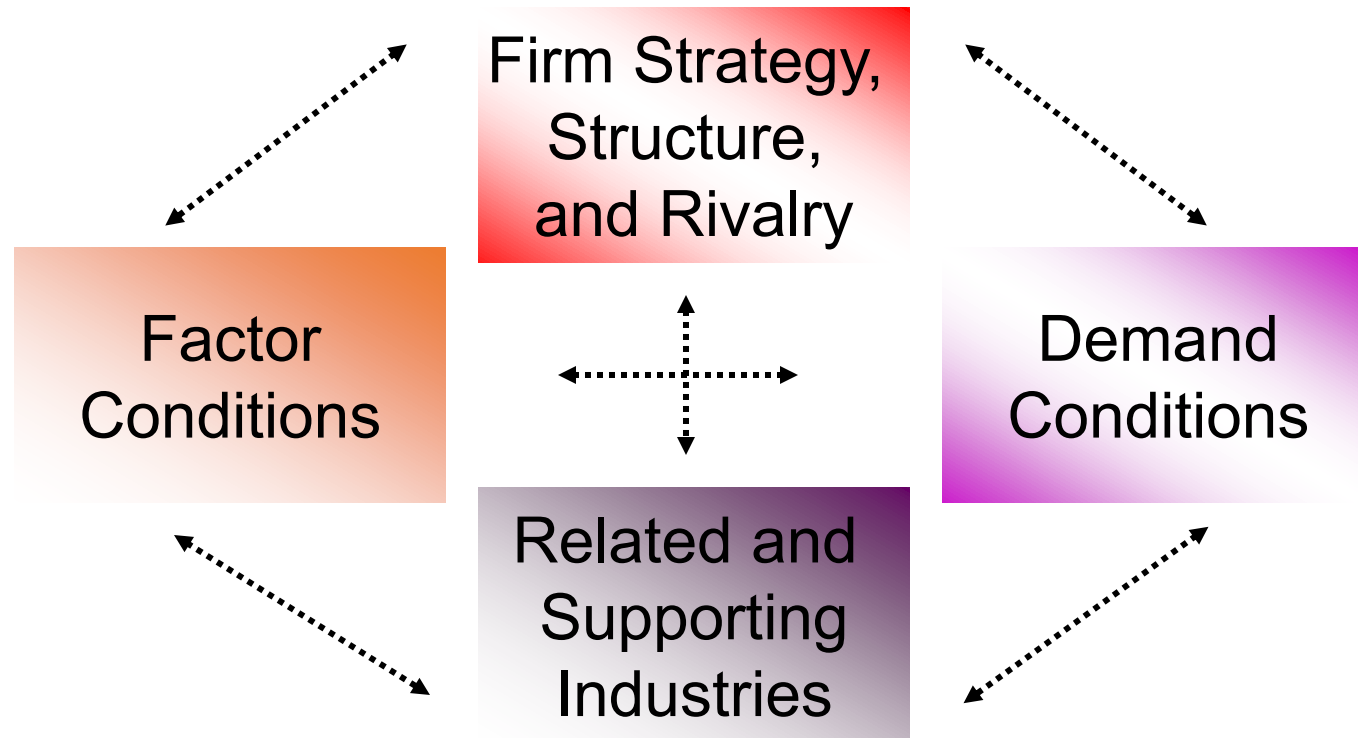
The International Product Life Cycle: Other Industrialized Countries



The International Product Life Cycle: Less Developed Countries



4- Porter's Diamond of National Competitive Advantage



Porter's



Success in international trade comes from 4 elements:

1) Factor's conditions: A country's endowment of factors of production affects its ability to compete internationally. labor, land, capital, education level, and infrastructure.



2) Demand Conditions: The existence of a large, sophisticated domestic consumer base often stimulates the development and distribution of innovative products as firms struggle for dominance in their domestic markets.



3) Related and Supporting Industries.

- The emergence of an industry often stimulates the development of local suppliers eager to meet that industry's production, marketing, and distribution needs.
- **An industry located close to its suppliers will enjoy better communication and the exchange of cost-saving ideas and inventions with those suppliers.**



- **Competition among these input suppliers leads to lower prices, higher-quality products, and technological innovations in the input market, in turn reinforcing the industry's competitive advantage in world markets.**



4) Firm Strategy, Structure, and Rivalry:

- ✓ The domestic environment in which firms compete shapes their ability to compete in international markets.
- ✓ To survive, firms facing vigorous competition domestically must continuously strive to reduce costs, boost product quality, raise productivity, and develop innovative products.



- Many of the investments they have made to succeed in the domestic market are transferable to international markets at low cost.

Heckscher-Ohlin Theory



- In the early 1900s an international trade theory called factor proportions theory emerged by two Swedish economists, Eli Heckscher and Bertil Ohlin.



- This theory is also called the Heckscher-Ohlin theory.
- The Heckscher-Ohlin theory stresses that countries should produce and export goods that require resources (factors) that are abundant and import goods that require resources in short supply.



- This theory differs from the theories of comparative advantage and absolute advantage
- since these theory **focuses on** the **productivity of the production process** for a particular good.

The Assumptions



- 1. There are two nations (1&2), two commodities (X&Y), two factors of production (labor & capital).**
- 2. Both nations use the same technology in production.**
- 3. Commodity X is labor intensive and Y is capital intensive in both nations.**
- 4. Both commodities are produced under constant returns to scale in both nations.**



- 5) There is incomplete specialization in production in both nations**
- 6) Tastes are equal in both nations.**
- 7) There is perfect competition in both commodities and factor markets in both nations.**
- 8) There is perfect factor mobility within each nation but no international factor mobility.**



- 9) There are no transportation costs, tariffs, or other obstructions to the free flow of international trade.**
- 10) All resources are fully employed in both nations**
- 11) International trade between the two nations is balanced.**

5.2 Assumptions of the Theory



A. The Assumptions

- 1) There are two nations (1&2), two commodities (X&Y), two factors of production (labor & capital).**
 - ✓ Used to illustrate the theory in a two-dimensional figure.

- 2) Both nations use the same technology in production.**
 - ✓ Means both nations have access to and use the same general production techniques.



3) Commodity X is labor intensive and Y is capital intensive in both nations.

- ✓ Means the labor-capital ratio (L/K) is higher for X than Y in both nations at the same relative factor prices.



4) Both commodities are produced under constant returns to scale in both nations.

- ✓ Means that increasing the amount of L and K will increase output in the same proportion



5) There is incomplete specialization in production in both nations.

- ✓ Means that even with free trade both nations continue to produce both commodities. This implies neither nation is very small.



6) **Tastes are equal in both nations.**

- ✓ Means demand preferences are identical in both nations.
When relative prices are equal in the two nations, both consume X&Y in the same proportion.



7) There is perfect competition in both commodities and factor markets in both nations.

- ✓ Means that producers, consumers, and traders of X&Y in both nations are each too small to affect prices of commodities. Also, in the L-R commodity prices equal their costs, leaving no economic profit.



8) There is perfect factor mobility within each nation but no international factor mobility.

- ✓ Means K&L are free to move from areas and industries of lower earnings to those of higher earnings until earnings are the same in all areas, uses and industries of the nation. International differences in earnings persist due to zero international factor mobility in the absence of international trade.



9) There are no transportation costs, tariffs, or other obstructions to the free flow of international trade.

- ✓ Means specialization in production proceeds until relative (and absolute) commodity prices are the same in both nations with trade. If transportation costs and tariffs were allowed, specialization would proceed only until prices differed by no more than the costs and tariffs on each unit of the commodity traded.



10) All resources are fully employed in both nations.

- ✓ Means there are no unemployed resources in either nation.

11) International trade between the two nations is balanced.

- ✓ Means that the total value of each nation's exports equals the total value of the nation's imports.





Foreign Investment

When money will flow from one country to another country then it is called Foreign Investment.



Foreign investment



Foreign investment can be classified in two types

1. Foreign Direct Investment(FDI)

- Wholly owned Subsidiary(Contributory)
- Joint venture
- Acquisition

2. Portfolio Investment

- Foreign Institutional Investors (FII)
- Investment in GDRs, ADRs, FCCBs, etc.

(Global Depository Receipts(GDRs), American Depository Receipts(ADRs) and Foreign Currency Convertible Bonds(FCCBs))



F
Foreign

D
Direct

I
Investment

FDI



- FDI refers to **investment in a foreign country** where the investor retains control over the investment.
- It typically takes the **form of starting a subsidiary**, acquiring a stake in an existing firm or **starting a joint venture** in the foreign country.
- Direct investment and management of the firms concerned normally go together.



- FDI is **governed by long term considerations** because these investments cannot be easily liquidated.
- Hence **factors like long term political stability, government policy, industrial and economic prospects etc.**
- Influence the FDI decision.





What is a Portfolio Investment?

A portfolio investment is a passive investment in securities, nothing of which entails active management or control of the securities' issuer by the investor.



portfolio investment



- If the investor has only a sort of property interest in investing the capital in buying equities, bonds, or other securities abroad, it is referred to as **portfolio investment**.
- That is, in the case of portfolio investments, the investor uses his capital in order to get a return on it, but has not much control over the use of the capital.

portfolio investment



Foreign Institutional Investors(FIIs):

- portfolio investment, which can be liquidated fairly easily, are influenced by short term gains. Portfolio investment are generally much more sensitive than FDIs.
- Direct investors have direct responsibility with the promotion and management of the enterprise.
- Portfolio investors do not have such direct involvement with the promotion and management.



- There are mainly two routes of portfolio investments in India,
- By **Foreign Institutional Investors**(FIIs) like mutual funds and through **Global Depository Receipts**(GDRs), **American Depository Receipts**(ADRs) and **Foreign Currency Convertible Bonds**(FCCBs).

Trends in FDI



- ✓ Flow and stock increased in the last 20 years
- ✓ In spite of decline of trade barriers, FDI has grown more rapidly than world trade because
 - ✓ Businesses fear protectionist pressures
 - ✓ FDI is seen a way of circumventing trade barriers
 - ✓ Dramatic political and economic changes in many parts of the world
 - ✓ Globalization of the world economy has raised the vision of firms who now see the entire world as their market

FDI: Definition



- What is FDI?
 - FDI occurs when a firm invests directly in facilities to produce and/or market a product in a foreign country



- **Examples:**

- Motorola sets up a plant in China to manufacture cell phones
- Starbuck purchases an existing UK firm, “British Coffee,” to sell coffee, tea and desserts in the UK



- Volkswagen and two Chinese joint venture partners Shanghai Automotive Industry Corporation (SAIC) and First Automotive Works (FAW) open their newly built gearbox plant in Shanghai "Volkswagen Transmission (Shanghai) Co. Ltd"



Alternatives to FDI

- Licensing
- Direct Export

FDI: Forms



- **Acquisitions**

- Purchase an existing company in the foreign country

- **Greenfield Investments**

- Set up a new company “from the ground up” in the foreign country



- **Examples:**

- Motorola invests money in China and builds a new plant to produce cell phones
- Starbucks purchases an existing UK firm “British Coffee” and sells coffee/tea/desserts under the name “Starbucks”

FDI: Forms (II)



Wholly Owned Subsidiary

- Occurs when the company in the foreign country is **entirely controlled/owned by** one single company.



• Joint Ventures

- ✓ when two or more companies together form a new company in the host country



- ✓ In the international context, usually occurs when one (or more) foreign company and one (or more) local company join to form a new company
 - ✓ Volks wagon + Shanghai Automotive Industry Corporation (SAIC) + First Automotive Works (FAW)

FDI: Horizontal vs. Vertical



- **Horizontal**

- Investment in the “same” industry as a firm operates in at home

- **Examples:**

- Starbucks and its international expansion
- MacDonald’s and its international expansion



- **Vertical**

- **Investment in a downstream supplier (backward) or upstream purchaser (forward) as compared to the business that the firm operates in its home country**



Examples:

- **Backward:** Volkswagon + SAIC + FAW to produce gearbox (an input to Volkswagen's home operation)
- **Forward:** Volkswagen's acquisitions of dealers in the US (Volkswagen "sold" cars to the dealers in the US. I.e., Volkswagen sold the output of its home country operations to the US dealers that it acquired)

Why Horizontal FDI?



- Transportation Costs
- Market Imperfections
 - **Barrier to exporting**
 - **Barrier to Sale of Know-How**
- Strategic Behavior
- Product Life Cycle
- Location Specific Advantages

Why Vertical FDI?



- Strategic Behavior
- Market Imperfections
 - Barrier to Know-How
 - Investment in Specialized Assets



FDI IN INDIA



ADVANTAGES INDIA HAS TO OFFER

- **Stable democratic environment over 60 years of independence**
- **Large and growing market**
- **World class scientific, technical and managerial manpower**
- **Cost-effective and skilled labour**
- **Abundance of natural resources**
- **Large English speaking population**
- **Well-established legal system with independent judiciary**
- **Developed banking system and vibrant capital market**
- **Well developed accountancy, legal, actuarial and consultancy profession**





ADVANTAGES INDIA HAS TO OFFER FDI

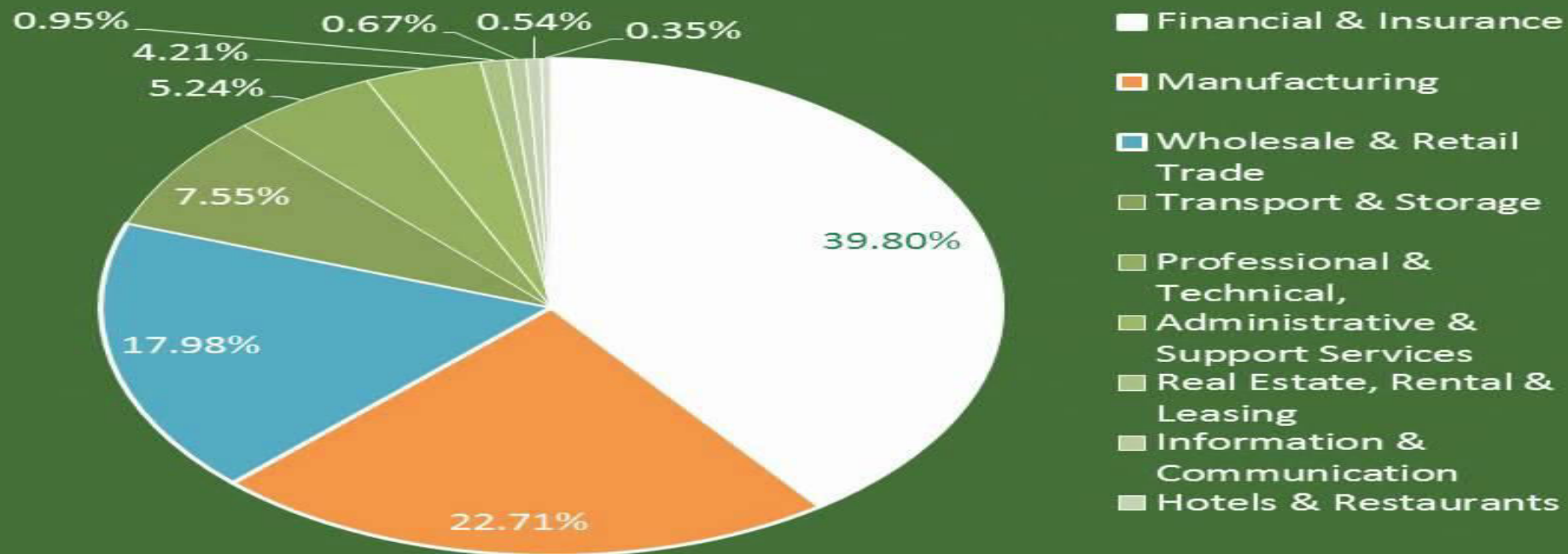
- Stable democratic environment over 60 years of independence
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- Abundance of natural resources
- Large English speaking population
- Well-established legal system with independent judiciary
- Developed banking system and vibrant capital market
- Well developed accountancy, legal, actuarial and consultancy profession



Inward foreign direct investment policies Priority sector policies





Smart Decisions. Lasting Value.

Foreign Direct Investment Policy

Foreign Direct Investment Policy



FDI limits – Illustrative list

Automatic Route (Illustrative)	Prior Approval (Illustrative)	Negative List (Illustrative)
- NBFC (minimum capitalization norms) - IT / ITes - Financial services^(a) - Telecom Sector (74% cap)^(a) - Insurance (26 % cap)^(a) - Real Estate^(a) - Special Economic Zones - Infrastructure - Shipping - Manufacturing sector - Hotels and tourism 	- Existing Airports 100% - Asset Reconstruction Companies 49% - Titanium Minerals 100% - Broadcasting ^(a) - Cigars & Cigarettes 100% - Courier 100% - Print Media ^(a) - Single brand retailing 	- Agriculture ^(b) - Atomic energy - Retail trading (except single brand up to 51%) - Lottery, betting and gambling - Chit fund, Nidhi company - Trading in Transferable Development Right 

Note: (a) Sector specific guidelines exceptions

(b) Subject to certain

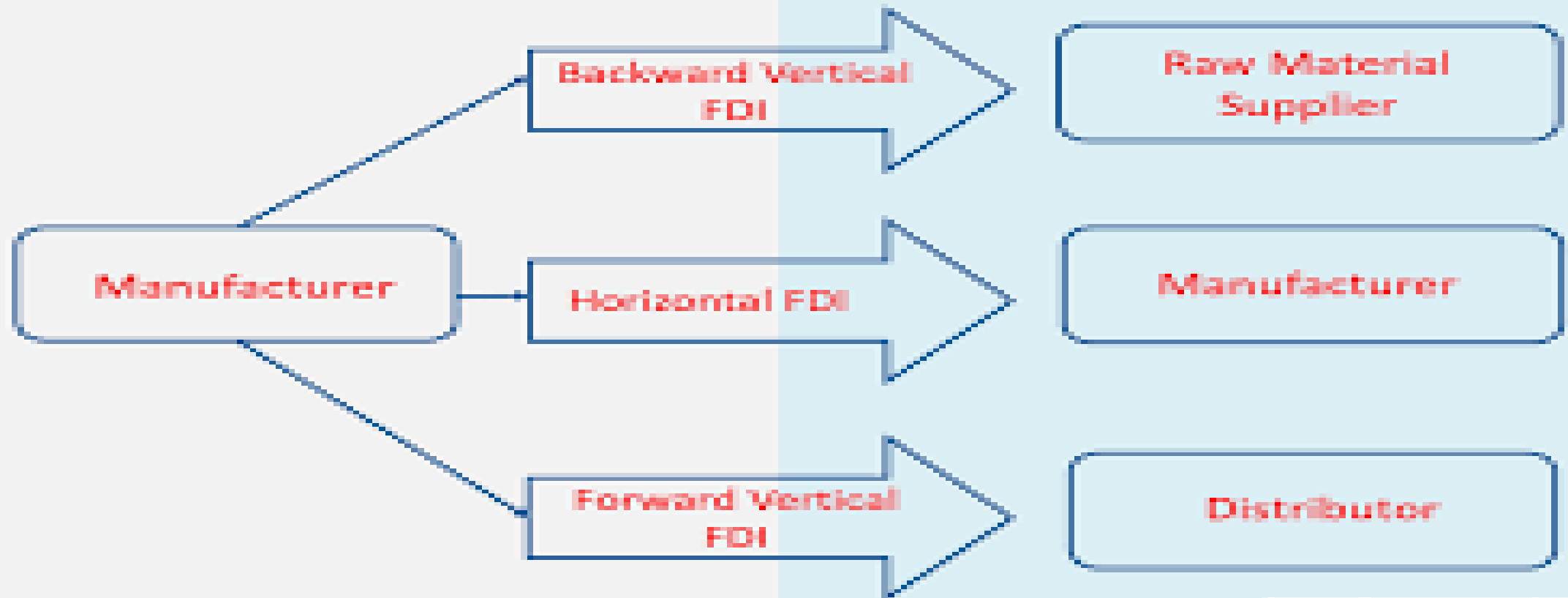




Foreign Direct Investment (FDI)

Home Country

Host Country



Host Country Benefits



The main benefits of inward FDI for a host country are

- 1. The resource transfer effect**
- 2. The employment effect**
- 3. The balance of payments effect**
- 4. Effects on competition and economic growth**

Host Country Benefits



1. Resource Transfer Effects

- FDI can bring capital, technology, and management resources that would otherwise not be available

2. Employment Effects

- FDI can bring jobs that would otherwise not be created there

Cont..



3. Balance-of-Payments Effects

- A country's **balance-of-payments account** is a record of a country's payments to and receipts from other countries
- The **current account** is a record of a country's export and import of goods and services
 - a current account surplus is usually favored over a deficit

Cont....



- FDI can help achieve a current account surplus
 - if the FDI is a substitute for imports of goods and services
 - if the MNE uses a foreign subsidiary to export goods and services to other countries



4. Effect on Competition and Economic Growth

- FDI in the form of green field investment
 - increases the level of competition in a market
 - drives down prices
 - improves the welfare of consumers
- Increased competition can lead to
 - increased productivity growth
 - product and process innovation
 - greater economic growth

Home Country Benefits



- **The benefits of FDI to the home country include**
 1. The effect on the capital account of the home country's balance of payments from the inward flow of foreign earnings
 2. The employment effects that arise from outward FDI
 3. The gains from learning valuable skills from foreign markets that can subsequently be transferred back to the home country



- **Foreign Direct Investment and its Roles in Economic Development**

- <https://www.youtube.com/watch?v=HSDj-apqFgQ>



FOREIGN INSTITUTIONAL INVESTORS

What are Foreign Investors looking for?

- Good projects
- Demand Potential
- Revenue Potential
- Stable Policy Environment/Political Commitment
- Optimal Risk Allocation Framework

Factors affecting foreign investment

- Rate of interest
- Speculation
- Profitability
- Costs of production
- Economic conditions
- Government policies
- Political factors



Foreign Institutional Investors



- FIIs can individually purchase upto 10% and collectively upto 24% of the paid-up share capital of an Indian company
- This limit of 24% can be increased to sectoral cap/ statutory limit applicable to the Indian company by passing a board resolution/shareholder resolution



- **FII's can purchase shares through open offers/private placement/stock exchange**
- **Shares purchased by FII through stock exchange cannot be sold through a private arrangement**



- **Proprietary funds, foreign individuals and foreign corporate can register as a sub- account and invest through the FII. Separate limits of 10% / 5% is available for the sub-accounts**
- **FIs can raise money through participatory notes or offshore derivative instruments for investment in the underlying Indian securities**



- **FII's in addition to investment under the FII route can invest under FDI route**



FDI INDIA

Foreign Direct Investment **vs** Foreign Institutional Investor



FDI

(Foreign Direct Investment)



FII

(Foreign Institutional Investor)

www.fdi.finance

Distinction between FDI and FII



FDI

- 1. It is long-term investment**
- 2. Investment in physical assets**
- 3. Aim is to increase enterprise capacity or productivity or change management control**
- 4. Leads to technology transfer, access to markets and management inputs**
- 5. FDI flows into the primary market**
- 6. Entry and exit is relatively difficult**
- 7. FDI is eligible for profits of the company**
- 8. Does not tend to be speculative**
- 9. Direct impact on employment of labour and wages**

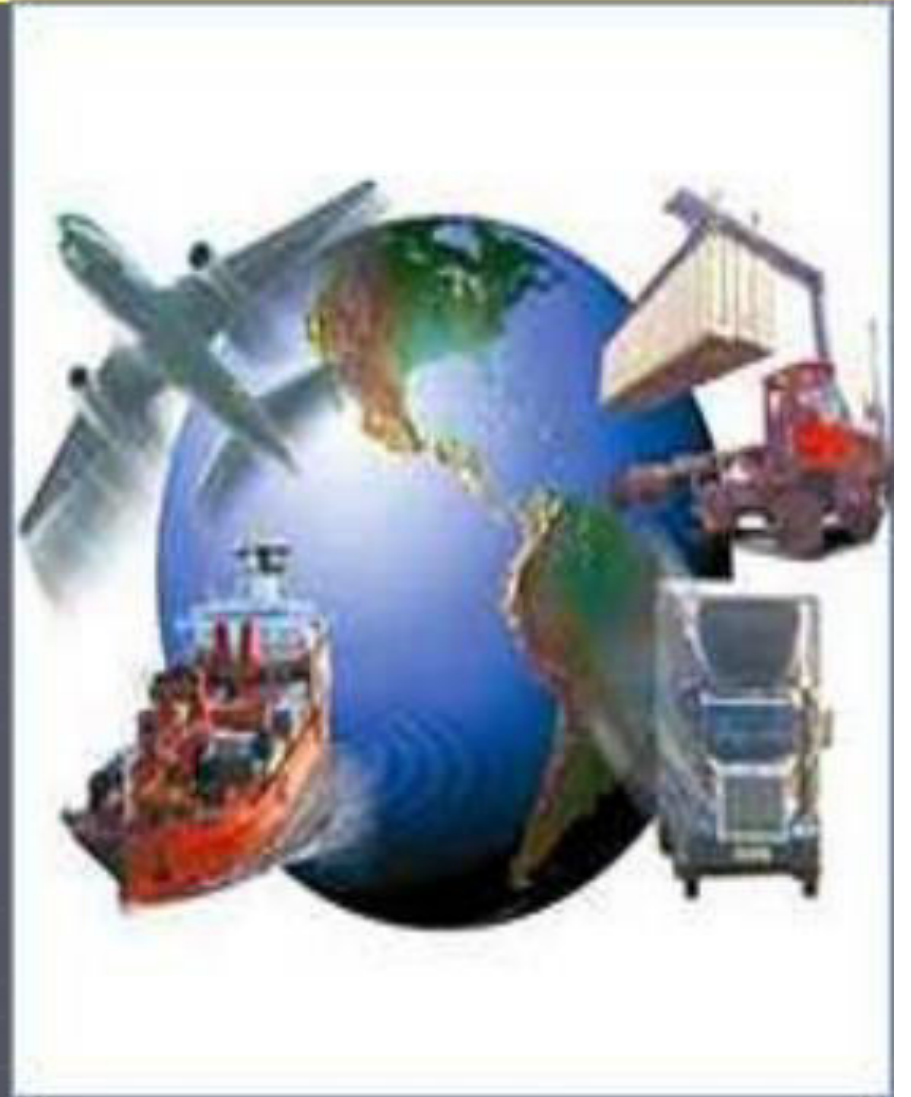
FII

- 1. It is generally short-term investment**
- 2. Investment in financial assets**
- 3. Aim is to increase capital availability**
- 4. FII results in only capital inflows**
- 5. FII flows into the secondary market**
- 6. Entry and exit is relatively easy**
- 7. FII is eligible for capital gain**
- 8. Tends to be speculative**
- 9. No direct impact on employment of labour and wages**



WHY EXPORT ???

- ▶ TO EARN FOREIGN CURRENCY
- ▶ TO BECOME GLOBAL BRAND
- ▶ To INCREASE PROFITABILITY
- ▶ TO UTILISE PRODUCTION CAPACITY TO FULL
- ▶ TO DEVELOP A COMPANY'S STRENGTHS AND ABILITIES
- ▶ TO EXPAND SALES
- ▶ TO ACQUIRE RESOURCES
- ▶ TO DIVERSIFY SOURCES TO SALE
- ▶ TO DIVERSIFY SOURCES OF SUPPLY



The Trade Relationship

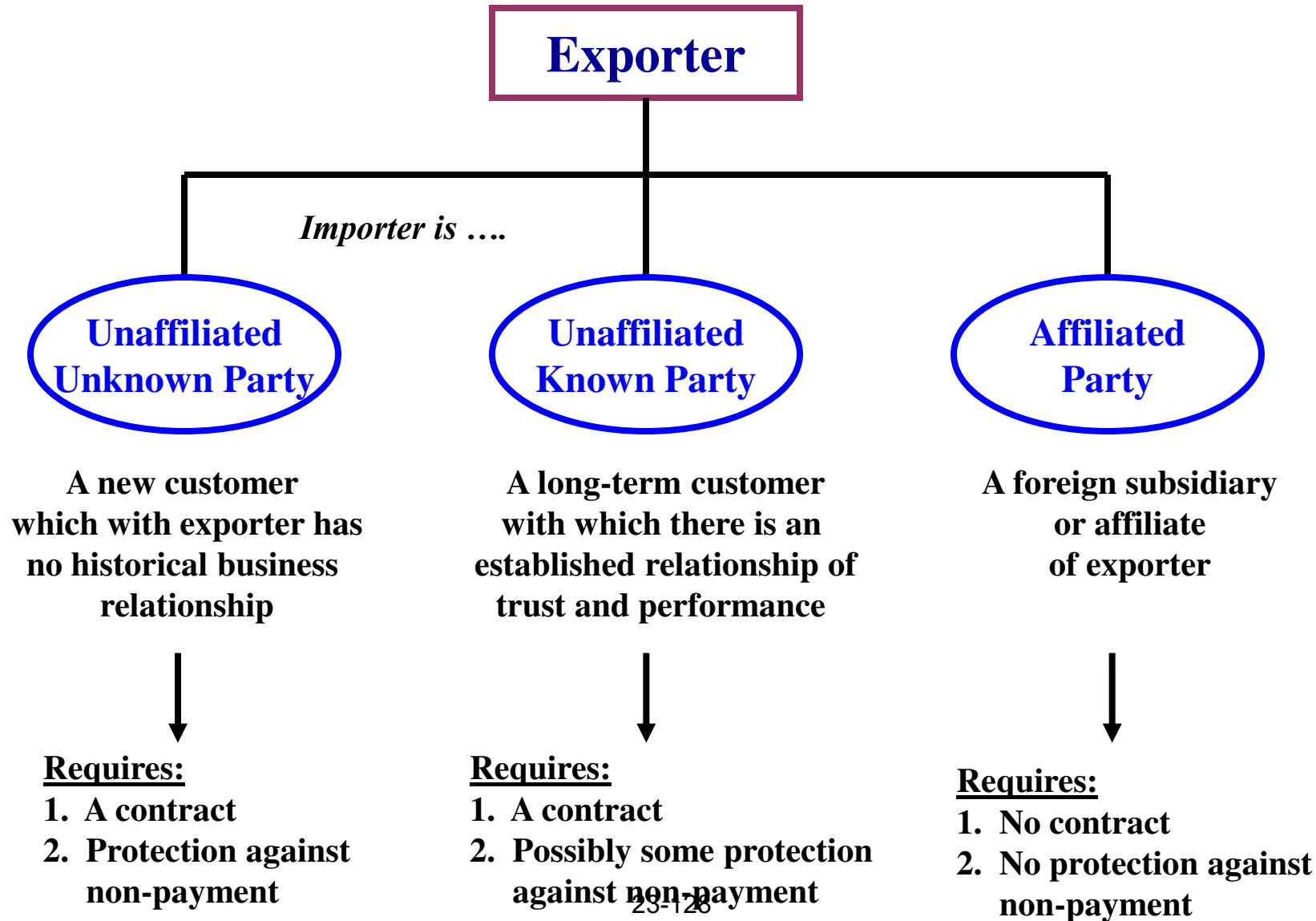


- The nature of the relationship between the exporter and the importer is critical to understanding the methods for import-export financing utilized in industry.
- There are three categories of relationships (see next exhibit):
 - Unaffiliated unknown
 - Unaffiliated known
 - Affiliated (sometimes referred to as *intra-firm trade*)



- The composition of global trade has changed dramatically over the past few decades, moving from transactions between unaffiliated parties to affiliated transactions.

International Trade Relationships



The Trade Dilemma



- International trade (i.e. between and importer and exporter) must work around a fundamental dilemma:
 - They live far apart
 - They speak different languages
 - They operate in different political environments
 - They have different religions
 - They have different standards for honoring obligations



- In essence, there could be distrust, and clearly the importer and exporter would prefer two different arrangements for payment/goods transfer (next exhibit)

The Mechanics of Import and Export

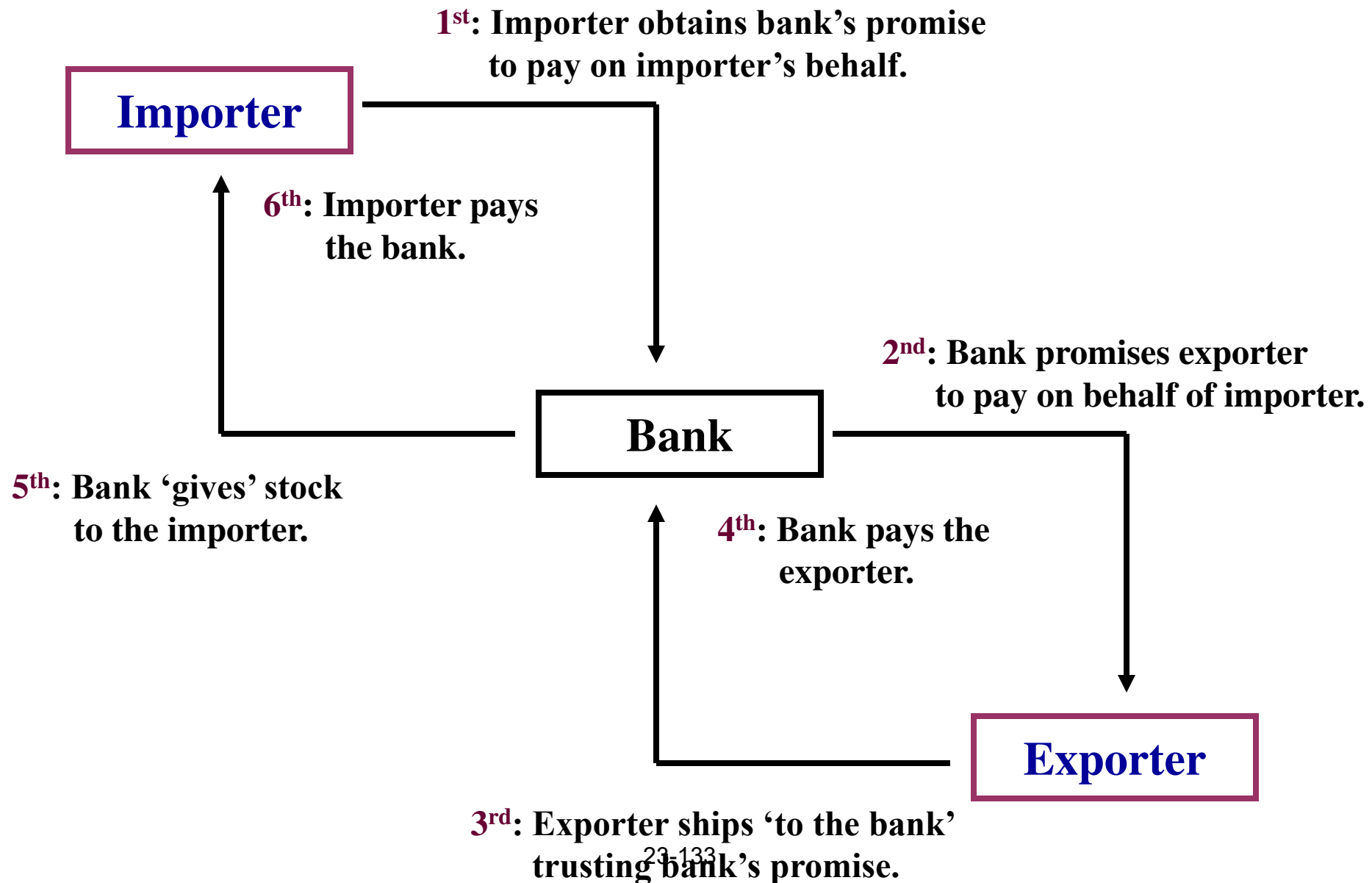


The Trade Dilemma



- The fundamental dilemma of being unwilling to trust a stranger in a foreign land is solved by using a highly respected bank as an intermediary.
- The following exhibit is a simplified view involving a ***letter of credit*** (a bank's promise to pay) on behalf of the importer.
- Two other significant documents are an ***order bill of lading*** and a ***sight draft***.

The Bank as the Import/Export Intermediary





- **EXPORT IMPORT PROCEDURES**

- <https://www.youtube.com/watch?v=rJ7Hlf-cOpo>

Benefits of the System



- The system (including the three documents discussed) has been developed and modified over centuries to protect both importer and exporter from:
 - The risk of no completion
 - Foreign exchange risk
 - To provide a means of financing

Elements of an Import/Export Transaction



- Each individual trade transaction must cover three basic elements:

1. Description of goods,

2. Prices, and

3. Documents regarding shipping and delivery instructions.



➤ Contracts:

- An import or export transaction is by definition a contractual exchange between parties in two countries that may have **different legal systems, currencies, languages, religions or units of measure**
- All contracts should include definitions and specifications for **the quality, grade, quantity, and price of the goods** in question

Elements of an Import/Export Transaction



- Prices:

- Price quotations can be a major source of confusion
- Price terms in the contract should conform to published catalogs, specify whether quantity discounts or early payment discounts are in effect, and state whether finance charges are relevant in the case of deferred payment, and should address other relevant fees or charges

Elements of an Import/Export Transaction

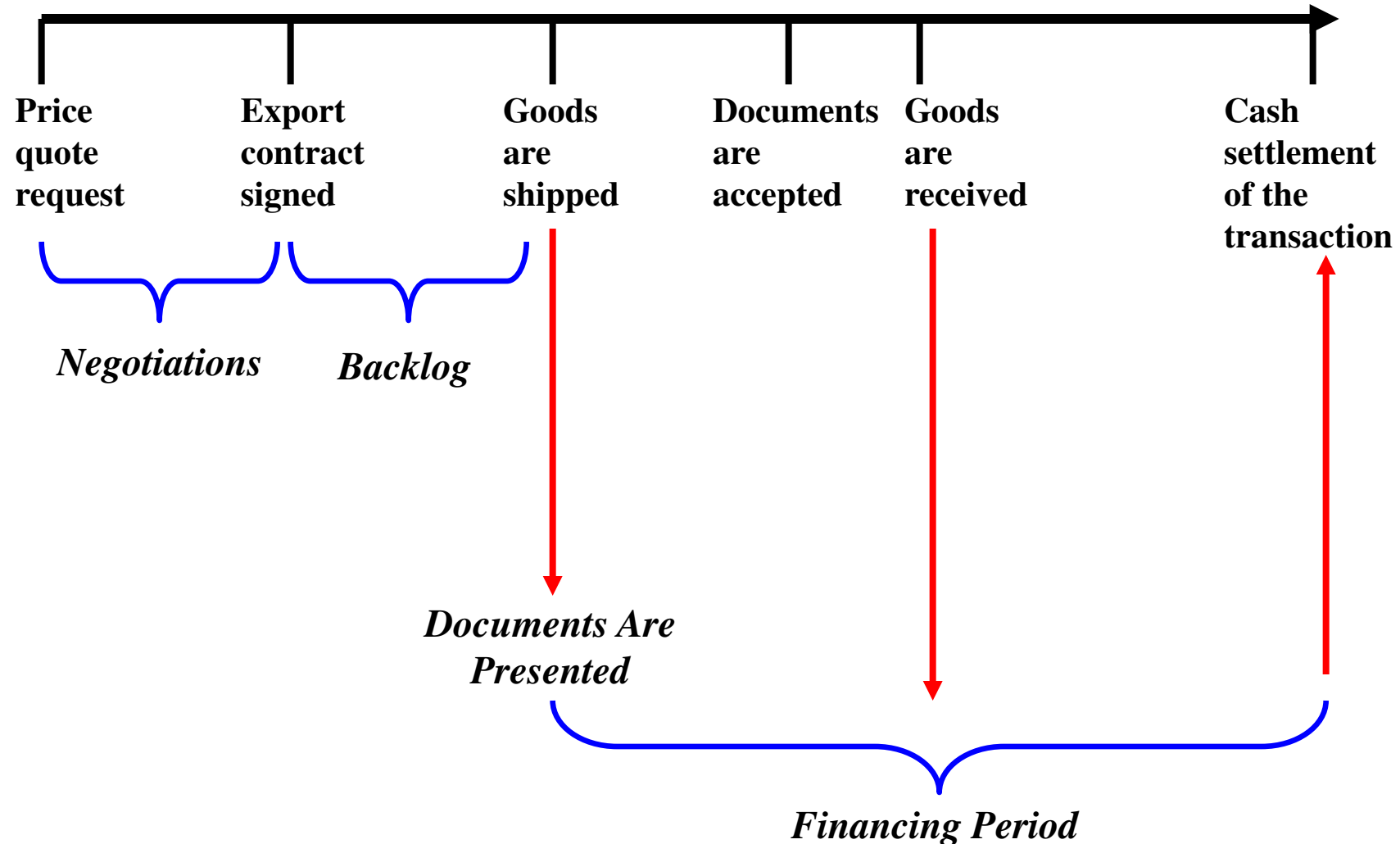


- Documents:
 - **Bill of lading** – issued to the exporter by a common carrier transporting the merchandise
 - **Commercial invoice** – issued by the exporter and contains a specific description of the merchandise (also indicates unit prices, financial terms of the sale etc.)
 - **Insurance documents** – specified in the contract of sale and issued by insurance companies (or their agents)
 - **Consular invoices** – issued in the exporting country by the embassy of the importing country
 - **Packing lists**

The Trade Transaction Time-Line and Structure



Time and Events

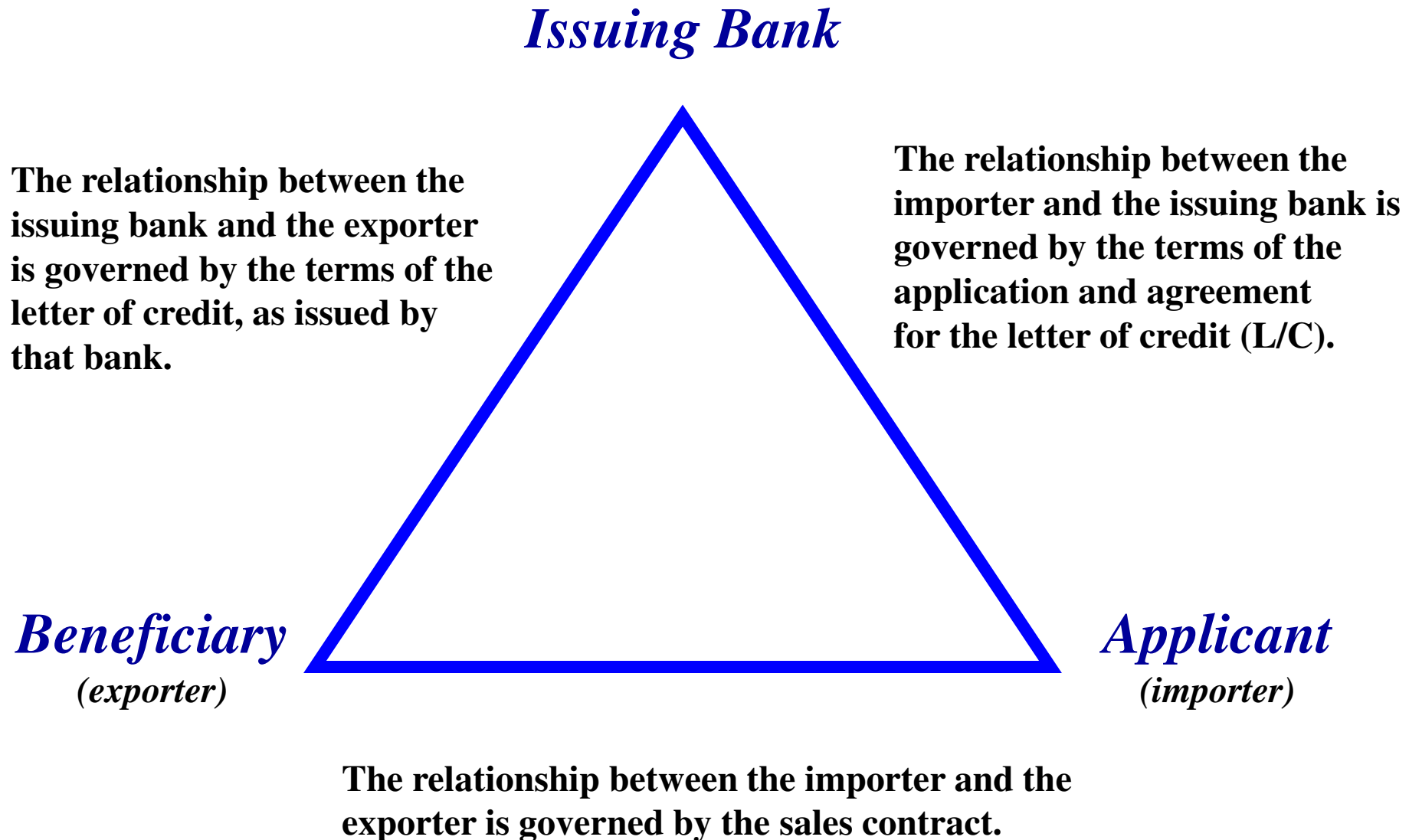


Letter of Credit (L/C)



- A *letter of credit* (L/C) is a bank's conditional promise to pay issued by a bank at the request of an importer, in which the bank promises to pay an exporter upon presentation of documents specified in the L/C.
- An L/C reduces the risk of non completion because the bank agrees to pay against documents rather than actual merchandise.
- The following exhibit shows the relationship between the three parties.

Parties to a Letter of Credit (L/C)



Letter of Credit (L/C)



- The essence of the L/C is the promise of the issuing bank to pay against specified documents, which must accompany any draft drawn against the credit.



- To constitute a true L/C transaction, all of the following five elements must be present with respect to the issuing bank:
 - Must receive a fee or other valid business consideration for issuing the L/C
 - The L/C must contain a specified ending date or definite maturity
 - The bank's commitment must have a stated maximum amount of money
 - The bank's obligation to pay must arise only on the presentation of specific documents
 - The bank's customer must have an unqualified obligation to reimburse the bank on the same condition as the bank has paid

Essence of a Letter of Credit (L/C)



Bank of the East, Ltd.

[Name of Issuing Bank]

Date: September 18, 2014

L/C Number 123456

Bank of the East, Ltd. hereby issues this irrevocable documentary Letter of Credit to Jones Company [*name of exporter*] for US\$500,000, payable 90 days after sight by a draft drawn against Bank of the East, Ltd., in accordance with Letter of Credit number 123456.

The draft is to be accompanied by the following documents:

1. Commercial invoice in triplicate
2. Packing list
3. Clean on board order bill of lading (*Consular invoices*)
4. Insurance documents, paid for by buyer

At maturity Bank of the East, Ltd. will pay the face amount of the draft to the bearer of that draft.

Authorized Signature

Draft



- A *draft*, sometimes called a *bill of exchange* (B/E), is the instrument normally used in international commerce to effect payment.
- A draft is simply an order written by an exporter (seller) instructing and importer (buyer) or its agent to pay a specified amount of money at a specified time.



- The person or business initiating the draft is known as the *maker, drawer, or originator*.
- Normally this is the exporter who sells and ships the merchandise.
- The party to whom the draft is addressed is the *drawee*.

Draft



- If properly drawn, drafts can become *negotiable instruments*.
- As such, they provide a convenient instrument for financing the international movement of merchandise (freely bought and sold).



- To become a negotiable instrument, a draft must conform to the following four requirements:
 - It must be in writing and signed by the maker or drawer
 - It must contain an unconditional promise or order to pay a definite sum of money
 - It must be payable on demand or at a fixed or determinable future date
 - It must be payable to order or to bearer
- There are *time* drafts and *sight* drafts.

Essence of a Time Draft



Name of Exporter

Date: October 10, 2014

Draft number 7890

Ninety (90) days after sight of this First of Exchange, pay to the order of Bank of the West [*name of exporter's bank*] the sum of Five-hundred thousand U.S. dollars for value received under Bank of the East, Ltd. letter of credit number 123456.

Signature of Exporter

Bill of Lading (B/L)



- The third key document for financing international trade is the *bill of lading* or B/L.
- The bill of lading is issued to the exporter by a common carrier transporting the merchandise.



- It serves three purposes:

- a. it is a cargo receipt made out by the ship owner;
- b. it is the evidence of a contract of carriage between the consignor and the shipping company
- c. B/L is a document of title to the goods.

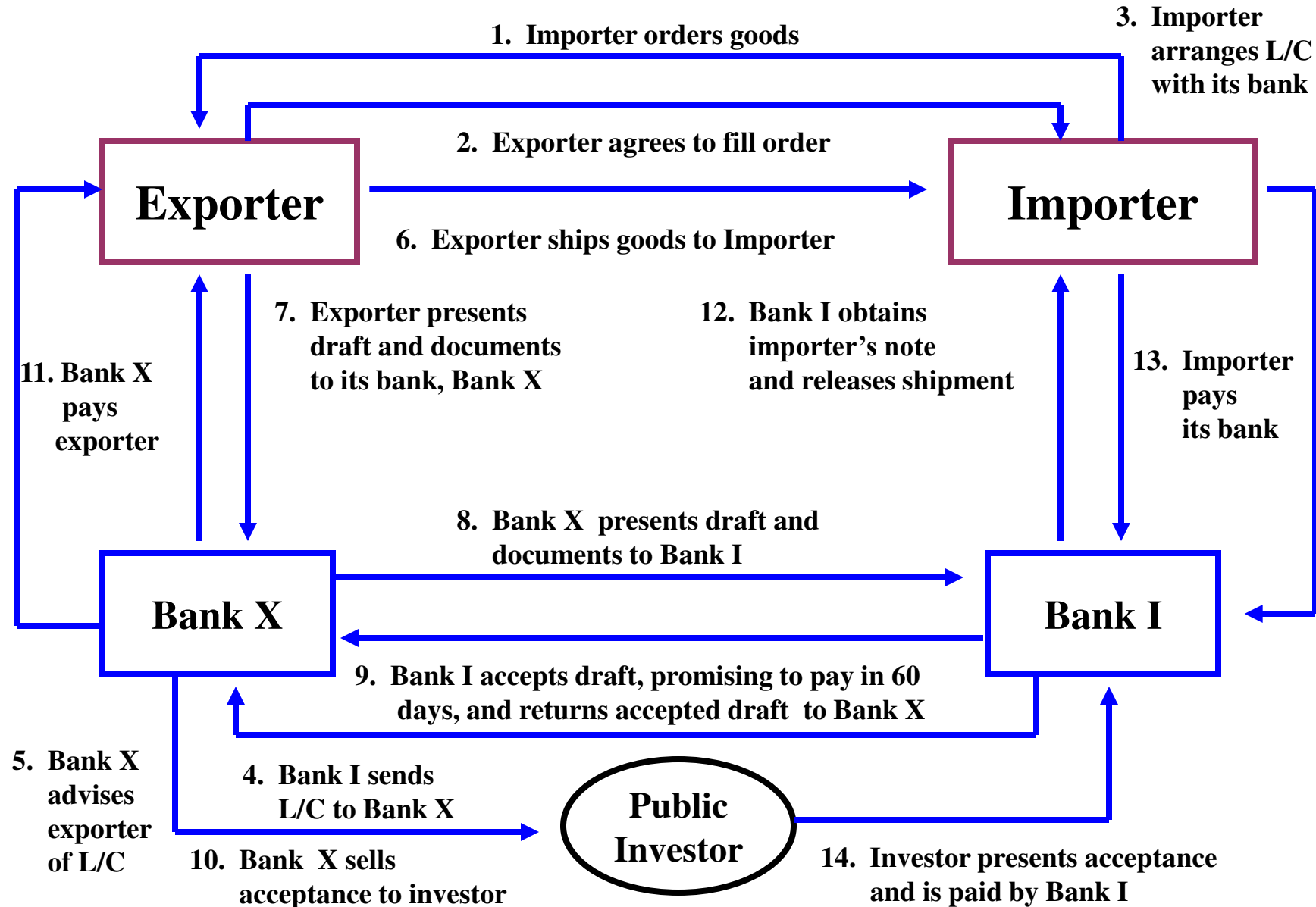
- A receipt, a contract, and a document of title.
- Bills of lading are either straight or to order.

Documentation in a Typical Trade Transaction



- A trade transaction could conceivably be handled in many ways.
- The transaction that would best illustrate the interactions of the various documents would be an export financed under a documentary commercial letter of credit, requiring an order bill of lading, with the exporter collecting via a time draft accepted by the importer's bank.
- The following exhibit illustrates such a transaction.

Steps in a Typical Trade Transaction





The following are the export documents required for the processing of the Shipping Bill:

1. GR forms (GR is Guaranteed Remittance. in duplicate) for shipment to all the countries.
2. 4 copies of the packing list mentioning the contents, quantity, gross and net weight of each package.



- **3. 4 copies of invoices which contains all relevant particulars like number of packages, quantity, unit rate, total value, correct & full description of goods etc.**
- 4. Contract, L/ C, Purchase Order of the overseas buyer.**
- 5. AR 4 (Application for removal of excisable goods for export by (Air/Sea/Post/Land)(both original and duplicate) and invoice. Inspection/ Examination Certificate.**



Commercial invoice - Issued by the seller for the full realisable amount of goods as per trade term.

Consular Invoice - Mainly needed for the countries like Kenya, Uganda, Tanzania, Mauritius, New Zealand, Burma, Iraq, Ausatralia, Fiji, Cyprus, Nigeria, Ghana, Zanzibar etc. It is prepared in the prescribed format and is signed/ certified by the counsel of the importing country located in the country of export.



- **Customs Invoice** - Mainly needed for the countries like USA, Canada, etc. It is prepared on a special form being presented by the Customs authorities of the importing country. It facilitates entry of goods in the importing country at preferential tariff rate.

Legalise Invoice - This shows the seller's genuineness before the appropriate consulate/ chamber of commerce/ embassy. It do not have any prescribed form.



Certified Invoice - It is required when the exporter needs to certify on the invoice that the goods are of a particular origin or manufactured/ packed at a particular place and in accordance with specific contract. Sight Draft and Usance Draft are available for this. Sight Draft is required when the exporter expects immediate payment and Usance Draft is required for credit delivery.



- **Packing List** - It shows the details of goods contained in each parcel/shipment.
Certificate of Inspection - It shows that goods have been inspected before shipment.
Black List Certificate - It is required for countries which have strained political relation. It certifies that the ship or the aircraft carrying the goods has not touched those country(s).
Weight Note - Required to confirm the packets or bales or other form are of a stipulated weight.
Manufacturer's/ Supplier's Quality/ Inspection Certificate.



Manufacturer's Certificate - It is required in addition to the Certificate of Origin for few countries to show that the goods shipped have actually been manufactured and are available.

Certificate of Chemical Analysis - It is required to ensure the quality and grade of certain items such as metallic ores, pigments, etc.

Certificate of Shipment - It signifies that a certain lot of goods have been shipped.

Health/ Veterinary/ Sanitary Certification - Required for export of foodstuffs, marine products, hides, livestock etc.



- **Certificate of Conditioning** - It is issued by the competent office to certify compliance of humidity factor, dry weight, etc.
- Antiquity Measurement** - Issued by Archaeological Survey of India in case of antiques.
- Transshipment Bill** - It is used for goods imported into a customs port/airport intended for transshipment.
- Shipping Order** - Issued by the Shipping (Conference) Line which intimates the exporter about the reservation of space of shipment of cargo through the specific vessel from a specified port and on a specified date.



Exporters should seriously consider having the freight forwarder handle the formidable amount of documentation that exporting requires; freight forwarders are specialists in this process. The following documents are commonly used in exporting;



- which of them are actually used in each case depends on the requirements of both our government and the government of the importing country.
 - 1. Commercial invoice**
 - 2. Bill of lading**
 - 3. Consular invoice**
 - 4. Certificate of origin**
 - 5. Inspection certification**
 - 6. Dock receipt and warehouse receipt**
 - 7. Destination control statement**
 - 8. Insurance certificate**
 - 9. Export license**
 - 10. Export packing list**

Export documents



- Commercial invoice
- GR form
- Letter of credit
- Shipping bill
- Marine insurance policy
- Bill of lading
- Airway bill



- Combined transport document
- Certificate of origin
- Inspection certificate
- Dock receipt and warehouse receipt
- Insurance certificate
- Export packing list
- Mate's receipt

Import documents



- Import license
- Bill of entry
- Bill of sight
- Dock challan
- Indent
- Insurance policy
- Letter of advice

Import process



- Making trade enquiry and receiving quotation offer
- Obtaining import license
- Obtaining foreign exchange
- Placing the indent
- Arranging letter of credit
- Getting shipping document
- Appointing clearing agent



- Taking delivery of goods
- Making payment



Method of payment in export and import

- Cash in advance
- Documentary collection
- Open account
- Letter of credit
- Bill of lading
- Payment under consignment

DEFINATION OF BOP



- “A systematic record of all economic transaction between the residents of a country and residents of foreign countries during acertain period of time ”





CURRENT ACCOUNT

WHAT IS CURRENT ACCOUNT?

The current account contains entries related to exports and imports of merchandise and services that changes the current level of consumption or national income of the country.

- **Goods Exported and Imported** :- Goods are exported to foreign countries and Goods are Imported from foreign countries.
- **Services Exported or Imported** :- Income earned through the export of services is insurance, banking, interest on loans, tourist expenditures, transport charges.
- **Income from investment in the foreign countries** :- the invisible account is income from investment in the foreign countries through interest/dividend.
- **Unilateral receipts/payments** :- the invisible account shows unilateral receipts on the credit side and unilateral payment on the debit side. these payments and receipts consists of gifts and charities which are given and received freely without the obligation to repay.



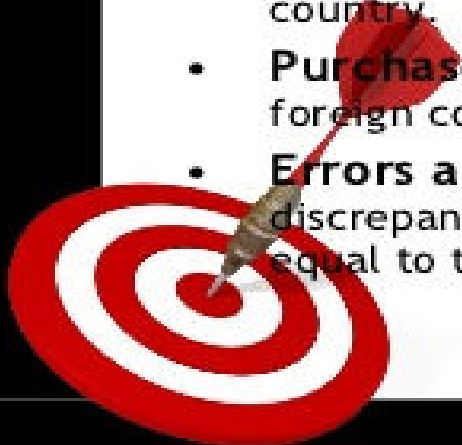


CAPITAL ACCOUNT

WHAT IS CAPITAL ACCOUNT?

The capital account contains entries relating to movement of short term and long term capital both in and out of the country along with gold and foreign exchange reserves leading to increase or decrease of a country's total stock of capital.

- **Short term** capital include purchase of short term securities such as treasury bills, commercial bills, acceptance bills, purchase of foreign currency and cash balance held by foreigners.
- **Long term** capital includes direct investments in shares or bonds or real estate or physical asset such as plant, building, equipments etc, portfolio investment in government securities and securities of a firms etc.
- **Export of capital** is a debit item whereas export of merchandise is a credit item because of export of merchandise leads in inflow of foreign exchange which adds to the national income of the reporting country and export of capital leads to outflow of foreign exchange which leads to withdraw from the foreign exchange resources of the reporting country.
- **Purchase/Sale of gold/assets** :- gold sale to foreign countries or purchase from foreign countries
- **Errors and omissions** :- the item error and omission indicate the value of certain discrepancies (difference) in estimation resulting in situation where debits are not exactly equal to the credit.



OFFICIAL RESERVES ACCOUNT



- Official reserves are held by the monetary authorities of a country.
- They comprise monetary gold, SDR allocations by the IMF, and foreign currency assets.
- Foreign currency assets are normally held in form of balances with foreign central banks and investment in foreign government securities.



Causes of disequilibrium in BOP



- Natural factors
- Economic factors

Cyclical fluctuations

Inflationary spiral at home

Capital movements

Changes in exchange rate

- Political factors



Correction of BOP Disequilibrium

When BOP becomes surplus, nations enjoy the same as it offers a number of desirable situation like increased purchasing power and influence in global market.

-- In cases of disequilibrium due to deficit, countries adopt measures to eliminate the same completely, if not possible at least reduce it.

1. Automatic Correction of BOP Disequilibrium

-- Deficit in BOP indicates that demand for foreign exchange is higher than its supply in the nation.

-- It leads to devaluation of local currency in relation to the foreign currency. Thereby imports become costlier and exports cheaper. So imports get reduced and exports are increased. Thereby outflow of FE is reduced and income is increased leading to automatic restoration of equilibrium.



2. Deliberate Measures

Govt. also adopts certain measures to control deficit BOP called 'Deliberate Measures' as indicated.

A. Monetary Measures

- * Reduction in Money Supply :

- RBI takes to control credit so that money supply in the country is reduced which leads to decline in income, purchasing power, aggregate demand and consumption.

- Thus imports decline and hence outflow of foreign currency. In turn exports grow and inflow of foreign currency to set right BOP disequilibrium.

- * Interest Rate Adjustment :

Inflow of FE in deficit BOP nation falls, so liquidity falls. So on short term basis 'Interest rate' is raised – leading to investments and loans coming from foreign nations improving BOP scenario.



- * Devaluation

In case of deficit BOP, purchasing power of local currency reduces, the Govt. deliberately devalues currency. Thus imports become costlier and exports cheaper. Hence increased exports and reduced imports balance the disequilibrium of BOP.

- * Exchange Control

Exporters are to surrender the foreign exchange earned to RBI through authorised dealers and importers are to draw foreign exchange from authorised dealers.

-- Through suitable policies from time to time, Govt. of India and RBI control imports to reduce deficit of BOP.

B. Trade Measures

These measures try to restore equilibrium through increasing exports and/or reducing imports.



- * Export Promotion Measures

Govt. of India endeavour to boost exports by reducing export duties, providing incentives, encouraging EOUs, forming EPZs, FTZs etc.

- * Import Control Measures

Import control measures include ways and means of restricting imports through duties, quotas, licences etc.

C. Miscellaneous Measures

Govt. of India tries to remove BOP disequilibrium by assortment of means like

- a) Attracting Foreign Investments both FDI and FPI
- b) Attracting NRI deposits
- c) Promoting tourism
- d) Negotiating Foreign currency loans etc.

The Benefits of Trade



- When people trade, both parties expect to benefit from the trade.
- Otherwise, why would they have traded in the first place?

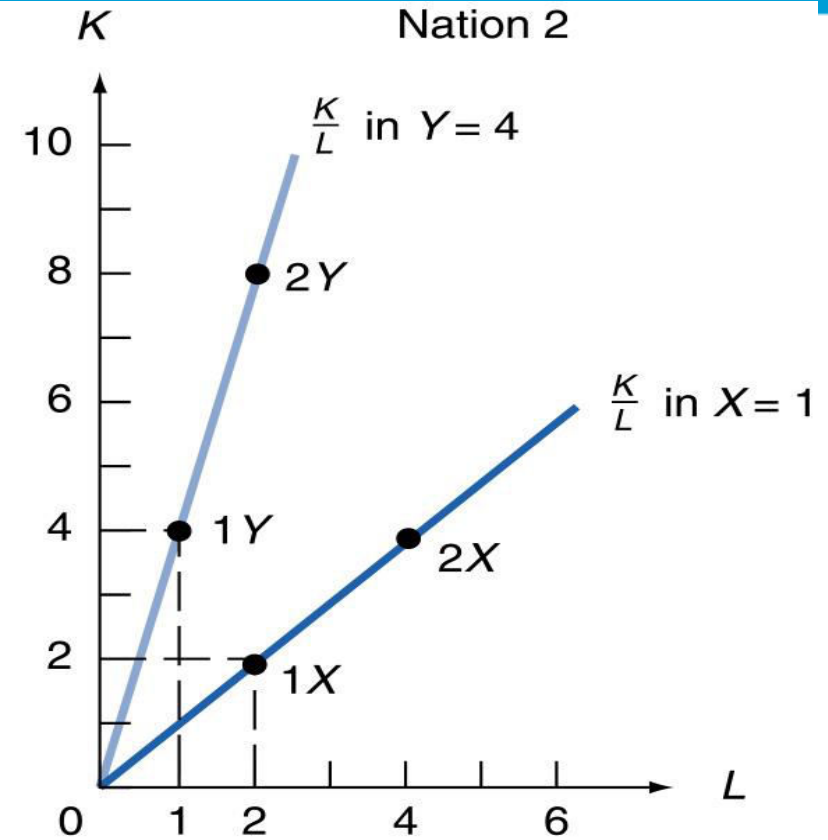
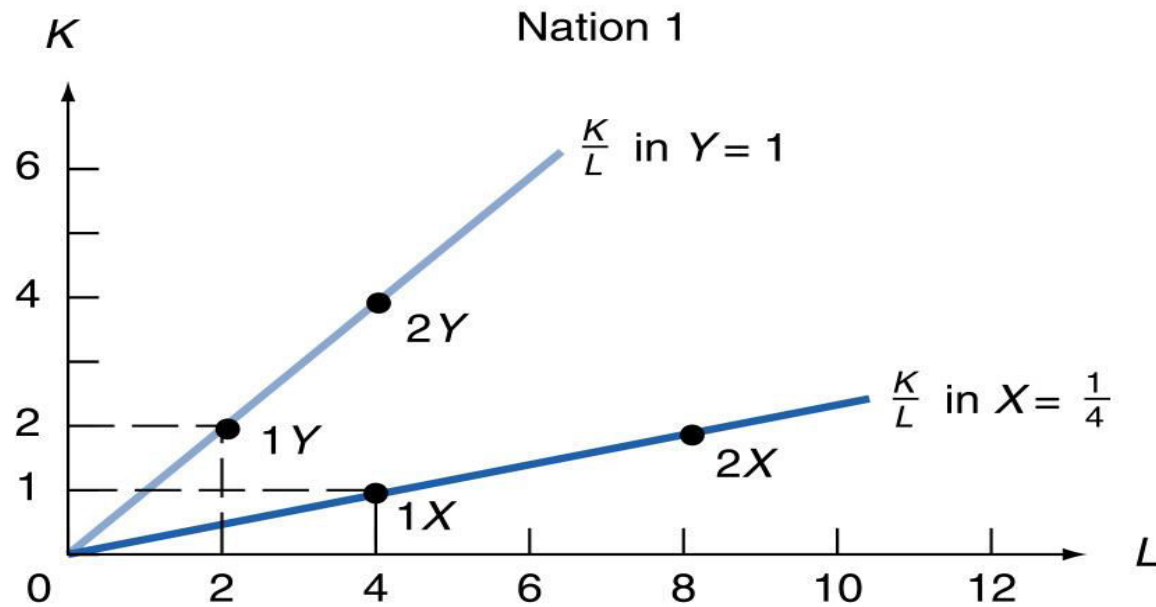
The Benefits of Trade



- The argument for the benefits of trade underlies the general policy of laissez-faire.
- ***Laissez-faire*** – an economic policy of leaving coordination of individuals' actions to the market.



Factor Endowments and the Heckscher-Ohlin Theory



**Factor Intensities for Commodities X and Y
in Nations 1 and 2.**

Factor Intensity, Factor Abundance, and the Shape of the Production Frontier (PF)



A. Factor Intensity

- In a world of 2 commodities and 2 factors, Y is capital intensive if its (K/L) is greater than (K/L) of X.
- If production of Y requires 2K and 2L, then $K/L=1$.
- If production of X requires 1K and 4L, then $K/L=1/4$.
- We say that Y is K intensive and X is L intensive.
- Measuring K and L intensity depends on K/L rather than the absolute amount of K and L.
- In fig., Nation 1 can produce 1Y using 2K-2L, and 2Y using 4K-4L. Thus, $K/L=1$, this gives the slope of Y in Nation 1.



- Nation 1 can produce 1X using 1K-4L, and 2X using 2K-8L. Thus, $K/L=1/4$, this gives the slope of the ray of X in Nation 1.
- In Nation 2, $K/L=4$ for Y and 1 for X.
- Therefore, Y is the K-intensive commodity, and X is the L-intensive in Nation 2 also. This is shown by the fact that the ray from the origin for good Y is steeper than that of X in both nations.
- Even though Y is K-intensive relative to X in both nations, Nation 2 uses a higher K/L than Nation 1.
- For Y, $K/L=4$ in Nation 2 but $K/L=1$ in Nation 1.
- For X, $K/L=1$ in Nation 2 but $K/L=1/4$ in Nation 1.

Factor Endowments and the Heckscher-Ohlin Theory



- In 1919 Eli Heckscher published “The Effect of Foreign Trade on the Distribution of Income” .
- In 1933 Berlin Ohlin published “Interregional and International Trade” in which he clarified and built on the work of Heckscher.
- The H-O theory can be presented in the form of two theorems: the H-O theorem (which deals with and predicts the pattern of trade) and the factor-price-equalization theorem (which deals with the effect of international trade on factor prices).

A. The Heckscher-Ohlin Theorem



- **Definition:** A nation will export the commodity whose production requires the intensive use of the nation's relatively abundant and cheap factor and import the commodity whose production requires the intensive use of the nation's relatively scarce and expensive factor.
- Or: the relatively labor-rich nation exports the relatively labor-intensive commodity and imports the relatively capital-intensive commodity.



- This means that Nation 1 exports X because X is the L-intensive commodity and L is relatively abundant and cheap factor in Nation 1.
- Nation 2 exports Y because Y is the K-intensive commodity and K is relatively abundant and cheap factor in Nation 2.



- The H-O theorem segregates the difference in relative factor abundance, or factor endowment, among nations as the basic cause of comparative advantage and international trade.
- For this reason, it is known as factor-proportions or factor endowment theory.
- It assumes that the difference in relative factor abundance and prices is the cause of pre trade difference in relative commodity prices between two nations.

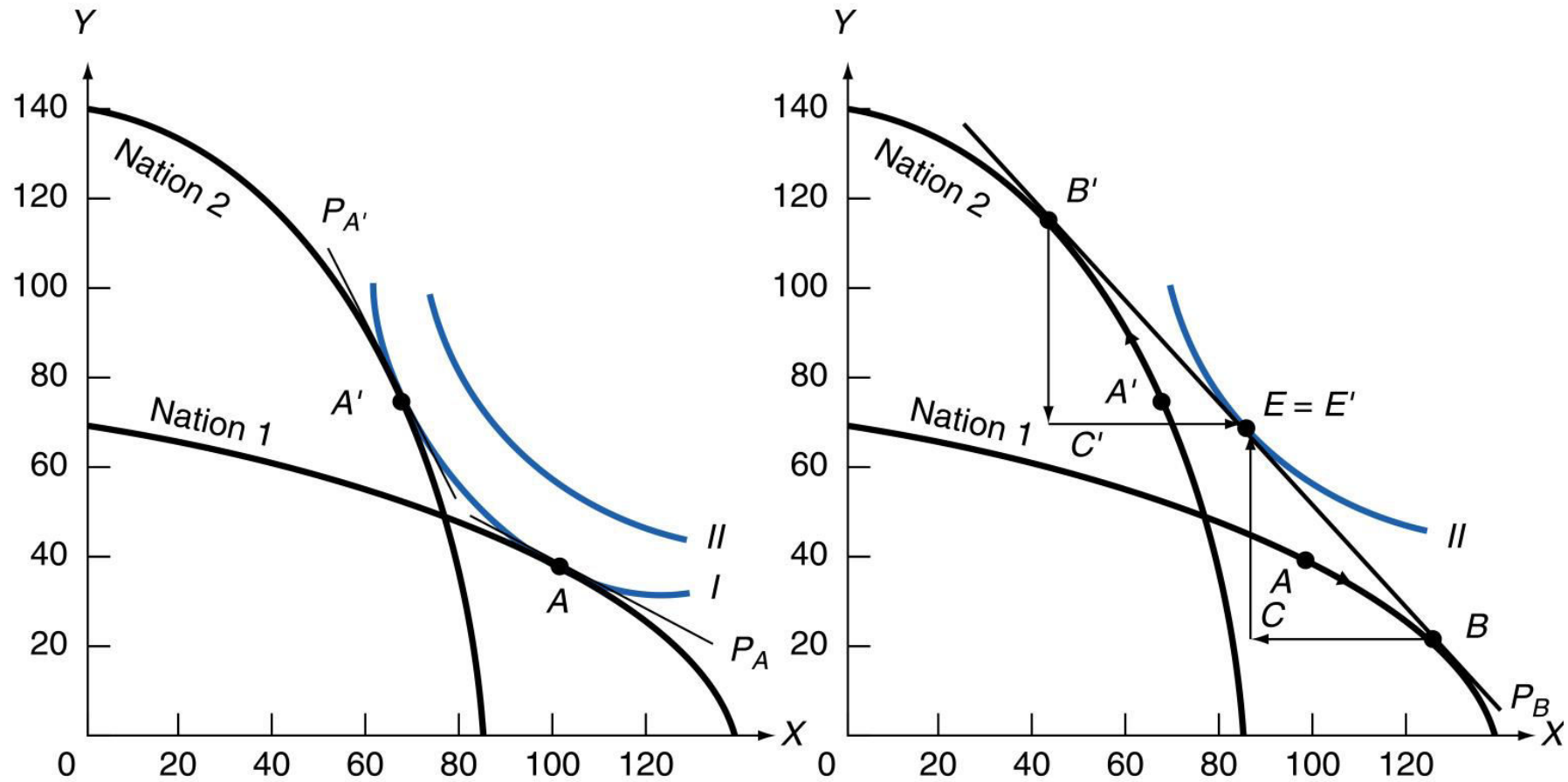
Illustration of the Heckscher-Ohlin Theory



- Since the two nations have equal tastes, they face the same indifference map.
- Indifference curve I is the highest IC that Nation 1 and Nation 2 can reach in segregation, and points A and A' represent their equal points of production and consumption in the absence of trade.



- The tangency of IC I at points A and A' defines the no-trade equal-relative commodity prices of P_A in Nation 1 and P_A' in Nation 2.
- Since $P_A < P_A'$, Nation 1 has a com-adv. in X and Nation 2 has a com-adv. in Y.



The Heckscher-Ohlin Model.



- The right panel shows that with trade Nation 1 specializes in X and Nation 2 in Y. cardinal
- Specialization continues until Nation 1 reaches point B and Nation 2 B', where the transformation curves are tangent to the common relative price line P_B .
- Nation 1 exports X in exchange for Y and consume at point E on IC II. Nation 2 exports Y for X and consume at point E' (which coincides with point E).
- Note that Nation 1's exports of X equal Nation 2's imports of X (i.e. $BC = C'E'$).
- Similarly, Nation 2's exports of Y equal Nation 1's imports of Y (i.e. $B'C' = CE$).



- At $P_X/P_Y > P_B$, Nation 1 want to export more of X than Nation 2 wants to import at this **high** relative price, and P_X/P_Y falls towards P_B .
- At $P_X/P_Y < P_B$, Nation 1 want to export less of X than Nation 2 wants to import at this **low** relative price, and P_X/P_Y rises towards P_B .
- Point **E** involves more of Y but less of X than point **A**
- However, Nation 1 gains from trade because E is on higher IC II.
- Similarly, at E' which involves more X but less Y than A' , Nation 2 is better off because E' is on higher IC II.

The Heckscher-Ohlin Theorem



- *A country will export the commodity that uses relatively intensively the factor that country has in relative abundance.*
- *A country will import the commodity that uses relatively intensively the factor that is relatively scarce in that country.*

Host Country Costs



- **There are three main costs of inward FDI**
 1. the possible adverse effects of FDI on competition within the host nation
 2. adverse effects on the balance of payments
 3. the perceived loss of national sovereignty and autonomy

Host Country Costs



1. Adverse Effects on Competition

- The subsidiaries of foreign MNEs may have greater economic power than indigenous competitors because they may be part of a larger international organization
 - the MNE could draw on funds generated elsewhere to subsidize costs in the local market
 - doing so could allow the MNE to drive indigenous competitors out of the market and create a monopoly position

Host Country Costs



2. Adverse Effects on the Balance of Payments

- There are two possible adverse effects of FDI on a host country's balance-of-payments
 1. with the initial capital inflows that come with FDI must be the subsequent outflow of capital as the foreign subsidiary repatriate earnings to its parent country
 2. when a foreign subsidiary imports a substantial number of its inputs from abroad, there is a debit on the current account of the host country's balance of payments

Host Country Costs



3. National Sovereignty and Autonomy

- FDI can mean some loss of economic independence
 - key decisions that can affect the host country's economy will be made by a foreign parent that has no real commitment to the host country, and over which the host country's government has no real control

Home Country Costs



- The most important concerns for the home country center around

1. The balance-of-payments

- The balance of payments suffers from the initial capital outflow required to finance the FDI
- The current account is negatively affected if the purpose of the FDI is to serve the home market from a low-cost production location
- The current account suffers if the FDI is a substitute for direct exports

Home Country Costs



2. Employment effects of outward FDI

- If the home country is suffering from unemployment, there may be concern about the export of jobs

Home Country Policies



1. Encouraging Outward FDI

- Many nations now have government-backed insurance programs to cover major types of foreign investment risk
 - can encourage firms to undertake FDI in politically unstable nations
- Many countries have also eliminated double taxation of foreign income
- Many host nations have relaxed restrictions on inbound FDI

Home Country Policies



2. Restricting Outward FDI

- Virtually all investor countries, including the United States, have exercised some control over outward FDI from time to time
 - countries manipulate tax rules to make it more favorable for firms to invest at home
 - countries may restrict firms from investing in certain nations for political reasons

Host Country Policies



1. Encouraging Inward FDI

- Governments offer incentives to foreign firms to invest in their countries
 - motivated by a desire to gain from the resource-transfer and employment effects of FDI, and to capture FDI away from other potential host countries

Host Country Policies



2. Restricting Inward FDI

- Ownership restraints and performance requirements are used to restrict FDI
- Ownership restraints -exclude foreign firms from certain sectors on the grounds of national security or competition
 - local owners can help to maximize the resource transfer and employment benefits of FDI
- Performance requirements - used to maximize the benefits and minimize the costs of FDI for the host country

International Institutions and FDI



- Until recently there has been no consistent involvement by multinational institutions in the governing of FDI
- The formation of the World Trade Organization in 1995 is changing this
 - The WTO has had some success in establishing a universal set of rules to promote the liberalization of FDI



Advantages of FII



- Enhanced flows of equity capital
- FIIs have a greater appetite for equity than debt in their asset structure. It improve capital structures.
- Managing uncertainty and controlling risks.



- FII inflows help in financial innovation and development of hedging instruments.
- Improving capital markets.



- FIIs as professional bodies of asset managers and financial analysts enhance competition and efficiency of financial markets.
- Equity market development aids economic development.
- By increasing the availability of riskier long term capital for projects
-



- FIIs can help in the process of economic development.
- Improved corporate governance.
- FIIs constitute professional bodies, improve corporate governance



FDI Policy – Procedural Aspects



- Intimation of receipt of share application money – **within 30 days**
- **Allotment of shares within 180 days** of receipt of funds
- Funds against which shares **not allotted** to be refunded
- Reporting in Form FC GPR (Foreign Collaboration - General Permission Route) **within 30 days of allotment**



- In case of Approval route, **application to FIPB (Foreign investment Promotion Board)** along with supporting documents
- All applications to be placed before FIPB **within 15 days**
- FIPB empowered to **priorities applications** based on sector, export potential etc.
- Violations of regulations attract **penal provisions** under FEMA



● **FDI not allowed in the following:**

- Retail trading (except single brand)
- Atomic Energy
- Lottery business
- Gambling & Betting
- Chit fund and Nidhi company
- Trading in Transferable Development Rights
- Real Estate business or construction of Farm Houses
- Sectors not opened for private sector investments



- **Prohibition extended to foreign technology collaboration including licensing for franchisee, trademark, brand name or management contract for lottery, betting and gambling business**



Sector Specific Guidelines *Telecommunication*

- **FDI allowed in the following (illustrative):**
 - **Basic and cellular**
 - **Unified Access Services**
 - **National/ International Long Distance**
 - **Global Mobile Personal Communications Services (GMPCS)**
 - **Other value added telecom services**
- **FDI in ISPs without gateways now capped at 74% in line with DoT guidelines of 2007**
- **Subject to guidelines issued DOT**
- **FDI Limits:**

Automatic Route	Approval Route
Upto 49%	Upto 74%

Sector Specific Guidelines

Private sector banks/ Civil Aviation



Banks

- No change in existing conditions
- FDI permitted under automatic route up to 49% and thereafter up to 74% under Approval Route

Civil Aviation

- No change in existing conditions
- **FDI in Non-scheduled air transport services/ non-schedule airlines, Chartered and Cargo airlines permitted under automatic route upto 49% and thereafter upto 74% under Approval Route**



Sector Specific Guidelines *Broadcasting*

- In the Broadcasting sector, all FDI are under the Approval route
- For reckoning the FDI limits, FII investment also to be considered
- Subject to guidelines issued by I&B ministry

FDI permitted in broadcasting sector:



Activity	Limit
Radio	20%
Cable Networks	49%
Direct to Home*	49%
Unlinking news/ current affair TV channel**	26%
Uplinking non news/ current affair TV channel	100%

** FDI component not to exceed 20%*

*** May be raised to 49% as per recent press reports*

Sector Specific Guidelines *Print Media*



- FDI is permitted under Approval route based on nature of publication
- Investment subject to sectorial policy issued by Ministry of Information and Broadcasting FDI limits on publications:

Activity	Limit
Newspapers/ periodicals dealing with news and current affairs*	26%
Scientific magazines/ specialty journals/ periodicals	100%

** May be raised to 49% as per recent press reports*

INSURANCE



- FDI upto 26% allowed on the automatic route
- However, license from the IRDA has to be obtained & There is a proposal to increase this limit to 75%.

DRUGS & PHARMACEUTICALS

- FDI upto 100% is permitted under the automatic route for manufacture of drugs and pharmaceuticals (The following is the current position)
- i. FDI upto 74% in the case of bulk drugs, their intermediates Pharmaceuticals and formulations (except those produced by the use of recombinant DNA technology) would be covered under automatic route.
- ii. FDI above 74% for manufacture of bulk drugs will be considered on case to case basis.



AIRPORTS

- Foreign Investment up to 100% is allowed in green field projects under automatic route
- Foreign Direct Investment is allowed in existing projects
 - - up to 74% under automatic route
 - - beyond 74% and up to 100% subject to Government approval

THANK YOU



MODULE 5:

GLOBAL ETHICS AND E-COMMERCE

JAGADEESH BABU.MK



• **MODULE 5: GLOBAL ETHICS AND E-COMMERCE**

- Social responsibility and ethical issues in international business – national differences in ethics and social responsibility, codes of conduct for MNC's. Global E-Business- Conceptual Analysis, Advantages and Disadvantages of E-Business, Ecommerce in India.



- **GLOBAL ETHICS AND E-COMMERCE**



Ethical Generalizations



- Individuals have their own personal belief systems
- People from the same cultural context will tend to hold similar beliefs
- Behaviors can be rationalized
- Circumstances affect loyalty to belief systems
- National culture is intertwined with ethics





Global Ethic?



- Ethics often seen as specific to culture
- Is there a universal basis?
- Could respect be a universal?
- Standards are based on what? Why?
- Rules for “goodness”

GLOBAL ETHICS



Ethics



- *Ethic* definition is - the discipline dealing with what is good and bad and with moral duty and obligation
- **Ethics** is an individual's personal beliefs about whether a decision, behavior, or action is right or wrong.



Global ethics



- **Global ethics** is an area of critical **ethical** enquiry into the nature and justification of values and norms that are **global** in kind and into the various issues that arise such as **world poverty and international aid, environmental problems, peace and security, intervention, and human rights.**





Ethical Issues in International Business

- Many of the ethical issues and dilemmas in international business are rooted in the fact that political systems, law, economic development, and culture vary significantly from nation to nation
- In the international business setting, the most common ethical issues involve
 - Employment practices
 - Human rights
 - Environmental regulations
 - Corruption
 - Moral obligation of multinational corporations





Ethical Issues in International Business

- **A Manager makes decisions consistent with differing national environments**
- **Political systems**
 - **Legal systems**
 - **Economic development levels**
 - **Culture**





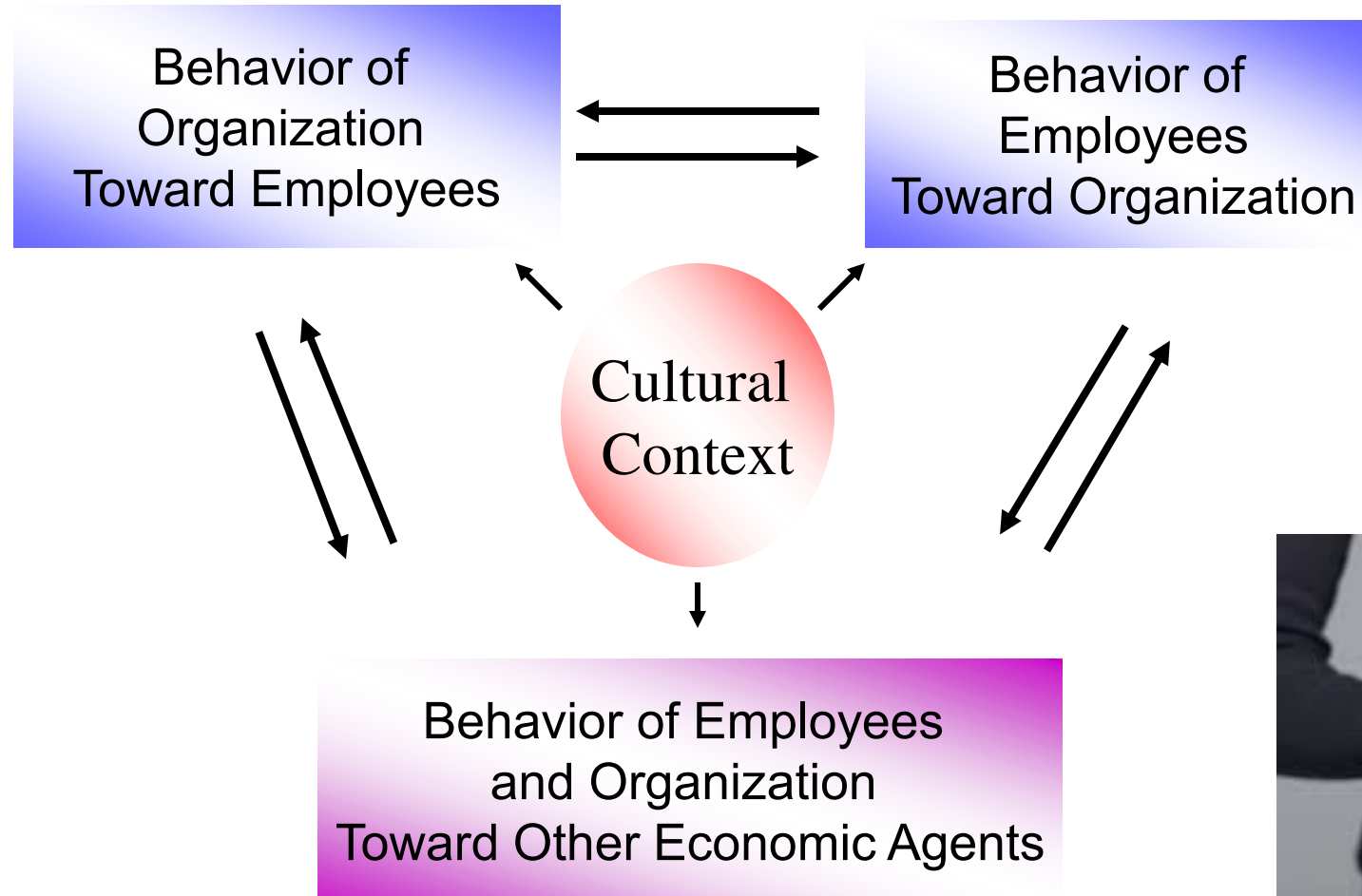
Ethical Issues in International Business

➤ Arise most often in the context of:

- Employment practices
- Human rights
- Environmental policy
- Corruption
- An MNC's perceived moral obligations to society



Ethics in a Cross-Cultural Context





Employment Practices

- **What standards should be applied?**
 - Home nation's
 - Host nation's
 - Other
- **Should the MNC adapt its policies? Standardize?**
- **Hiring practices, labor relations, diversity issues, employment conditions are some specific issues that require careful thought**





Human Rights

A manager can assume as universal her/his views on freedom of:

- **Association**
- **Speech**
- **Assembly**
- **Movement**
- **Political repression**





- What is the responsibility of an MNC to uphold different standards of human rights?





Environmental Policies



Environmental policy is the commitment of an organization or government to the laws, regulations, and other **policy** mechanisms concerning **environmental** issues.





ISO 14001: 2004 ENVIRONMENTAL POLICY

In line with its corporate policy, Uranium Corporation Of India Limited (UCIL), adopts environmental management system in all its areas and is committed to:

- Manage air, water & noise pollution in its surface operations and air and noise pollution in its underground Mines.
- Continual improvement in environmental quality and prevention of pollution by applying best available practices & setting & reviewing objectives & targets.
- Compliance with applicable environmental laws & other requirements concerned with all its operations.
- Conservations of natural resources.
- Monitor the health of all its employees and to ensure the preventive & betterment measures.
- The policy will be made available to interested party whenever asked for.



Cont..



- **Locally mandated environmental standards may be inferior to those an MNC knows it can achieve**
- ***Tragedy of the commons*: A resource held in common by all, but owned by no one, is overused by some, resulting in degradation.**
- **If a decision is legal but unethical, should it be taken?**





How Organizations Treat Employees

Some businesses in Africa have taken steps to educate their employees about how AIDS is contracted.



Acceptability of Bribery



- **Acceptable**

- Russia
- China
- Taiwan
- South Korea

- **Unacceptable**

- Australia
- Sweden
- Switzerland
- Austria



Managing Ethical Behavior Across Borders



Guidelines or codes

Ethics training

Organizational practices

Corporate culture



ETHICAL BEHAVIOUR



Corporate Social Responsibility



Corporate social responsibility is the set of obligations an organization undertakes to protect and enhance the society in which it functions.



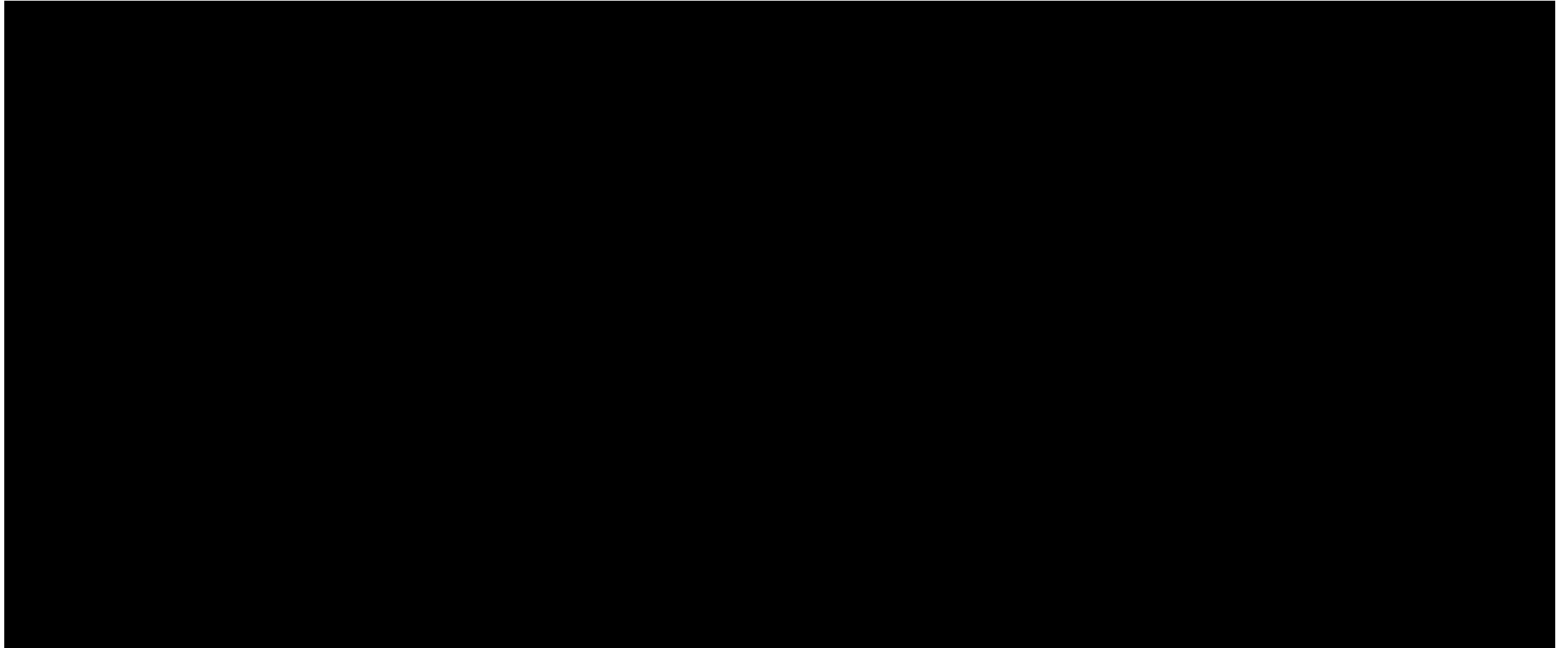


CORPORATE SOCIAL RESPONSIBILITY





CORPORATE SOCIAL RESPONSIBILITY



Areas of Social Responsibility



Organizational
stakeholders

Natural
environment

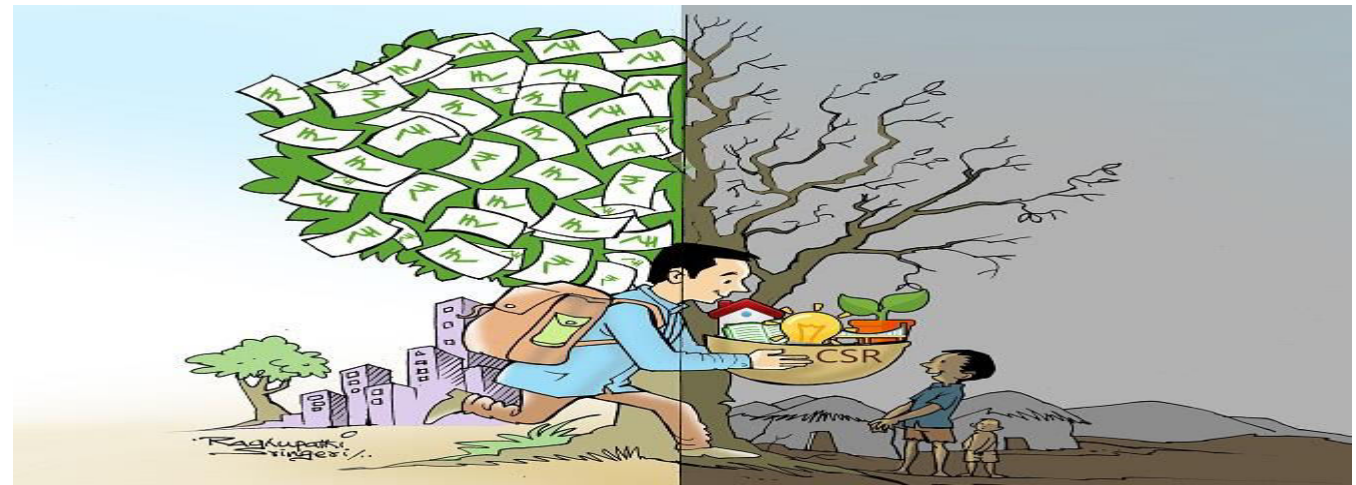
General social
welfare



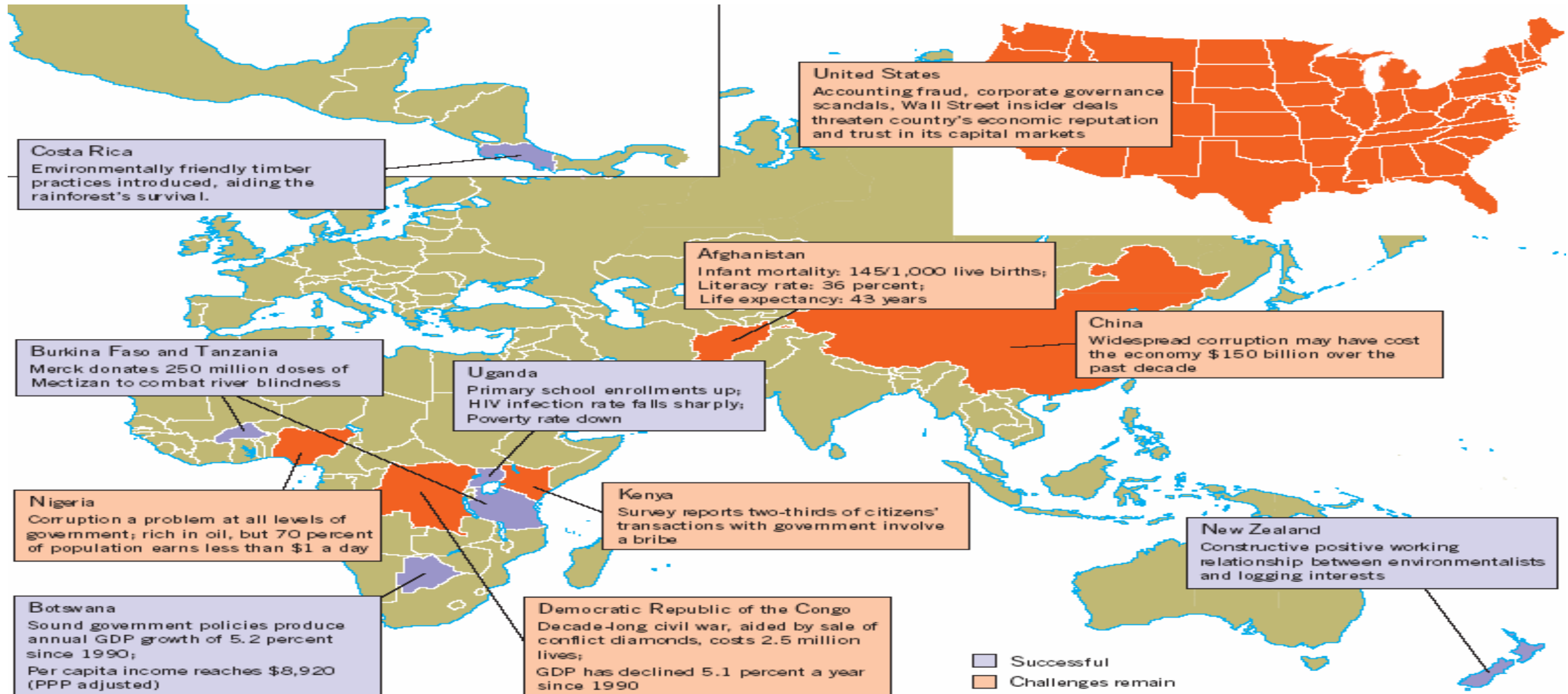
Examples of Companies with a Commitment to CSR



- L.L. Bean
- Toyota
- Lands' End
- Dell Computer
- DaimlerChrysler
- BP
- Honda



Social Responsibility Hot Spots



Approaches to Social Responsibility



Obstructionist

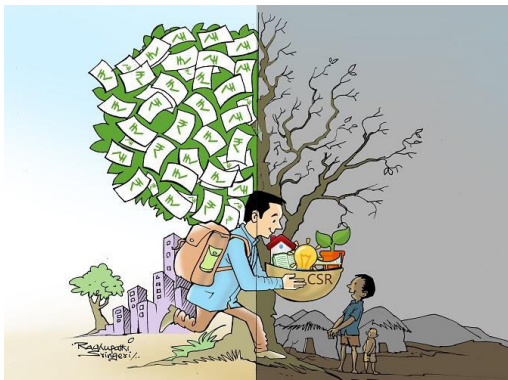
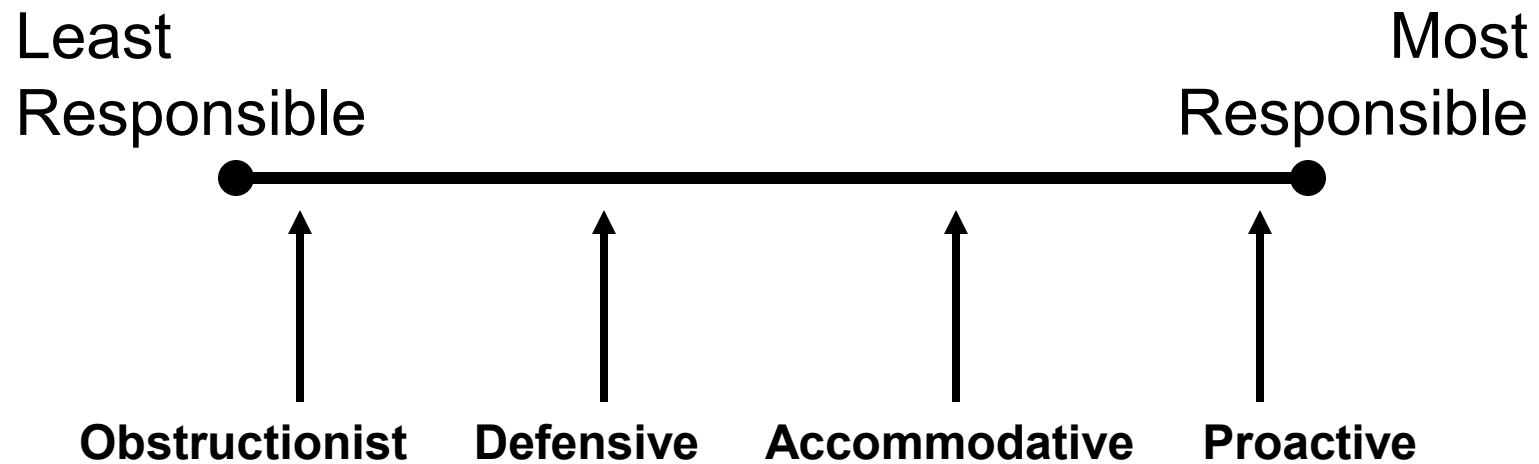
Defensive

Accommodative

Proactive



Approaches to Social Responsibility



Obstructionist Stance



- Do as little as possible to address social or environmental problems
- Deny or avoid responsibility
- Examples
 - Astra
 - Nestle
 - Danone



Defensive Stance



- Do what is required legally, but nothing more
- Corporate responsibility is to generate profits
- Example
 - Philip Morris



Accommodative Stance



- ✓ Meet ethical and legal requirements and more
- ✓ Agree to participate in social programs
- ✓ Match contributions by employees
- ✓ Respond to requests from nonprofits
- ✓ No proactive behavior to seek such opportunities



Proactive Stance



- Strong support of social responsibility
- Viewed as citizens of society
- Seek opportunities to contribute
- Examples
 - McDonald's
 - The Body Shop
 - Ben & Jerry's



Evaluating Social Responsibility



A **corporate social audit** is a formal and systematic analysis of the effectiveness of the firm's social performance.

Steps in Corporate Social Audit



Regulating International Ethics and Social Responsibility



- Foreign Corrupt Practices Act (FCPA United States Congress in 1977)
- Alien Tort Claims Act- United States in 1789
- Anti-Bribery Convention of the Organization for Economic Cooperation and Development (Canada in 2000, it has since been ratified by 33 other countries. The Convention is an attempt to eliminate bribery in international business transactions)
- International Labor Organization (ILO)



Code of Conduct for the Multinational Company



Respect Basic Human Rights and Freedoms

- Respect fundamental human rights of life, liberty, security, and privacy
- Do not discriminate on the basis of race, color, gender, religion, language, ethnic origin, or political affiliation
- Respect personal freedoms (e.g., religion, opinion)
- Respect local cultural values and norms

Code of Conduct for the Multinational Company



Minimize Any Negative Impact on Local Economic Policies

- Conform to local economic and development policies
- Avoid adverse effects on currencies and balance of payments
- Follow policies regarding local equity participation
- Provide truthful information for accurate taxation
- Pay fair taxes
- Source raw materials locally
- Reinvest profits in local economy

A Code of Conduct for the Multinational Company



Protect the Environment

- Follow local environmental-protection laws
- Actively protect the environment
- Repair damage to the environment done by company operations
- Help develop local standards
- Provide accurate assessments of environmental impact of the company
- Provide complete disclosure of the environmental effects of operations
- Develop standards to monitor environmental effects

A Code of Conduct for the Multinational Company



Consumer Protection

- Follow local consumer-protection laws
- Ensure accurate and proper safety disclosures

Employment Practices

- Follow relevant manpower policies and employment laws of host nation
- Help create jobs in needed areas
- Increase local employment opportunities and standards
- Provide local workers stable employment and job security
- Promote equal employment opportunities

A Code of Conduct for the Multinational Company



- Provide income protection to terminated workers
- Match or improve local standards of employment
- Protect employees with adequate health and safety standards
- Provide employees information on job-related health hazards

Sources: Adapted from Frederick, William C. 1991. "The moral authority of transnational corporate codes." Journal of Business Ethics. 10: 165–177; and Getz, Kathleen A. 1990. "International codes of conduct: An analysis of ethical reasoning." Journal of Business Ethics. 9: 567–578.

What is code of conduct for the MNC's



A Code of Conduct for the Multinational Company



Maintain High Standards of Local Political Involvement

- Avoid illegal involvement in local politics
- Don't pay bribes or other improper payments
- Do not interfere in local government internal relations

Transfer Technology

- Enhance the transfer of technology to developing nations
- Adapt technologies to local needs
- Conduct local R&D when possible
- Grant fair licenses to use technology



- Global E-Business
- Conceptual Analysis, Advantages and Disadvantages of E-Business
- E-Commerce in India



Electronic business, or e-business



- **Electronic business, or e-business**, is the application of ***information and communication technologies*** (ICT) in support of all the activities of business



Global E-Commerce



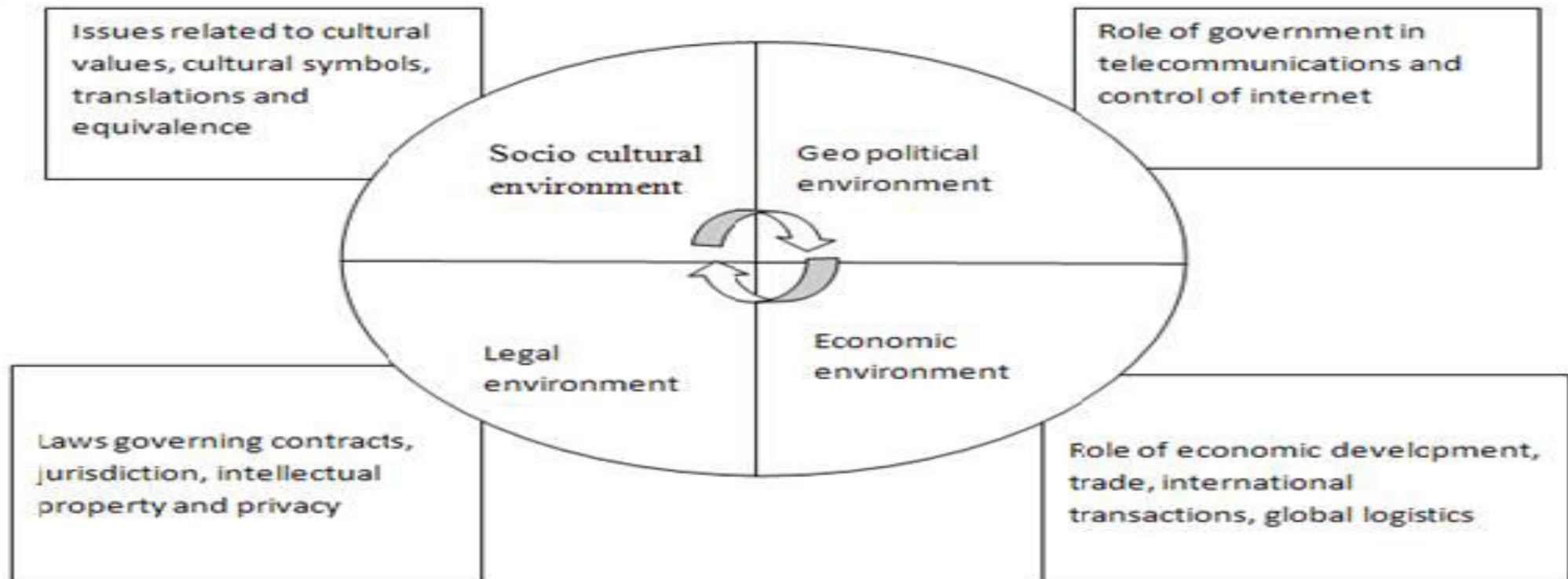
- **Global e-commerce** is basically about leveraging electronic networks to capture **global** markets, and it includes all transactions taking place in the worldwide electronic market space.



GLOBAL Online B/S Environment



Figure: global online business environment



The Short History of E-Business



- The Internet was created only 30 years ago
- Electronic mail was introduced in 1972
- In the mid-eighties, desktop operating systems (PCs) surfaced and the modern day Internet began to take shape
- In 1990, the first World Wide Web software was developed by Tim Berners-Lee
- In the early '90s commercial dial-up services were introduced



Cont..

- In 1992, the real e-business economy began
- By 1993, over 100 countries had an online presence
- Within the year, commercial users outnumbered academic users for the first time
- By the mid-nineties, e-commerce became attractive to business
- In 1997, virtually every major company, organization, government and news service had a presence on the Web



Cont..

- Vertical companies such as Amazon.com took the next step and actually started performing business on the Web
- Some would call the first wave of e-business “brochure ware”
- In the next wave, supply chain issues started to be addressed



- **Electronic business, or e-business**, is the application of *information and communication technologies* (ICT) in support of all the activities of business.
- **Commerce** constitutes the exchange of products and services between businesses, groups and individuals and can be seen as one of the essential activities of any business.



E-COMMERCE CONCEPT





- **Electronic commerce** focuses on the use of ICT to enable the external activities and relationships of the business with individuals, groups and other businesses.
- The term "e-business" was coined by IBM's marketing and Internet teams in 1996



The process of E-commerce





E- Commerce meaning

- E-commerce increases the growth of online business.
It can be categorized under:
- 1- *Online marketing*
- 2- *Online advertising*
- 3- *Online sales*
- 4- *Product delivery*
- 5- *Product service*
- 6- *Online billing*
- 7- *Online payments*





Types of Ecommerce Business Models





E-COMMERCE BUSINESS MODEL



	BUSINESS	CUSTOMER	GOVERNMENT
BUSINESS	B 2 B	B 2 C	B 2 G
CUSTOMER	C 2 B	C 2 C	C 2 G
GOVERNMENT	G 2 B	G 2 C	G 2 G

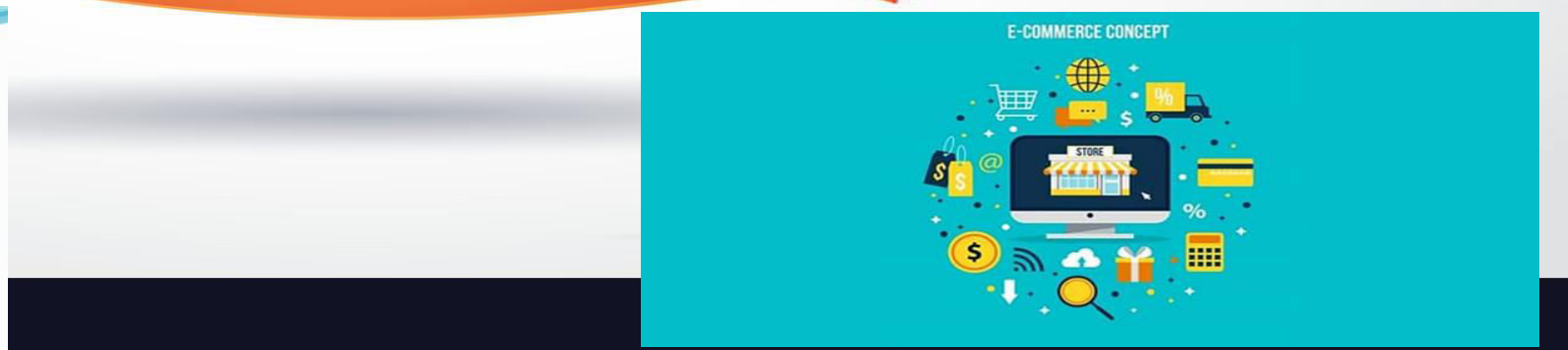
Common e-commerce business models



1. Business - to - Business (B2B)
2. Business - to - Customer (B2C)
3. Business- to- Government B 2 G
4. Customer - to - Business (C2B)
5. Customer - to - Customer (C2C)
6. Customer – to – Government C 2 G
7. Government - to - Business (G2B)
8. Government - to - Customer (G2C)
9. GOVERNMENT- to- Government (G 2 G)



Business - to - Business (B2B)





1. BUSINESS to BUSINESS



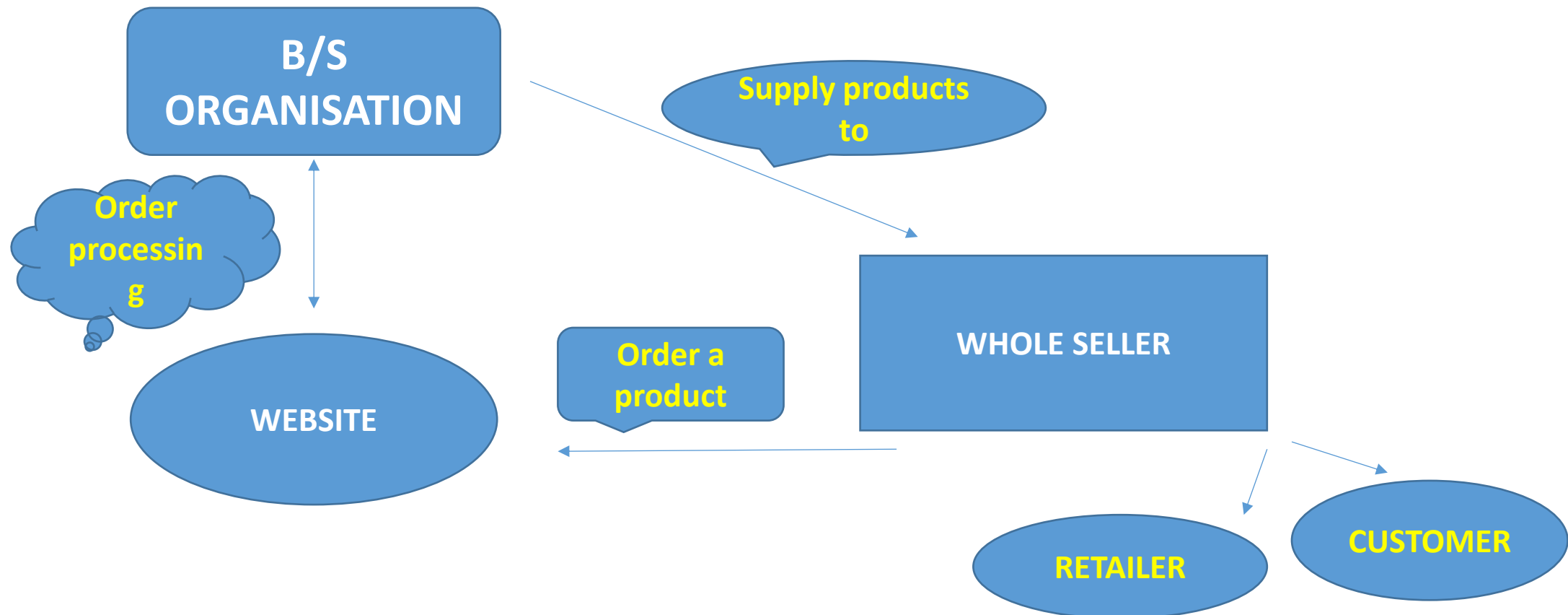
- It is like manufacturer selling / issuing goods to the retailer (or) whole seller
- **Ex: Ali baba , India mart**



Adv:

1. Encourage business online
2. Import export easy
3. Buyer / seller determination is easy
4. Trade guides

BUSINESS to BUSINESS (B 2 B)



B2B (Business-to-Business)



Indiamart.

The screenshot shows the Indiamart.com homepage. At the top, there's a navigation bar with the Indiamart logo and various links. Below the header, a large banner promotes 'Get your company CRISIL Verified' with a 'New Service Launch' button. The main content area is divided into several sections: 'Suppliers' with a list of categories, 'Hot Products' featuring various goods like toys and electronics, and 'PRISIL Suppliers' listing verified vendors. A sidebar on the right contains a 'PRISIL Suppliers' list and a 'PRISIL Suppliers' section. The bottom of the page features a 'PRISIL Suppliers' section and a 'PRISIL Suppliers' section.

Tatab2b.c

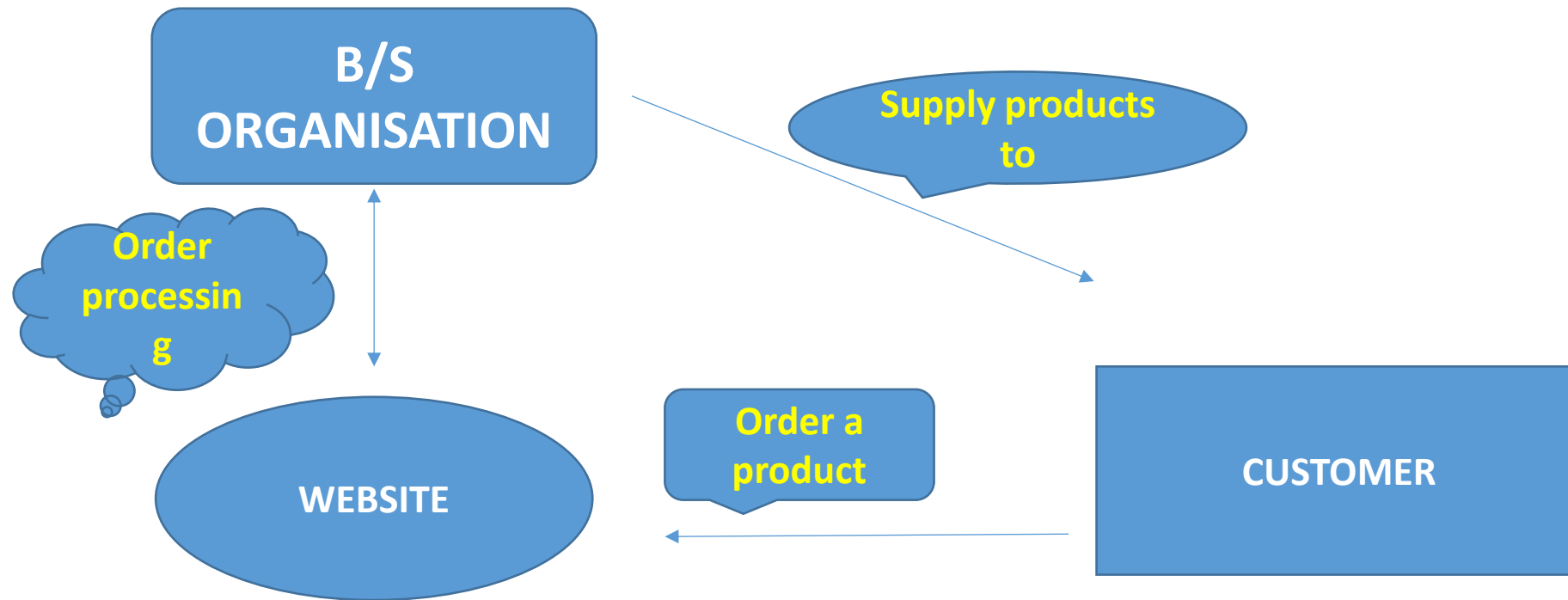
The screenshot shows the Tatab2b.com homepage. At the top, there's a navigation bar with the Tatab2b logo and various links. Below the header, a large banner promotes 'Get your company CRISIL Verified' with a 'New Service Launch' button. The main content area is divided into several sections: 'Suppliers' with a list of categories, 'Hot Products' featuring various goods like toys and electronics, and 'PRISIL Suppliers' listing verified vendors. A sidebar on the right contains a 'PRISIL Suppliers' list and a 'PRISIL Suppliers' section. The bottom of the page features a 'PRISIL Suppliers' section and a 'PRISIL Suppliers' section.

2.BUSINESS TO Customer (B 2 C)



- It is the model taking B/S and Customer interaction
- Concept is to sell the product online to customer
- **Ex: AMAZON , FLIPKART , PRICELINE.COM**

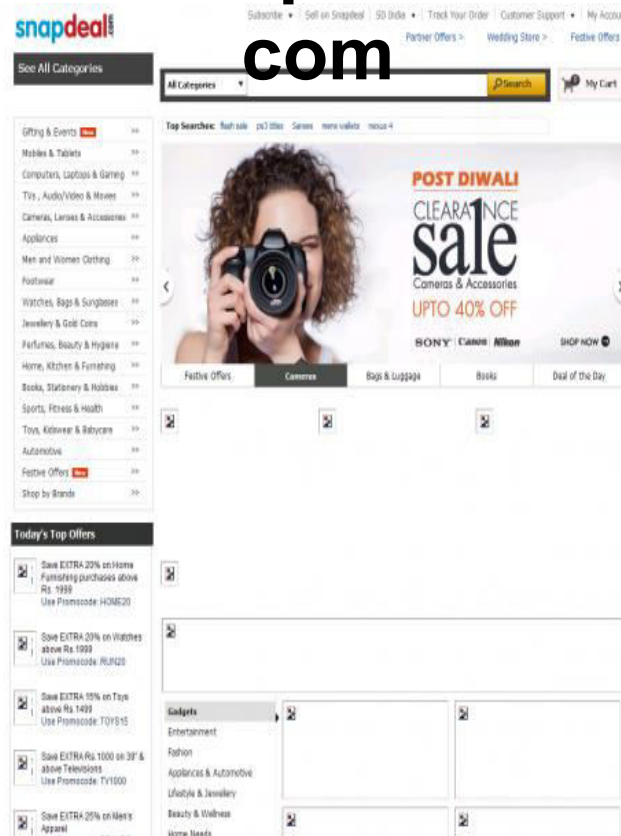
BUSINESS to Customer (B 2 C)



B2C (Business-to-Consumer)



Snapdeal.
com



Flipkart.co
m

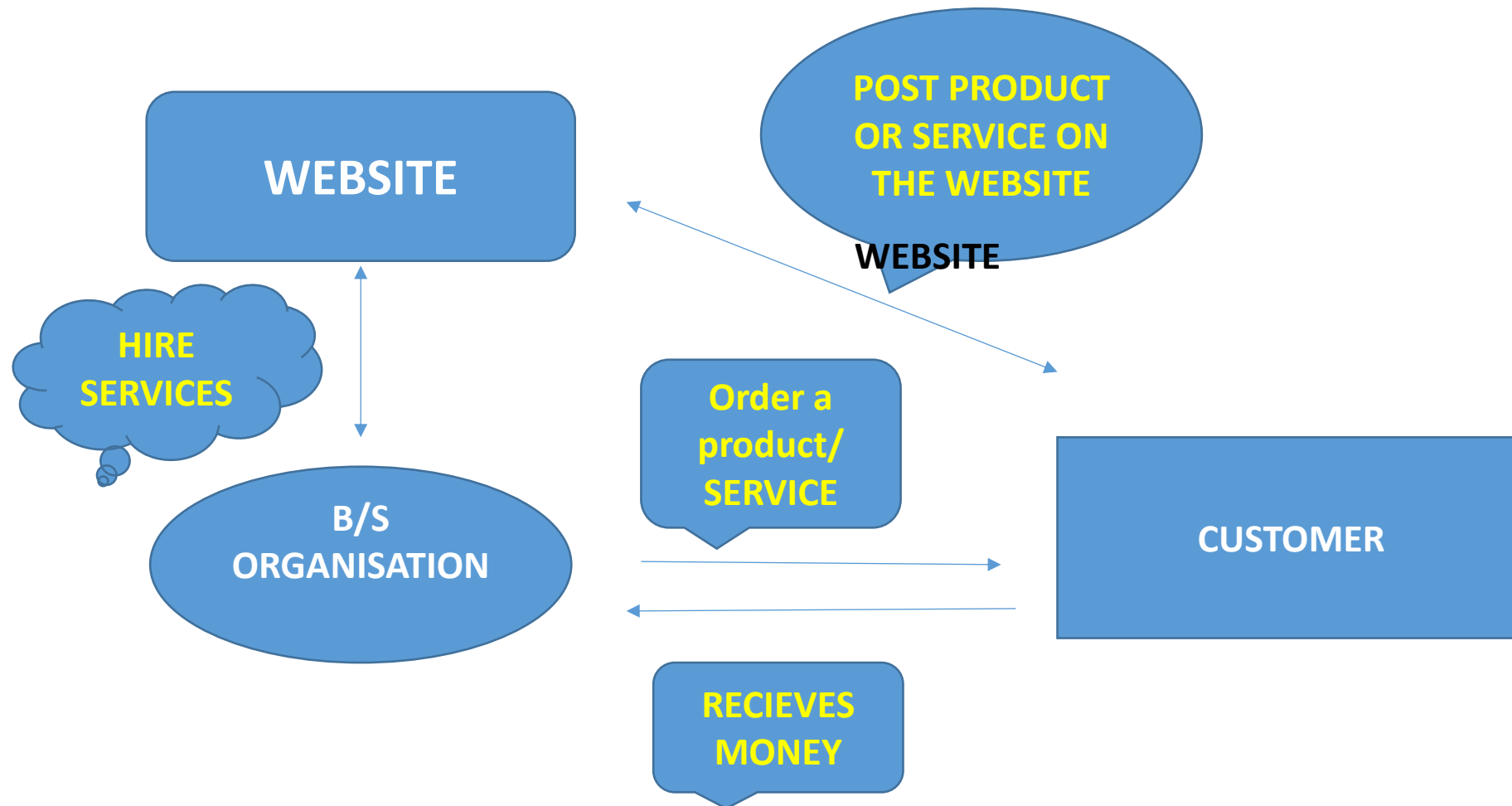


3. Customer to Business (C 2 B)



- In this customer demands specific products / services from respective business
- **EX: FREE LANCER**
- It is reverse of B 2 C

Customer to BUSINESS (C 2 B)



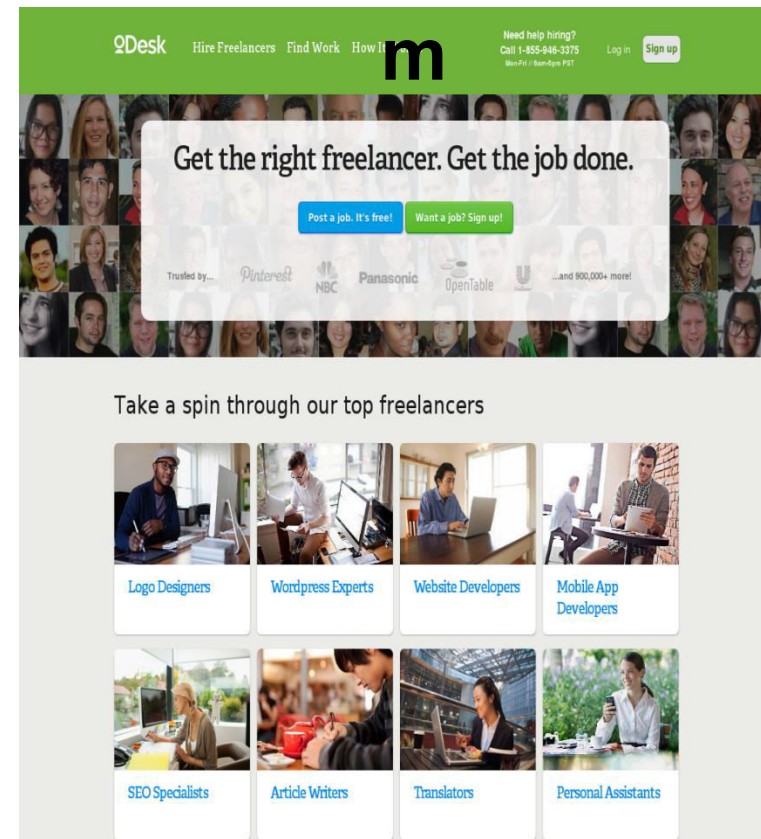
C2B (Consumer-to-Business)



Elance.c



Odesk.co



CUSTOMER 2 CUSTOMER (C 2 C)



- It means that a customer would contact a business in a search for a suitable customer

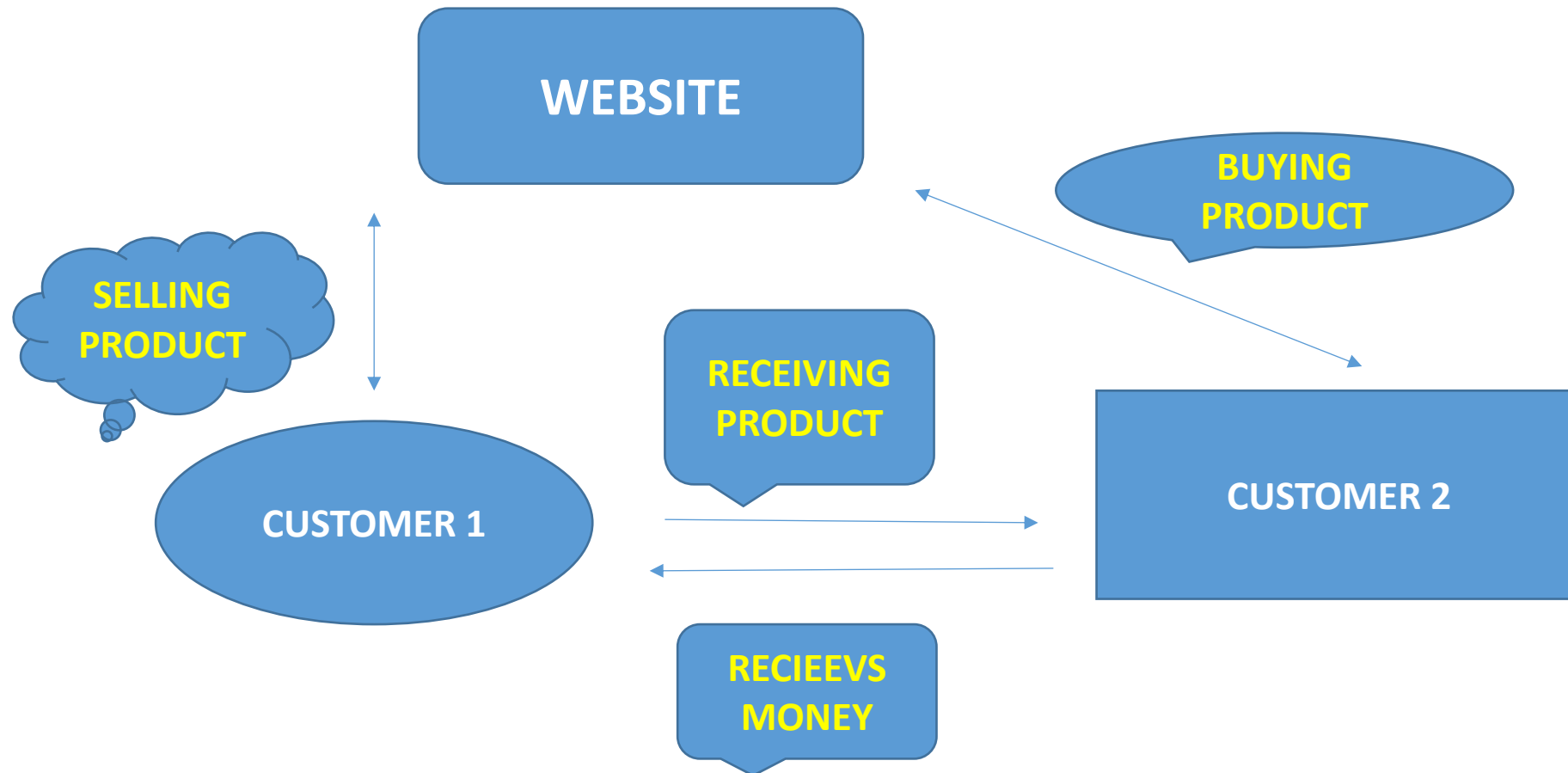
- $(C 2 B 2 C) \rightarrow (C 2 C)$

- **Ex: OLX , e buy ,**



- <https://www.youtube.com/watch?v=vg5KB3hPmp8>

Customer to Customer (C 2 C)



C2C (Customer -to-Customer)



Olx.in

India Free classifieds

Sign in or Register | My OLX | OLX Mobile

What are you looking for?

Find ads in India Choose city or state ▾

Mobile Phones

- Mobile Phones
- Mobile Phones Accessories

Electronics & Technology

- Cameras - Camera Accessories
- CDs - DVDs
- Computers - Laptops - Accessories
- Home Appliances - Electronics
- Tools - Machinery - Industrial
- Video Games - Consoles

Real Estate

- Houses - Apartments for Sale
- Houses - Apartments for Rent
- Land - Plots For Sale
- Office - Shops - Commercial Space
- Playing Guest - Hotels
- Vacation Rentals - Service Apartments

Home & Lifestyle

- Art - Collectibles - Hobbies
- Books - Magazines
- Clothing - Accessories
- For Babies - Children
- Health - Beauty
- Home - Furniture - Garden Supplies
- Jewellery - Watches
- Musical Instruments
- Pets - Pet Accessories
- Sports - Fitness
- Everything Else

Vehicles

- Cars
- Motorcycles - Scooters
- Bicycles - Auto Rickshaws
- Buses - Tempos - Trucks
- Spare Parts - Accessories
- Tractors - Agricultural Equipments

Jobs & Services

- Job Offers
- CVs
- Services

Stay Connected:
+32 Lakhs people like OLX!

The OLX application is now available for FREE!
[Download it now](#)

Popular on olx.in

Popular cities:

Agra	Kolkata
Ahmedabad	Lucknow
Bangalore	Ludhiana
Bhopal	Mumbai
Chennai	Nagpur
Delhi	Patna
Hyderabad	Pune
Indore	Surat
Jaipur	Thane
Kanpur	Vadodra
	Other Cities

Popular states:

Andaman & Nicobar Islands	Delhi	Lakshadweep
Assam	Goa	Madhya Pradesh
Bihar	Gujarat	Maharashtra
Chhattisgarh	Haryana	Manipur
Dadra & Nagar Haveli	Himachal Pradesh	Meghalaya
	Jammu & Kashmir	Mizoram
	Karnataka	Nagaland
	Kerala	Odisha
	Punjab	Pondicherry

Justdial.c

Recently visited: K. Washburn

Justdial in other Countries

om Justdial
Anything, Anytime, Anywhere

1-800-500-0000
America's fastest local search for phone

New York, NY

What? e.g. Sleepys, Laptops Where? e.g. Times Square

Instant Search ☐ Remember My Location

Popular Search Categories

Movies

Events

Restaurants

Coffee Shops

Pharmacies

ATM

Nightlife

Hotels

Taxis

Doctors

Gas Stations

Home Services

Shopping

Auto Service

Repairs

Active Life

Airlines

Automobile

2,259,802

Rated Establishments

Regular Wireless
Rated ☐ ☐ ☐ ☐ ☐ By Elvira
2 Minutes Ago

Total Health Care Inc
Rated ☐ ☐ ☐ ☐ ☐ By Mark Wright
6 Minutes Ago

United States Postal Service
Rated ☐ ☐ ☐ ☐ ☐ By Patricia Bowman
9 Minutes Ago

Free Living
List your business free on Justdial

Share Your Views
Your views about Justdial

Advertise
Advertise your business on Justdial

JD On Mobile
Search at your fingertips

BUSINESS 2 GOVERNMENT (B 2 G)



- It means business to government .
- It is a type of E- commerce in which business sells its services or products to government

Ex: Government Tenders

Customer TO Government (C 2 G)



- It is where people interact with the government on the internet .
- It covers the areas such as election votes & taxation
- **Ex: [www. Whitehouse.gov](http://www.whitehouse.gov)**

That exchange information between the white house & public

Government To Business (G 2 B)



- It means government to business
- It is type of E commerce in which government sells its information or services to business
- This process takes place on some special government websites

Ex: [www. Income tax india.gov.in](http://www.income-tax-india.gov.in)

Rules related to TAX, different forms & facility for sub mission of online tax returns .

Government To customer (G 2 C)



- This is how the government provides information to people electronically . It is also where people can download forms .
- Submit applications online & even renew their passports

EX: [www. USCIS. gov](http://www.USCIS.gov) is the place for immigrants to make appointment with the local INS office(**Immigration and Naturalization Service**) , searching for immigration laws, print out application check their case status etc..

U.S. Citizenship and Immigration Services (**USCIS**)

Government To Government (G 2 G)



- This is how government around the globe interact with each other on the internet
- **How ever it helps government fighting against crimes and terrorists**

Government To Government (G 2 G)



- This is how government around the globe interact with each other on the internet
- **How ever it helps government fighting against crimes and terrorists**

Global E-business and Collaboration



Global E-Marketing



- **Global E-Marketing** : Global e -Marketing is the use of internet as a media to market and promote your business globally. In today's world the most cost effective method of global business promotion is e Marketing.



Advantages

- Global Reach
- Easy Marketing
- Economical
- Keep updated information



Benefits of e- business

- Increase revenue; Expand Client base, Reach niche market segments;
- Lower operating costs; Better customer service, Enhancing Company image.

The Disadvantages of E-Business



- The uncertainty of secure transactions
- The fear of the unknown business model
- The uncertainty of the monetary outlay



• Challenges in E-Marketing

- Understanding customer evolution so you must Invest ahead of customer needs
- Charting changing technology hence Match technology choices to consumer tastes
- Weathering the storm that is understand the market environment and Reassure stakeholders with clear vision, sensible business model, and profitable venture
- Integrating offline & online activities by Aligning offline & online business activities
- Identifying key levers of competitive advantage and Reallocate resources as competitive advantage levers evolve



Alternative E-Business strategies

- Basically the E- Business strategies are for growing the business, improving the profits, in order to obtain the extended objective of e-business, the alternative strategies shall be adopted which are as follows
- E-Advertising - revenue generated from web site hits
- E-retailing -revenue derived from direct Internet sales
- E-Channel - revenue produced from maintenance of current channel integrity
- E-Affiliate - revenue made from paid marketing alliances
- E-Franchise - revenue created from authorized agents
- E-Subscription - revenue derived from payment for content access



• Alternative e-business strategies

- **Enterprise resource planning (ERP)** is business management software—usually a suite of integrated applications—that a company uses to manage business processes, including:
 - Product planning and development, Manufacturing
 - Marketing and sales , Inventory management , Shipping
- **Electronic data interchange (EDI)** is a document standard which when implemented acts as common interface between two or more computer applications in terms of understanding the document transmitted. It is commonly used by big companies for e-commerce purposes, such as sending orders to warehouses or tracking their order. It is more than mere e-mail; for instance, organizations might replace bills of lading and even cheques with appropriate EDI messages



- The **e CRM** or **electronic customer relationship management** encompasses all the CRM functions with the use of the net environment i.e., intranet, extranet and internet. Electronic CRM concerns all forms of managing relationships with customers making use of information technology (IT). eCRM is enterprises using IT to integrate internal organization resources and external "marketing" strategies to understand and fulfill their customers needs
- **Automated online assistant** is a program that uses artificial intelligence to provide customer service or other assistance on a website. Such an assistant may basically consist of a dialog system. Automated online assistants have the ability to provide customer service during 24 hours a day and 7 days a week,
- **Business relationship management** is a formal approach to understanding, defining, and supporting a broad spectrum of inter-business activities related to providing and consuming knowledge and services via networks BRM seeks to provide a complete and holistic model of business relationships
- **Customer intelligence** (CI) is the process of gathering and analyzing information regarding customers; their details and their activities, in order to build deeper and more effective customer relationships and improve strategic decision making



- **Business intelligence (BI)** is a set of theories, methodologies, processes, architectures, and **technologies that transform raw data into meaningful and useful information for business purposes**. BI can handle large amounts of information to help identify and develop new opportunities. Making use of new opportunities and implementing an effective strategy can provide a competitive market advantage and long-term stability.
- **Database marketing** is a form of **direct marketing using databases of customers or potential customers to generate personalized communications in order to promote a product or service for marketing purposes**. The method of communication can be any addressable medium, as in direct marketing.
- **Partner relationship management (PRM)** is a system of methodologies, strategies, software, and web-based capabilities that help a vendor to manage partner relationships. ***The general purpose of PRM is to enable vendors to better manage their partners through the introduction of reliable systems,***
- **Sales intelligence (SI)** refers to technologies, applications and practices for the collection, integration, analysis, and presentation of information to help salespeople keep up to date with clients, prospect data and drive business



E-Commerce Today

Some major product categories have smooth the way:

- travel services (\$5.95 billion in 1999 sales),
- computer hardware and software (\$5.8 billion),
- books (\$1.7 billion),
- gifts and flowers (\$730 million),
- music (\$540 million), and
- apparel and footwear (\$460 million),

(eMarketer in Business 2.0 Jan 2000).



E-Commerce Services Today



- In 1999, the online market size for business services was estimated at \$22 billion.
- Primary service categories include
 - financial (\$7.3 billion, 1999),
 - professional (\$4.4 billion),
 - administrative support (\$3.9 billion),
 - corporate travel (\$5 billion), and
 - telecommunications (\$1.5 billion).
- By 2003, Forrester Research predicts that online services will represent nearly 8 percent of the overall sector hardly a drop in the bucket.

Future of E-Commerce



- eMarketer, an Internet technology (IT) research and reporting firm, estimates that the dollar figure for e-commerce will rise from approximately U.S. \$18 billion in 1998 to U.S. \$294 billion in 2002.
- \$184 billion by 2004. (Forrester, Business 2.0 Jan 2000)
- In Europe, consumers' internet purchases will jump from 2.9 billion in 1999 to 174 billion in 2005.
- By 2006, US Government Will Collect \$602 Billion Over The Net
- Online business-to-business e-commerce is projected to speed past \$1 trillion in annual revenue by 2003

Future Trends to Watch in E-Commerce



- **Women take control.** Women make or influence 80 percent of household sales in the United States, according to WomanTrend, despite the fact that they make up 51 percent of the population.
- **The untapped get tapped.** Two highly touted markets \$509 million health and beauty, and \$513 million grocery still lag behind expectations.
- **More "click and mortar."** Traditional retailers Circuit City, Crate and Barrel, Sears, Toys R Us, Wal-Mart, and Federated Department Stores missed the boat in 1995 and 1996, but rest assured they "get it" now, and are attempting re-entry, this time around with more money and smarts. Watch out.

Still a Long Way To Go



- Andersen Consulting and Forrester Research both show shopping cart abandonment rates of 25%.
- E-commerce still accounts for less than 1% of total retail sales
- Pure plays are struggling to maintain cash flow and are either:
 - Folding
 - Cutting back
 - Being bought at cheap prices



Trend of Ecommerce in India



Quick Stats:



Top 10 ecommerce websites in India:

1. Flipkart.com
2. Ebay.in
3. Snapdeal.com
4. Jabong.com
5. Myntra.com
6. Yebhi.com
7. Tradus.com
8. Naaptol.com
9. Infibeam.com
10. Fashionandyou.com



Things People Intend to Buy Online

Some idea about what people normally intend to buy online.

● Rank1 ● Rank2 ● Rank3 ● Rank4



- EBooks ●
- Designs ●
- Air Ticket ●
- Apps ●
- Photos ●
- Cloths ●
- Home ●
- SEO Services ●
- Security Services ●
- Electronic Equipment ●



Future of ecommerce in India



Why Consumer Prefer Shopping Online?

Simple, easy, quick and limited traveling.



80% of Internet users **prefer to buy online** for the **following** main reasons



Time Saving



Less Prices



More Variety



Less Taxes



No Crowd



Quick Stats:



Quick Stats:



Mobile E-Commerce

The most used platforms are hand held devices today. .



\$1Trillion

Expected Mobile transactions by 2015

Asia/Pacific would be expected to top the list.

- ✓ 94% of the smartphone users access internet with phones in India.
- ✓ 87% of the smart phone users compare prices online in India
- ✓ 70% smart phone users access online shopping websites in India.



Quick Stats:

Mobile eCommerce Today



Anytime Access

Gives you the flexibility of reaching anywhere by the user.



As you know time had been the most important factor in Ecommerce



Browser or App

App allows more closer reach of the users.



Android and iOS had been two majorly used platform today.



Large User-base

Mobile user base is adding upto 9 million connections a month.



90% of the users use mobile phones for the day today activities.

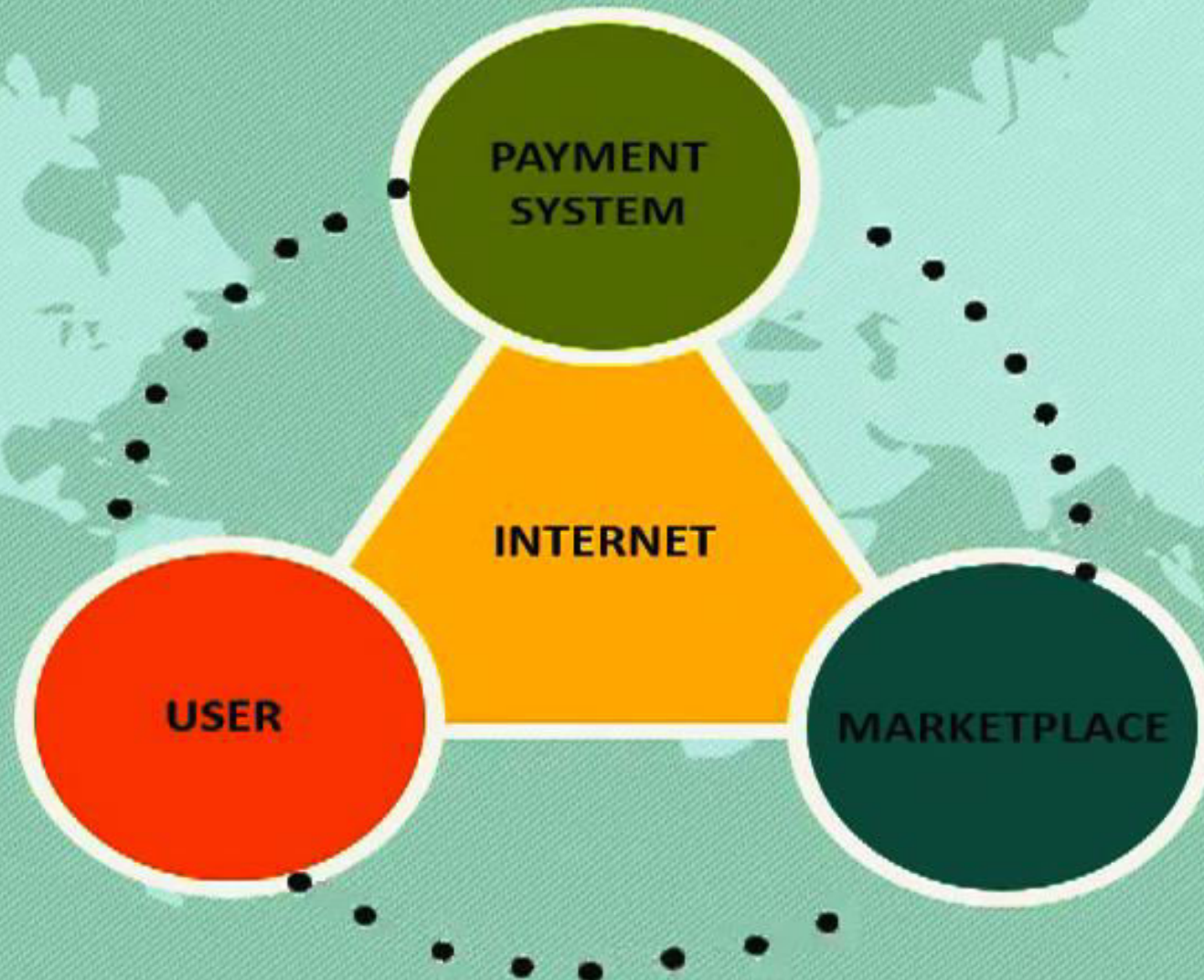


Payment Gateway

Ecommerce (Contd.)

Intervening Parties in Online transaction

Simple design to show how a online transaction occurs.



Payment Gateways in India



CC Avenue®

PAYUPAISA

BillDesk

All your payments. Single location.

Google
Checkout

EBS

State Bank of India

ICICI Bank

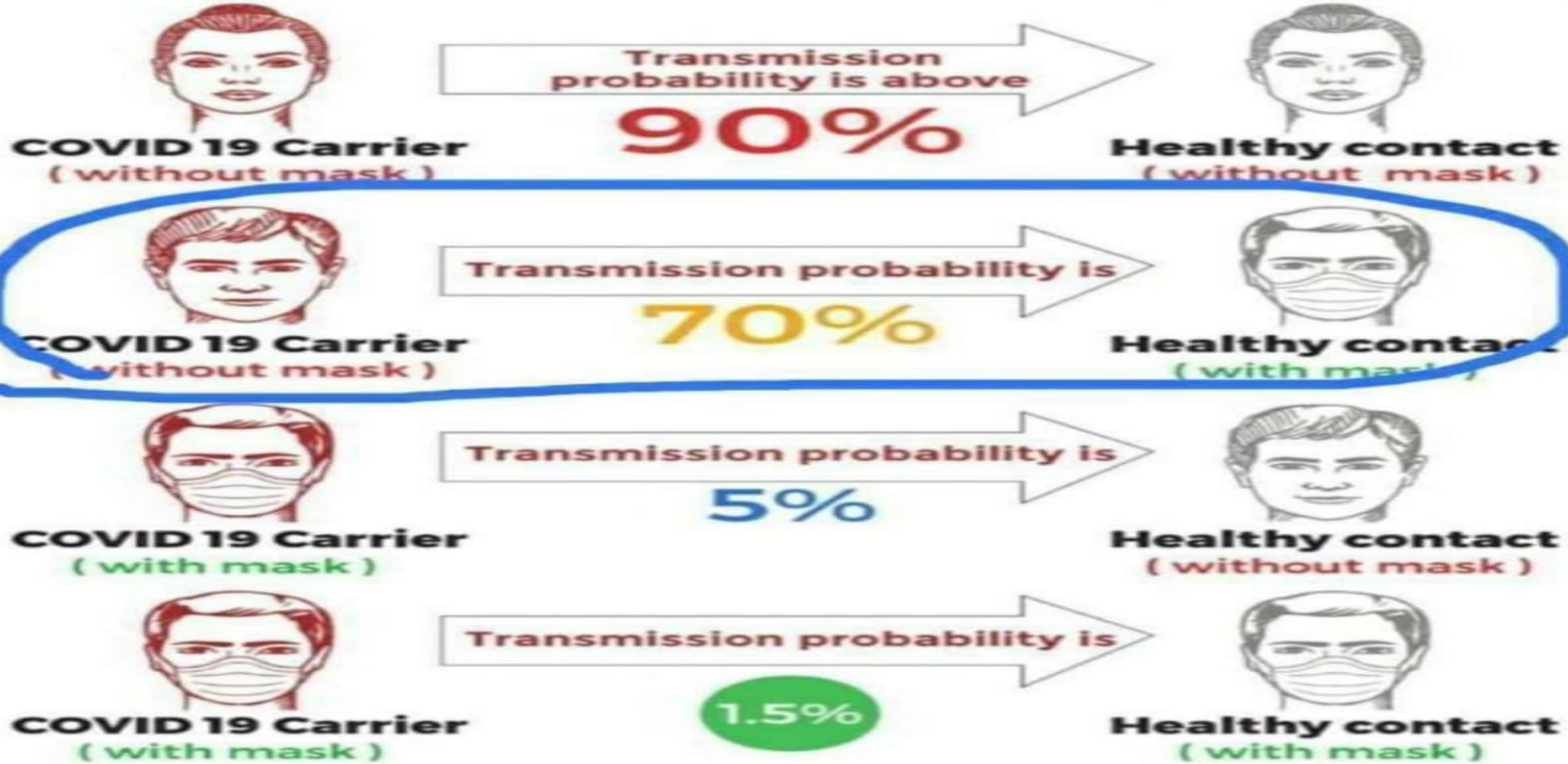
IDBI BANK

PayPal™

HDFC BANK

CORONAVIRUS ALERT

FACE MASK IS MANDATORY



ANY TYPE OF MASK IS SAFER THAN NO MASK



THANK YOU



GLOBAL BUSINESS OPERATIONS MODULE 6:

JAGADEESH BABU.MK



- **MODULE 6: GLOBAL BUSINESS OPERATIONS**
10 HOURS

- Global- Operations management and competitive advantage, strategic issues in operations management,(Manufacturing Management, Logistics Management and Procuring), Technology transfers – issues arising out of technology transfers. Marketing Management, benefits of international markets, major activities in international marketing Human Resource Management: Approaches, Expatriation and Repatriation Process, Training, Compensation, Industrial Relations.

GLOBAL OPERATIONS MANAGEMENT



GLOBAL OPERATIONS MANAGEMENT

Operations management



- **OM is an area of mgt concerned with overseeing , designing , and controlling the process of production and redesigning business operations in the production of goods or services.**
- OM is a field that can, at times , be misunderstood because of its multidisciplinary nature.



- Operations are permanent initiative that produce repetitive results with resources assigned to do the same set of tasks and produce a standard output
- Operation creates a multi products ,service or results
- Operations require business process management or operations management.



GLOBAL OPERATIONS MANAGERMENTS



- Global Operations Management (GOM) concentration prepares graduates with state-of-the-art knowledge of managing operations in a global context. The focus will be on contemporary issues related to operations function which are of relevance in a firm's ability to effectively collaborate with its supply chain partners in order to remain competitive in a global economy. The GOM concentration prepares students for careers with global manufacturing, service, and consulting organizations by offering a variety of courses in management of materials, quality, supply chains, services, global projects, and operations strategy.



GLOBAL OPERATIONS CAREERS

- **Supply Chain and Logistics Manager**
- **Purchasing Manager**
- **General Operations Manager**
- **Operations Research Analyst**





OPERATIONS MANAGEMENT AND COMPETITIVE ADVANTAGE

- Competing on differentiation
- Competing on cost
- Competing on response
 - a. flexible response
 - b. reliability of scheduling
 - c. quickness





IMPORTANCE OF MANAGING GLOBAL OPERATIONS

1. Reduce cost
2. Reduce risk
3. Secure supply sources
4. Improve customer services
5. Attract new markets
6. Learn to improve operations
7. Attract global talent



Global
Operations

Operations management





STRATEGIC ISSUE IN OPERATION MANAGEMENT

When an international company possesses a particular technology and decides to begin manufacturing, it needs to adopt a sound operation strategy so as to enjoy competitive advantage.

Manufacturing involves transformation or conversion of new materials and inputs into good and services.

It is therefor associated with activities or decisions related with manufacturing.



Global
Operations



The operation strategy in a manufacturing company involves many issues. The more important among them are:

1. Manufacturing management
2. Procuring
3. Logistics management
4. Other issues in managing global operations





MANUFACTURING MANAGEMENT



International manufacturing management provides an unparalleled opportunity for companies to grow into new markets while at the same time boosting their competitiveness. However, most of today's networks are legacy structures only a fraction was strategically planned. As a result, there is huge potential to be captured from rethinking traditional structures, approaches and supply relations, and huge potential for getting it wrong.



FORCES ACCELERATING GLOBAL MANUFACTURING

1. Huge factor cost differences
2. High growth in emerging markets
3. Lower transaction cost





KEY ISSUES IN INTERNATIONAL MANUFACTURING MANAGEMENT

1. Geographical dimension
2. Regulatory regimes dimension
3. Working issues for labour force
4. Location issues
5. Increase in cost of production





LOGISTICS MANAGEMENT

GLOBAL LOGISTICS is the process of planning, implementing and controlling the flow and storage of goods and services and related information from a point of origin to a point of consumption located in a different country. The global logistics function management function is naturally more complex than the logistics function managed within one particular country.





COMPONENTS OF GLOBAL LOGISTICS

1. International transportation
2. International insurance
3. Packaging needs
4. International means of payment
5. Teams of trade
6. The crossing of borders
7. Inventory
8. Environment of international logistics





INTERNATIONAL LOGISTIC DECISION

1. Warehouse managements
2. Packaging
3. Inventory management
4. Material handling
5. Information systems
6. Transportation
 - a. railway transportation
 - b. road transportation
 - c. water transportation
 - d. air transportation
7. insurances



AMAZON GLOBAL LOGISTICS





PROCURING



Global procuring or sourcing occurs when buyers purchase goods and services from sellers located anywhere in the world. Global sourcing of goods, crops and other commodities has been common for many years in industries such as manufacturing and agriculture, used as a positive strategy to reap economic advantage.



ENABLING FACTORS OF GLOBAL PROCURING

1. Growing pools of highly skilled resources
2. State-of-the-art facilities
3. Advances in telecommunications
4. Improvement in collaborative tools and platforms
5. Maturing delivery models





MODES OF GLOBAL PROCCURING

1. Importation
2. Establishment of international procurement offices (IPOs)
3. Sourcing through direct investment





OTHER ISSUES IN MANAGING GLOBAL OPERATIONS

1. Make or buy
2. International standardisation of production facilities
3. Robotics and flexible manufacturing
4. Contract manufacturing
5. Strategic role of foreign plants
6. Managing technology transfers
7. Internationalisation of R&D
8. International quality standards





TECHNOLOGY TRANSFER



Technology transfer is the process of sharing of skill, knowledge, technologies, methods of manufacturing, sample of manufacturing and facilities among governments and other institutions to ensure that scientific and technological developments are accessible to a wider range of users who can then further develop and exploit the technology into new products, processes, applications, materials or services.



REASONS FOR TECHNOLOGY TRANSFER

1. Profit from selling technology
2. Location and logistics advantage
3. Competitive edge
4. Grants and subsidiaries
5. Limitations of home country
6. superior capital market
7. Enhance competence





METHOD OF TECHNOLOGIC TRANSFER

1. FDI
2. Licensing
3. Franchising
4. Management Contracts
5. Contract manufacturing
6. Joint Venture
7. Technological consortium and joint R&D projects





IMPORTANCE OF TECHNOLOGICAL TRANSFER

1. Encourage use of technology
2. Create competitive advantage
3. Promote research and development
4. Enhance capability and innovations
5. Leverage business environment





TECHNOLOGY TRANSFER



Marketing management



- *Marketing management smoothen the process of exchange of ownership of goods and services from seller to the buyer. Marketing management, like all other areas of management comprises of the function of planning, organizing, directing coordinating and controlling.*



MARKETING MANAGEMENT

- Responsibilities of Marketing Management

1. Market analysis
2. Set Goals
3. Forecast sales & profits
4. Strategies, policies & procedures
5. Evolve appropriate marketing mix
6. Organize marketing activities
7. Organize resources
8. Participation in product planning
9. Managing Supply chain
10. After Sales activities





BENEFITS OF INTERNATIONAL MARKETING

- Provides higher standard of living
- Ensures rational & optimum utilization of resources
- Rapid industrial growth
- Benefits of comparative cost
- International cooperation and world peace
- Facilitates cultural exchange
- Better utilization of surplus production
- Availability of foreign exchange
- Expansion of tertiary sector
- Special benefits at times of emergency





MAJOR ACTIVITIES IN INTERNATIONAL MARKETING

- Market Assessment
- Product decisions
- Promotion strategies
- Pricing decisions
- Place or distribution strategies





SECTION – D

1. Case study : This section is **compulsory**.

(1×15=15)

You are an exporter of Indian mangoes to Australia. Detail your strategy of introducing and marketing Indian mangoes in Australia. Also detail the procedure and documents you will need in exporting.



Common Export Documents

- **Commercial Invoice.** A commercial invoice is a bill for the goods from the seller to the buyer. ...
- **Export Packing List.** ...
- **Pro Forma Invoice.** ...
- **Airway Bill/Road /Rail way /** ...
- **Generic Certificate of Origin.** ...
- **Dangerous Goods Certificate.** ...
- **Insurance Certificate.** ...
- **Shipper's Letter of Instruction.**



10. **Case study :**

(1×15=15)

Four senior executives of the world's largest firms with extensive holdings outside the home country speak.

Company A : "We are a multinational firm. We distribute our products in about 100 countries. We manufacture in over 17 countries and do research and development in three countries. We look at all new investment projects both domestic and overseas-using exactly the same criteria".

The execution from company A continues, "ofcourse most of the key posts in our subsidiaries are held by home-country nationals. Whenever replacements for these men are sought, it is the practice, if not the policy, to look next to you at the head office and pick someone (usually a home country national) you know and trust".

Company B : "We are a multinational firm. Only 1 percent of the personnel in our affiliate companies are non-national. Most of these are US executives in temporary assignments. In all major markets, the affiliates managing director is of the local nationality".

He continues, "Ofcourse there are very few non-Americans in the key posts at headquarters. The few we have are so Americanized that we usually do not notice their nationality. Unfortunately, you cannot find good foreigners who are willing to live in the United States, where our headquarters is located. American executives are more mobile. In addition, Americans have the drive and initiative we like. In fact, the European nationals would prefer to report to an American rather than to some other European".



Company C : “We are a multinational firm. Our product division executives have world wide profit responsibility. As our organizational chart shows, the United States is just one region on a par with Europe, Latin America, Africa, etc., in each division”.

The executives from company C goes on to explain “the worldwide product division concept is rather difficult to implement. The senior executives in charge of these divisions have little overseas experience. They have been promoted from domestic posts and tend to view foreign consumer needs as really basically the same as ours. Also, product division executives tend to focus on the domestic market because the domestic market is larger and generates more revenue than the fragmented foreign markets. The rewards are for global performance, but strategy is to focus on domestic. Most of our senior executives simply do not understand what happens overseas and really do not trust foreign executives, even those in key positions”.

Company D (non-American) : “We are a multinational firm. We have at least 18 nationalities represented at our headquarters. Most senior executives speak at least two languages. About 30 percent of our staff at headquarters are foreigners.

He continues by explaining that “since the voting shareholders must by law come from the home country, the home country’s interest must be given careful consideration. But we are proud of our nationality, we should not be ashamed of it. In fact, many times we have been reluctant to use home-country ideas overseas, to our detriment, specially in our U.S. subsidiary. Our country produces good executives, who tend to stay with us a long time. It is harder to keep executives from the United States.

Questions :

- 1) Which company is truly multinational ?
 - 2) What are the attributes of a truly multinational company ?
 - 3) Why quibble about, how multinational a company is ?
-

The Mechanics of Import and Export

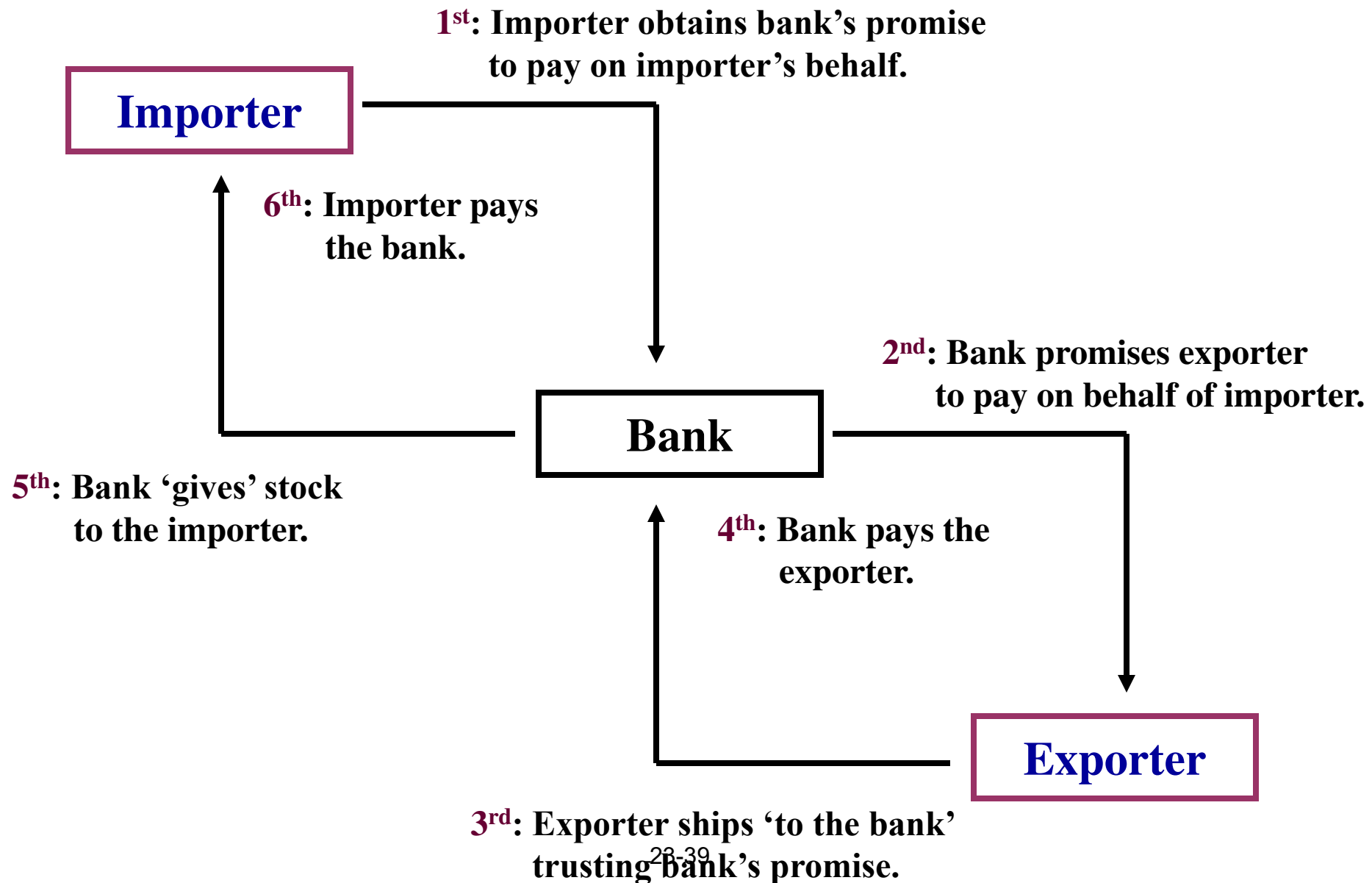


The Trade Dilemma



- The fundamental dilemma of being unwilling to trust a stranger in a foreign land is solved by using a highly respected bank as an intermediary.
- The following exhibit is a simplified view involving a ***letter of credit*** (a bank's promise to pay) on behalf of the importer.
- Two other significant documents are an ***order bill of lading*** and a ***sight draft***.

The Bank as the Import/Export Intermediary





- **EXPORT IMPORT PROCEDURES**

- <https://www.youtube.com/watch?v=rJ7Hlf-cOpo>

Benefits of the System



- The system (including the three documents discussed) has been developed and modified over centuries to protect both importer and exporter from:
 - The risk of no completion
 - Foreign exchange risk
 - To provide a means of financing

Elements of an Import/Export Transaction



- Each individual trade transaction must cover three basic elements:

1. Description of goods,

2. Prices, and

3. Documents regarding shipping and delivery instructions.



➤ Contracts:

- An import or export transaction is by definition a contractual exchange between parties in two countries that may have **different legal systems, currencies, languages, religions or units of measure**
- All contracts should include definitions and specifications for **the quality, grade, quantity, and price of the goods** in question

Elements of an Import/Export Transaction



- Prices:

- Price quotations can be a major source of confusion
- Price terms in the contract should conform to published catalogs, specify whether quantity discounts or early payment discounts are in effect, and state whether finance charges are relevant in the case of deferred payment, and should address other relevant fees or charges

Elements of an Import/Export Transaction

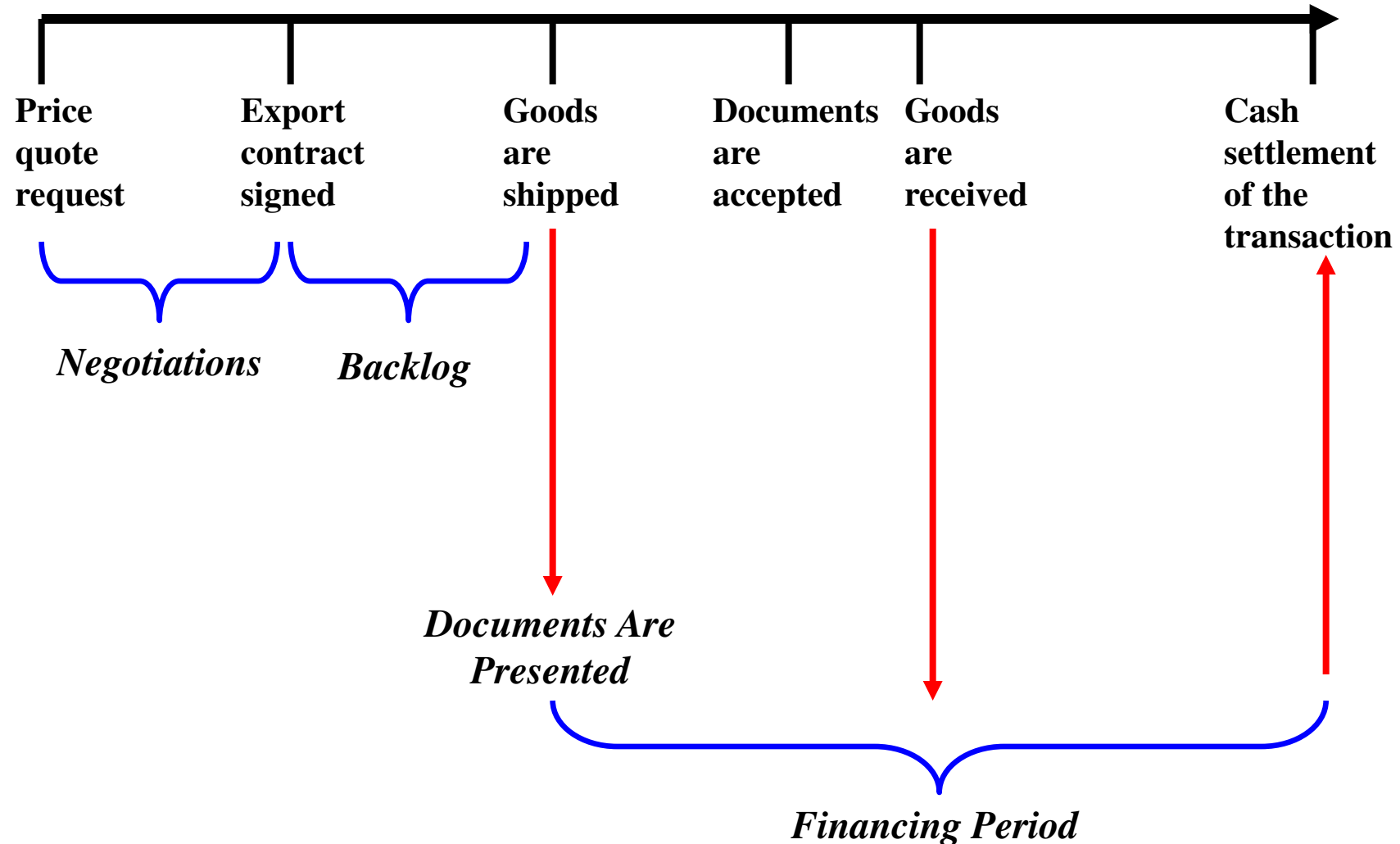


- Documents:
 - **Bill of lading** – issued to the exporter by a common carrier transporting the merchandise
 - **Commercial invoice** – issued by the exporter and contains a specific description of the merchandise (also indicates unit prices, financial terms of the sale etc.)
 - **Insurance documents** – specified in the contract of sale and issued by insurance companies (or their agents)
 - **Consular invoices** – issued in the exporting country by the embassy of the importing country
 - **Packing lists**

The Trade Transaction Time-Line and Structure



Time and Events

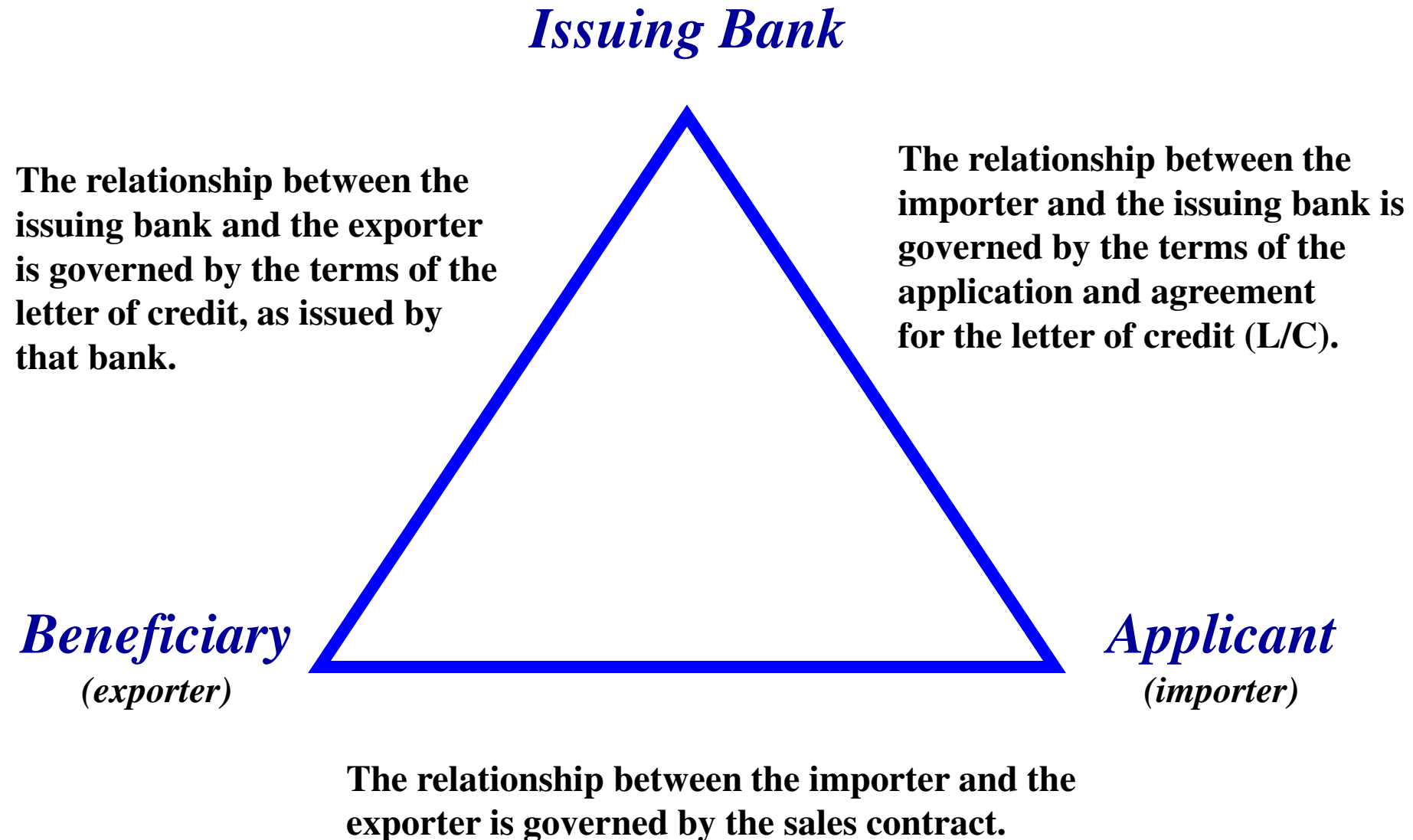


Letter of Credit (L/C)



- A *letter of credit* (L/C) is a bank's conditional promise to pay issued by a bank at the request of an importer, in which the bank promises to pay an exporter upon presentation of documents specified in the L/C.
- An L/C reduces the risk of non completion because the bank agrees to pay against documents rather than actual merchandise.
- The following exhibit shows the relationship between the three parties.

Parties to a Letter of Credit (L/C)



Letter of Credit (L/C)



- The essence of the L/C is the promise of the issuing bank to pay against specified documents, which must accompany any draft drawn against the credit.



- To constitute a true L/C transaction, all of the following five elements must be present with respect to the issuing bank:
 - Must receive a fee or other valid business consideration for issuing the L/C
 - The L/C must contain a specified ending date or definite maturity
 - The bank's commitment must have a stated maximum amount of money
 - The bank's obligation to pay must arise only on the presentation of specific documents
 - The bank's customer must have an unqualified obligation to reimburse the bank on the same condition as the bank has paid

Essence of a Letter of Credit (L/C)



Bank of the East, Ltd.

[Name of Issuing Bank]

Date: September 18, 2014

L/C Number 123456

Bank of the East, Ltd. hereby issues this irrevocable documentary Letter of Credit to Jones Company [*name of exporter*] for US\$500,000, payable 90 days after sight by a draft drawn against Bank of the East, Ltd., in accordance with Letter of Credit number 123456.

The draft is to be accompanied by the following documents:

1. Commercial invoice in triplicate
2. Packing list
3. Clean on board order bill of lading (*Consular invoices*)
4. Insurance documents, paid for by buyer

At maturity Bank of the East, Ltd. will pay the face amount of the draft to the bearer of that draft.

Authorized Signature

Draft



- A *draft*, sometimes called a *bill of exchange* (B/E), is the instrument normally used in international commerce to effect payment.
- A draft is simply an order written by an exporter (seller) instructing and importer (buyer) or its agent to pay a specified amount of money at a specified time.



- The person or business initiating the draft is known as the *maker, drawer, or originator*.
- Normally this is the exporter who sells and ships the merchandise.
- The party to whom the draft is addressed is the *drawee*.

Draft



- If properly drawn, drafts can become *negotiable instruments*.
- As such, they provide a convenient instrument for financing the international movement of merchandise (freely bought and sold).



- To become a negotiable instrument, a draft must conform to the following four requirements:
 - It must be in writing and signed by the maker or drawer
 - It must contain an unconditional promise or order to pay a definite sum of money
 - It must be payable on demand or at a fixed or determinable future date
 - It must be payable to order or to bearer
- There are *time* drafts and *sight* drafts.

Essence of a Time Draft



Name of Exporter

Date: October 10, 2014

Draft number 7890

Ninety (90) days after sight of this First of Exchange, pay to the order of Bank of the West [*name of exporter's bank*] the sum of Five-hundred thousand U.S. dollars for value received under Bank of the East, Ltd. letter of credit number 123456.

Signature of Exporter

Bill of Lading (B/L)



- The third key document for financing international trade is the *bill of lading* or B/L.
- The bill of lading is issued to the exporter by a common carrier transporting the merchandise.



- It serves three purposes:

- a. it is a cargo receipt made out by the ship owner;
- b. it is the evidence of a contract of carriage between the consignor and the shipping company
- c. B/L is a document of title to the goods.

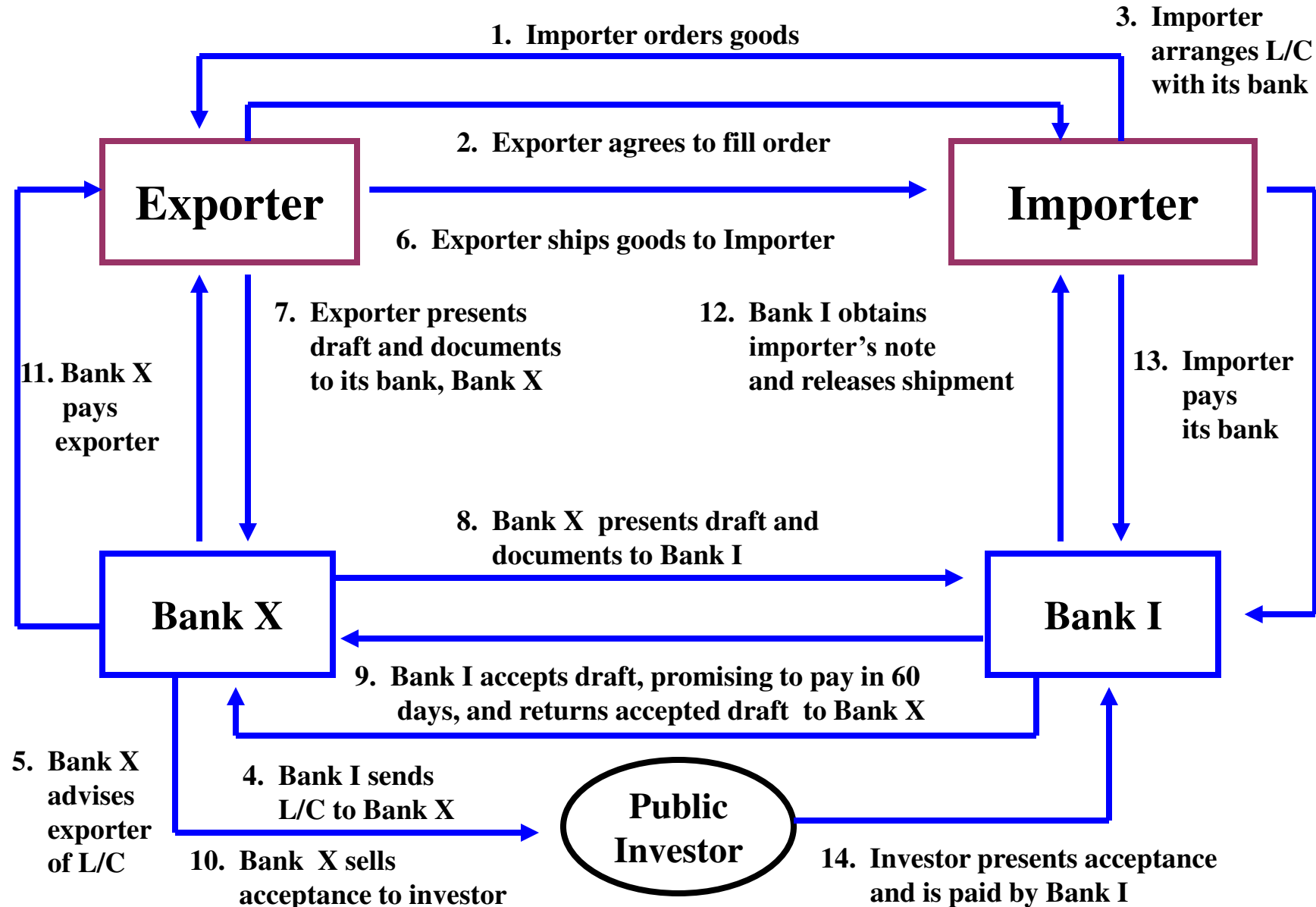
- A receipt, a contract, and a document of title.
- Bills of lading are either straight or to order.

Documentation in a Typical Trade Transaction



- A trade transaction could conceivably be handled in many ways.
- The transaction that would best illustrate the interactions of the various documents would be an export financed under a documentary commercial letter of credit, requiring an order bill of lading, with the exporter collecting via a time draft accepted by the importer's bank.
- The following exhibit illustrates such a transaction.

Steps in a Typical Trade Transaction





The following are the export documents required for the processing of the Shipping Bill:

1. GR forms (GR is Guaranteed Remittance. in duplicate) for shipment to all the countries.
2. 4 copies of the packing list mentioning the contents, quantity, gross and net weight of each package.



- **3. 4 copies of invoices which contains all relevant particulars like number of packages, quantity, unit rate, total value, correct & full description of goods etc.**
- 4. Contract, L/ C, Purchase Order of the overseas buyer.**
- 5. AR 4 (Application for removal of excisable goods for export by (Air/Sea/Post/Land)(both original and duplicate) and invoice. Inspection/ Examination Certificate.**



Commercial invoice - Issued by the seller for the full realisable amount of goods as per trade term.

Consular Invoice - Mainly needed for the countries like Kenya, Uganda, Tanzania, Mauritius, New Zealand, Burma, Iraq, Ausatralia, Fiji, Cyprus, Nigeria, Ghana, Zanzibar etc. It is prepared in the prescribed format and is signed/ certified by the counsel of the importing country located in the country of export.



- **Customs Invoice** - Mainly needed for the countries like USA, Canada, etc. It is prepared on a special form being presented by the Customs authorities of the importing country. It facilitates entry of goods in the importing country at preferential tariff rate.

Legalise Invoice - This shows the seller's genuineness before the appropriate consulate/ chamber of commerce/ embassy. It do not have any prescribed form.



Certified Invoice - It is required when the exporter needs to certify on the invoice that the goods are of a particular origin or manufactured/ packed at a particular place and in accordance with specific contract. Sight Draft and Usance Draft are available for this. Sight Draft is required when the exporter expects immediate payment and Usance Draft is required for credit delivery.



- **Packing List** - It shows the details of goods contained in each parcel/shipment.
Certificate of Inspection - It shows that goods have been inspected before shipment.
Black List Certificate - It is required for countries which have strained political relation. It certifies that the ship or the aircraft carrying the goods has not touched those country(s).
Weight Note - Required to confirm the packets or bales or other form are of a stipulated weight.
Manufacturer's/ Supplier's Quality/ Inspection Certificate.



Manufacturer's Certificate - It is required in addition to the Certificate of Origin for few countries to show that the goods shipped have actually been manufactured and are available.

Certificate of Chemical Analysis - It is required to ensure the quality and grade of certain items such as metallic ores, pigments, etc.

Certificate of Shipment - It signifies that a certain lot of goods have been shipped.

Health/ Veterinary/ Sanitary Certification - Required for export of foodstuffs, marine products, hides, livestock etc.



- **Certificate of Conditioning** - It is issued by the competent office to certify compliance of humidity factor, dry weight, etc.
- Antiquity Measurement** - Issued by Archaeological Survey of India in case of antiques.
- Transshipment Bill** - It is used for goods imported into a customs port/airport intended for transshipment.
- Shipping Order** - Issued by the Shipping (Conference) Line which intimates the exporter about the reservation of space of shipment of cargo through the specific vessel from a specified port and on a specified date.



Exporters should seriously consider having the freight forwarder handle the formidable amount of documentation that exporting requires; freight forwarders are specialists in this process. The following documents are commonly used in exporting;



- which of them are actually used in each case depends on the requirements of both our government and the government of the importing country.
 1. **Commercial invoice**
 2. **Bill of lading**
 3. **Consular invoice**
 4. **Certificate of origin**
 5. **Inspection certification**
 6. **Dock receipt and warehouse receipt**
 7. **Destination control statement**
 8. **Insurance certificate**
 9. **Export license**
 10. **Export packing list**

Export documents



- Commercial invoice
- GR form
- Letter of credit
- Shipping bill
- Marine insurance policy
- Bill of lading
- Airway bill



- Combined transport document
- Certificate of origin
- Inspection certificate
- Dock receipt and warehouse receipt
- Insurance certificate
- Export packing list
- Mate's receipt

Import documents



- Import license
- Bill of entry
- Bill of sight
- Dock challan
- Indent
- Insurance policy
- Letter of advice

Import process



- Making trade enquiry and receiving quotation offer
- Obtaining import license
- Obtaining foreign exchange
- Placing the indent
- Arranging letter of credit
- Getting shipping document
- Appointing clearing agent



- Taking delivery of goods
- Making payment



Method of payment in export and import

- Cash in advance
- Documentary collection
- Open account
- Letter of credit
- Bill of lading
- Payment under consignment

THANK YOU