INTERNATIONAL BUSINESS NOTES(COMPILED)

MBA-III-SEMSTER

International Business: It is defined as the process of extending the business activities from domestic to any foreign country with an intention of targeting international customers, It is also defined as the conduction of business activities by any company across the nations

It can also be defined as the expansion of business functions to various countries with an objective of fulfilling the needs and wants of international customers

1. **Process 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 companies** are importers and exporters, they have no investment outside of

their home country.

- **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.
- **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.
- **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.
- **Multinational Corporation** In a report of the International Labour Organisation (ILO), it is observed that, "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. Actually, for an enlarging business firm, multinational is a beginning step, as it gradually becomes transnational and then turns into a global corporation. For, transnational corporation represents a stage where in, the ownership and control of the concerned organization crosses the national boundaries.

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.

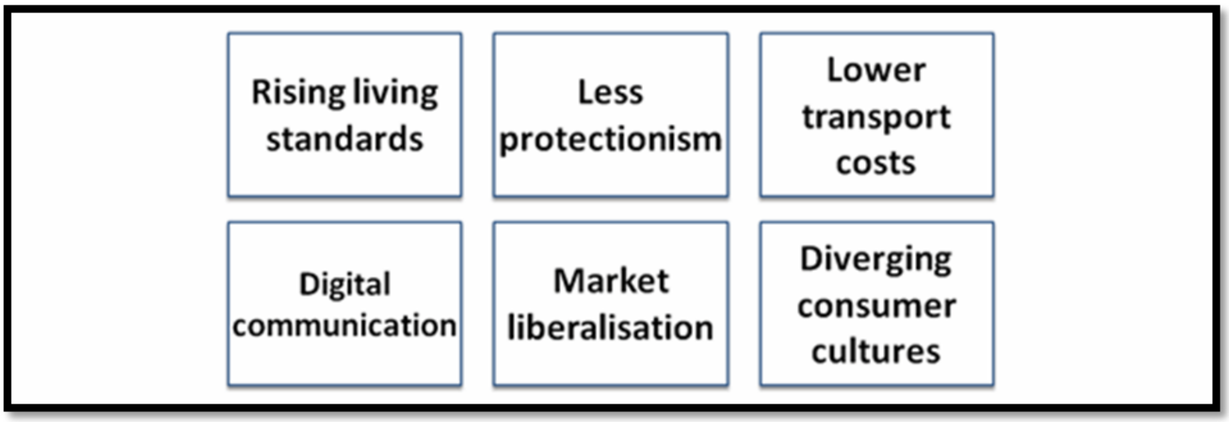
4. Decisions on new investment and the local objectives are taken by the parent company.

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.

Main Drivers of Globalization [International Business]



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

Approaches in International Business

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.

2. REGIOCENTRIC ORIENTATION :

In regiocentric 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.

3. 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 regiocentric approaches in the international market except that the geocentric approach calls for a much greater scale of operation.

4. 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 organisations are created for serving market needs in each country. Polycentric orientation could be most suitable for firms seriously committed to international marketing and have its resources for investing abroad for fuller and long-term penetration into chosen markets. 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.

Theories of International Business

1. 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. Smith stated that tariffs and quotas should not restrict international trade; it should be allowed to flow according to market forces. Contrary to mercantilism Smith argued that a country should concentrate on production of goods in which it holds an absolute advantage. No country would then need to produce all the goods it consumed. The theory of absolute advantage destroys the mercantilistic 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.

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.

2. 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. It remains a major influence on much international trade policy and is therefore important in understanding the modern global economy. The principle of comparative advantage states that a country should specialize in producing and exporting those products in which is has a comparative, or relative cost, advantage compared with other countries and should import those goods in which it has a comparative disadvantage. Out of such specialisation, it is argued, will accrue greater benefit for all.

In this theory there are several assumptions that limit the real-world application. The assumption that countries are driven only by the maximization of production and consumption, and not by issues out of concern for workers or consumers is a mistake.

3.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. On the contrary, the Heckscher-Ohlin theory states that a country should specialise production and export using the factors that are most abundant, and thus the cheapest. Not produce, as earlier theories stated, the goods it produces most efficiently.

The Heckscher-Ohlin theory is preferred to the Ricardo theory by many economists, because it makes fewer simplifying assumptions. In 1953, Wassily Leontief published a study, where he tested the validity of the Heckscher-Ohlin theory. The study showed that the U.S was more abundant in capital compared to other countries, therefore the U.S would export capital- intensive goods and import labour-intensive goods. Leontief found out that the U.S's export was less capital intensive than import.

4.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 generalised and applied to any of the developed and innovative markets of the world.

The product life cycle theory was developed during the 1960s and focused on the U.S since most innovations came from that market. 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. The theory does not explain trade patterns of today.

5.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. According to this theory other measures of countries' well being, such as living standards or human development, are irrelevant. Mainly Great Britain, France, the Netherlands, Portugal and Spain used mercantilism during the 1500s to the late 1700s.

Mercantilistic countries practiced the so-called zero-sum game,[situation in which one participant's gains result only from another participant's equivalent losses. The net change in total wealth among participants is zero; the wealth is just shifted from one to another.] which meant that world wealth was limited and that countries only could increase their share at expense of their neighbors. The economic development was prevented when the mercantilistic 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

INTERNATIONA BUSINESS ENVIRONMENT

FOREIGN ENVIRONMENT:

The home-based or the domestic export expansion measures are necessarily related to the conditions prevailing in possible markets. An Exporter has to overcome various constraints and adapt plans and operations to suit foreign environmental conditions. The main elements of foreign environment affecting marketing activities of a firm in a foreign country consist of the following.

A) POLITICAL DIMENSION:

Nations greatly differ in their political environment. Govt. policies, regulations and control mechanisms regarding the countries, foreign trade and commercial relations with other countries or groups of countries. At least four factors should be considered in deciding whether to do business in a particular country. They are

1. **Attitudes towards International Buying:**

   Some nations are very receptive, indeed encouraging, to foreign firms, and some others are hostile. For e.g.: Singapore, UAE and Mexico are attracting foreign investments by offering investment incentives, removal of trade barriers, infrastructure services, etc.

2. **Political Stability:** A country's future and stability is another important issue. Government changes hands sometimes violently. Even without a change, a region may decide to respond to popular feeling. A foreign firm's property may be seized; or its currency holdings blocked; or import quotas or new duties may be imposed. When political stability is high one may go for direct investments. But when instability is high, firms may prefer to export rather than involve in direct investments. This will bring in foreign exchange fast and currency convertibility is also rapid.

3. Monetary Regulations:

Sellers want to realise profits in a currency of value to them. In best situations, the Importer pays in the seller's currency or in hard world currencies. In the worst case they have to take the money out of the host country in the form of relatively unmarketable products that they can sell elsewhere only at a loss. Besides currency restrictions, a fluctuating exchange rate also creates high risks for the exporter.

4. Government Bureaucracy:

It is the extent to which the Government in the host country runs an efficient system for assisting foreign companies: efficient customs handling, adequate market information, etc.

The problem of foreign uncertainty is thus further complicated by a frequently imposed "alien status", this increases the difficulty of properly assessing and forecasting the dynamic international business. The political environment offers the best example of the alien status.

A foreign political environment can be extremely critical; shifts in Government often means sudden changes in attitudes that can result in expropriation, expulsion, or major restrictions in operations. The fact is that a foreign company is foreign and thus always subject to the political whim to a greater degree than a domestic firm.

CULTURAL ENVIRONMENT:

The manner in which people consume their priority of needs and the wants they attempt to satisfy, and the manner in which they satisfy are functions of their culture which moulds and dictates their style of living. This culture is the sum total of knowledge, belief, art, morals, laws, customs and other capabilities acquired by humans as members of the society. Since culture decides the style of living, it is pertinent to study it especially in export marketing. e.g. when a promotional message is written, symbols recognizable and meaningful to the market (the culture) must be used. When designing a product, the style used and other related marketing activities must be culturally acceptable.

ECONOMIC ENVIRONMENT: In considering the international market, each Exporter must consider the importing country's economy. Two economic characteristics reflect the country's attractiveness as an export market. They are the country's industrial structure and the country's income distribution by employment industrialization and socio economic justices.

LEGAL ENVIRONMENT:

The legal dimension of international Business environment includes all laws and regulations regarding product specification and standards, packaging and labeling, copyright, trademark, patents, health and safety regulations particularly in respect of foods and drugs. There are also controls in promotional methods, price control, trade margin, mark-up, etc., These legal aspects of marketing abroad have several implications which an exporting firm needs to study closely.

Regional Strategy:

In international business the regional strategy is explained as business strategy directed in doing business for a specific country, region in international business is one nation, large scale business operators will have to design the business strategy based on each nation and which ultimately affects the international business

Companies can source goods, technology, information, and capital from around the world, but business activity tends to be centered in certain cities or city regions in a few parts of the world

Global strategy

Global strategy is the ability of an organization to apply a replicable and systematic methodology to the unique challenges that are faced by the organization. A sound global strategy addresses questions such as, how to build necessary global presence and what should be the optimal locations for various value chain activities. Any company which implements the global strategy will have the following aspects as its features

- Product is the same in all countries.
- Centralized control - little decision-making authority on the local level
- Effective when differences between countries are small
- Advantages: cost, coordinated activities, faster product development

II-Unit

TRADE BARRIERS

Trade barriers may be (i) Tariff Barriers and (ii) Non Tariff Barriers or protective barriers.

i) **TARIFF BARRIERS:** Tariff barriers have been one of the classical methods of regulating international trade. Tariffs may be referred to as taxes on the imports. It aims at restricting the inward flow of

goods from other countries to protect the country's own industries by making the goods costlier in that country. Sometimes the duty on a product becomes so steep that it is not worthwhile importing it. In addition, the duty so imposed also provides a substantial source of revenue to the importing country. In India, Customs duty forms a significant part of the total revenue, and therefore, is an important element in the budget. Some countries use this method of imposing tariffs and Customs duties to balance its balance of trade. A nation may also use this method to influence the political and economic policies of other countries. It may impose tariffs on certain imports from a particular country as a protest against tariffs imposed by that country on its goods.

Specific Duties, imposed on the basis of per unit of any identifiable characteristic of merchandise such as per unit volume, weight, length, etc. The duty schedules so specified must specify the rate of duty as well as the determining factor such as weight, number, etc. and basis of arriving at the determining factor such as gross weight, net weight or tare weight.

Ad valorem Tariffs are based on the value of imports and are charged in the form of specified percentage of the value of goods. The schedule should specify how the value of imported goods would be arrived at. Most of the countries follow the practice of charging tariffs on the basis of CIF cost or FOB cost mentioned in the invoice. As tariffs are based on the cost, sometimes unethical practices of under invoicing are adopted whereby Customs revenue is affected. In order to eliminate such malpractices, countries adopt a fair value (given in the schedule) or the current domestic value of the goods as the basis of computing the duties.

NON - TARIFF MEASURES (BARRIERS)

To protect the domestic industries against unfair competition and to give them a fair chance of survival various countries are adopting non-tariff measures. Some of these are :

Quantity Restrictions, Quotas and Licensing Procedures:-

Under quantity restriction, the maximum quantity of different commodities which would be allowed to be imported over a period of time from various countries is fixed in advance. The quota fixed normally depends on the relations of the two countries and the needs of the importing country. Here, the Govt. is in a position to restrict the imports to a desired level. Quotas are very often combined with licensing system to regulate the flow of imports over the quota period as also to allocate them between various importers and supplying countries.

Foreign Exchange Restrictions -Exchange control measures are used widely by a number of developing countries to regulate imports. Under this system an importer has to ensure that adequate foreign exchange is available for imports by getting a clearance from the exchange control authorities of the country.

Technical Regulations -

Another measure to regulate the imports is to impose certain standards of technical production, technical specification, etc. The imported commodity has to meet these specifications. Stringent technical regulations and standards beyond international norms, expensive testing and certification, and complicated marking and packaging requirements.

Voluntary Export Restraint:

The agreement on 'voluntary' export restraint is imposed on the exporter under the threat of sanctions to limit the export of certain goods in the importing country. Similarly, establishment of minimum import prices should be strictly observed by the exporting firms in contracts with the importers of the country that has set such prices. In case of reduction of export prices below the minimum price level, the importing country imposes anti-dumping duty which could lead to withdrawal from the market. Voluntary export restraints mostly affect trade in textiles, footwear, dairy products, cars, machine tools, etc.

Local Content Requirement:-

A local content requirement is an agreement between the exporting and the importing country that the exporting country will use some amount or, content of resources of the importing country in its process of production. If the exporting country agrees to do that only then the importing country will import their goods.

Embargo:- Embargo is a specific type of quota prohibiting trade. Like quotas, embargoes may be imposed on imports, or exports of particular goods, regardless of destinations, in respect of certain goods supplied to specific countries, or in respect of all goods shipped to certain countries. Although the embargo is usually introduced for political purposes, the consequences, in essence, could be economics

Tariff	Non-Tariff
1. Govt. receives revenue	1. No revenue receipts but only protection of domestic industry
2. Customs authorities dovaluation procedures and Classification	2. No such problem
3. Since import duty levied monopolistic organisations are curbed	3. Monopolistic organisations command high prices through low output
4. Subject to legislative enactment under terms of GATT and inflexible	4. Flexible and discussed at officials levels only
5. Importers exploitation of more profits curbed	5. Importers make more profits and exploit the market
6. Simple to operate administratively	6. More official involved and less simple
7. Favours efficiency of firms	7. Discriminates against new comers

Difference between Tariff and Non-Tariff Barriers

Anti - Dumping

Anti dumping is a new weapon in the trade war. Anti dumping is one policy which is creating a non tariff barrier, hindering free trade.

If a company exports a product at a price lower than the one charged in its home market, it is said to be dumping. If the importing company succeeds, its country will levy an anti dumping duty on the product exported by the Indian Co. to him. This adds to the landed cost of the product and reduces the Indian exporter's competitiveness.

Trade Bloc

An agreement between states, regions, or countries, to reducebarriers to trade between the participating regions Trading blocs are a form of economic integration, and increasingly shape the pattern of world trade.

Economic integration is the unification of economic policies between different states through the partial or full abolition of tariff and non-tariff restrictions on trade taking place among them prior to their integration

The degree of economic integration can be categorized into five stages:

1. Preferential trading area
2. Free trade area,
3. Customs union,
4. Common market
5. Economic union,

Stages/types / Forms/ of economic integration

Preferential Trade Area

Preferential Trade Areas (PTAs) exist when countries within a geographical region agree to reduce or eliminate tariff barriers on selected goods imported from other members of the area. This is often the first small step towards the creation of a trading bloc.

Free Trade Area

Free Trade Areas (FTAs) are created when two or more countries in a region agree to reduce or eliminate barriers to trade on all goods coming from other members.

Customs Union

A customs union involves the removal of tariff barriers between members, plus the acceptance of a common (unified) external tariff against non-members. This means that members may negotiate as a single bloc with 3rd parties, such as with other trading blocs, or with the WTO

Common Market

A 'common market' is the significant step towards full economic integration, and occurs when member countries trade freely in all economic resources – not just tangible goods. This means that all barriers to trade in goods, services, capital, and labour are removed.

The main advantages for members of trading blocs[this can be written for any trade bloc]

- Free trade practices
- Market access and trade creation.
- Trade creation and trade diversion

- Economies of scale
- lowering costs and lower prices for consumers.
- Jobs creation and employment opportunities
- Protection of individual interests of member countries.

NAFTA

North American Free Trade Agreement (NAFTA) established a free-trade zone in North America; it was signed in 1992 by Canada, Mexico, and the United States and took effect on Jan. 1, 1994. NAFTA immediately lifted tariffs on the majority of goods produced by the signatory nations. It also calls for the gradual elimination of all trade barriers between these three countries.

Goals of the NAFTA

- to reduce barriers to trade
- to increase cooperation for improving working conditions in North America
- to create an expanded and safe market for goods and services produced in North America
- to establish clear and mutually advantageous trade rules
- to help develop and expand world trade and provide a catalyst to broader international cooperation

NAFTA structure

Free Trade Commission*:* Made up of ministerial representatives from the NAFTA partners.

NAFTA Coordinators: Senior trade department officials designated by each country.

NAFTA Working Groups and Committees: Over 30 working groups and committees have been established to facilitate trade and investment and to ensure the effective implementation and administration of NAFTA.

NAFTA Secretariat : Made up of a “national section” from each member country. Responsible for administering the dispute settlement , Maintains a tri-national website containing up-to-date information on past and current disputes.

Commission for LaborCooperation : Created to promote cooperation on labor matters among

NAFTA members and the effective enforcement of domestic labor law. www.naalc.org.

Commission for Environmental Cooperation : Established to further cooperation among NAFTA partners in implementing the environmental side accord to NAFTA and to address environmental issues of continental concern, with particular attention to the environmental challenges and opportunities presented by continent-wide free trade.

European Union (EU)

Comprising 28 European countries and governing common economic, social, and security policies. Originally confined to Western Europe, the EU undertook a robust expansion into central and eastern Europe in the early 21st century. The EU was created by the Maastricht Treaty, which entered into force on November 1, 1993.

Structure of EU

1. The EU Council sets the policies and proposes new laws. The political leadership, or Presidency of the EU, is held by a different leader every six months.
2. The European Parliament debates and approves the laws proposed by the Council. Its members are elected every five years.
3. The European Commission staffs and executes the laws. José Manuel Barroso is the President who serves under 28 Commissioners.

Objectives of EU

- an area of freedom, security and justice without internal frontiers ;
- an internal market where competition is free and undistorted;
- sustainable development, based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment;
- the promotion of scientific and technological advance;
- the combating of social exclusion and discrimination, and the promotion of social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child; the promotion of economic, social and territorial cohesion, and solidarity among Member States.

South Asian Association for Regional Cooperation (**SAARC**)

South Asian nations, which was established on 8 December 1985 when the government of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka formally adopted its charter providing for the promotion of economic and social progress, cultural development within the South Asia region and also for friendship and co-operation with other developing countries. It is dedicated to economic, technological, social, and cultural development emphasizing collective self-reliance. Afghanistan joined the organisation in 2007. Meetings of heads of state are usually scheduled annually

Objectives of SAARC

- to promote the welfare of the people of South Asia and to improve their quality of life;
- to accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realise their full potential ;
- to promote and strengthen selective self-reliance among the countries of South Asia;
- to contribute to mutual trust, understanding and appreciation of one another's problems;
- to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;
- to strengthen co-operation with other developing countries;
- to strengthen co-operation among themselves in international forums on matters of common interest; and
- to co-operate with international and regional organisations with similar aims and purposes.

SAARC organizational structure:

1. SAARC Council: At the top, there is the Council represented by the heads of the government of the member countries.

2. Council of Minister: It is to assist the council. It is represented by the foreign ministers of the member countries.

3. Standing Committee: It is comprised by the foreign secretaries of the member government.

4. Programming Committee: It consist of the senior official of the member governments.

5. Technical Committee: It consist of the represented of the member nations.

6.Secretaria: The SAARC secretariat is located in Nepal.

ASEAN

On 8 August 1967, five leaders - the Foreign Ministers of Indonesia, Malaysia, the Philippines, Singapore and Thailand - sat down together in the main hall of the Department of Foreign Affairs building in Bangkok, Thailand and signed a document. By virtue of that document, the Association of Southeast Asian Nations (ASEAN) was born.

ASEAN STRUCTURES AND MECHANISMS

- ASEAN Summit, ASEAN Coordinating Council
- ASEAN Community Councils , ASEAN Sectoral Ministerial Bodies
- Committee of Permanent Representatives , National Secretariats
- Committees Abroad , ASEAN Chair
- ASEAN Secretariat, The highest decision-making organ of ASEAN is the Meeting of the ASEAN Heads of State

PRINCIPLES of ASEAN

- Mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations;
- The right of every State to lead its national existence free from external interference, subversion or coercion;
- Non-interference in the internal affairs of one another;
- Settlement of differences or disputes by peaceful manner;
- Renunciation of the threat or use of force; and
- Effective cooperation among themselves

Objectives : 1.to accelerate the economic growth, social progress and cultural development in the region through joint endeavors in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian nations

3. to promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries in the region and adherence to the principles of the United Nations

World Trade Organization (W T O) : Location: Geneva, Switzerland, Established:1 January 1995, Created by: Uruguay Round negotiations (1986-94) , Membership: 159 countries on 2 March 2013 , Budget: 197 million Swiss francs for 2013, Secretariat staff: 640, Head: Director-General

WTO is an organization comprising of developed, developing and least developed countries, under the UN Umbrella, headquartered in Geneva. Its aim is to promote trade amongst member nations, especially after globalization of trade, arrange aid technically and in other forms for growth of trade amongst member countries, creating all possible facilitation measures. Main Functions of WTO To facilitate the implementation, administration and further operations of the agreement establishing the WTO**.**

Functions:

• Administering WTO trade agreements
• Forum for trade negotiations
• Handling trade disputes
• Monitoring national trade policies
• Technical assistance and training for developing countries
• Cooperation with other international organizations

Organizational structure

Council for Trade in Goods : There are 11 committees under the jurisdiction of the Goods Council each with a specific task. All members of the WTO participate in the committees. The Textiles Monitoring Body is separate from the other committees but still under the jurisdiction of Goods Council. The body has its own chairman and only 10 members. The body also has several groups relating to textiles.

Council for Trade-Related Aspects of Intellectual Property Rights : Information on intellectual property in the WTO, news and official records of the activities of the TRIPS Council, and details of the WTO's work with other international organizations in the field.

Council for Trade in Services: The Council for Trade in Services operates under the guidance of the General Council and is responsible for overseeing the functioning of the General Agreement on Trade in Services (GATS). It is open to all WTO members, and can create subsidiary bodies as required.

Trade Negotiations Committee: The Trade Negotiations Committee (TNC) is the committee that deals with the current trade talks round. The chair is WTO's director-general. As of June 2012 the committee was tasked with the Doha Development Round

United Nations Conference on Trade and Development (**UNCTAD**)

It was established in 1964 as a permanent intergovernmental body. It is the principal organ of the United Nations General Assembly dealing with trade, investment, and development issues.

The organization's goals are to "maximize the trade, investment and development opportunities of developing countries and assist them in their efforts to integrate into the world economy on an equitable basis.

The primary objective of the UNCTAD is to formulate policies relating to all aspects of development including trade, aid, transport, finance and technology. The conference ordinarily meets once in four years. The first conference took place in Geneva in 1964, second in New Delhi in 1968,

One of the principal achievements of UNCTAD has been to conceive and implement the Generalized System of Preferences (GSP). Currently, UNCTAD has 194 member states and is headquartered in Geneva, Switzerland. UNCTAD has 400 staff members It is a member of the United Nations Development Group

Objectives and Functions: (i) To promote international trade between developed and developing countries with a view to accelerate economic development.

(ii) To formulate principles and policies on international trade and related problems of economic development.

(iii) To make proposals for putting its principles and policies into effect, (iv) To negotiate trade agreements.

(iv) To review and facilitate the coordination of activities of the other U.N. institutions in the field of international trade.

(v) To function as a centre for a harmonious trade and related documents in development policies of governments

TRIMS and TRIPS : The WTO administers the implementation of a set of agreements, which include the General Agreement on Tariffs and Trade, other agreements in the goods sector (e.g., agriculture, textiles, sanitary and psycho-sanitary measures, Trade Related Investment Measures-TRIMs, anti-dumping, etc.), and in addition, agreements in two other areas, viz., trade in services, and Trade Related Intellectual Property Rights (TRIPs) , TRIPs deals with the following IPRs

- Copyright and related rights;
- Patents, Trademarks, Geographical indications, including appellations of origin;
- Industrial designs, Integrated circuit layout-designs;
- Protection of undisclosed information, Control of anti-competitive practices in contractual licenses
- Term of patents 20 years, Limited compulsory licensing, no license of right
- Almost all fields of technology patentable. Only area conclusively , excluded from patentability is plant varieties; debate regarding some areas in agriculture and biotechnology, Very limited scope for
- governments to use patented inventions

TRIMS :Trade Related Investment Measures (TRIMs) are rules that apply to the domestic regulations a country applies to foreign investors, often as part of an industrial policy. The agreement was agreed upon by all members of the World Trade Organization. The agreement was concluded in 1994 and came into force in 1995

 The Agreement on Trade-Related Investment Measures TRIMs Agreement, one of the Multilateral Agreements on Trade in Goods, prohibits trade-related investment measures, such as local content requirements, that are inconsistent with basic provisions of GATT 1994.

 The General Agreement on Trade in Services addresses foreign investment in services as one of four modes of supply of services

UNIT-III

Modes of foreign Market Entry

Direct export.

The organization produces their product in their home market and then sells them to customers overseas

Advantages

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

Disadvantages

- Higher start-up costs and higher risks as opposed to indirect exporting
- Greater information requirements
- Longer time-to-market as opposed to indirect exporting.[7]

Indirect export

The organizations sells their product to a third party who then sells it on within the foreign market.

Advantages

- Fast market access
- Concentration of resources for production
- Little or no financial commitment. The export partner usually covers most expenses associated with international sales
- The management team is not distracted
- No direct handle of export processes.

Disadvantages

- Higher risk than with direct exporting
- Little or no control over distribution, sales, marketing, etc. as opposed to direct exporting
- Inability to learn how to operate overseas

Licensing

Another less risky market entry method is licensing. Here the Licensor will grant an organization in the foreign market a license to produce the product, use the brand name etc in return that they will receive a royalty payment.

Advantages and reasons to use an international licensing

- Obtain extra income for technical know-how and services
- Reach new markets not accessible by export from existing facilities
- Quickly expand without much risk and large capital investment
- Pave the way for future investments in the market

Franchising

Franchising is another form of licensing. Here the organization puts together a package of the ‘successful’ ingredients that made them a success in their home market and then franchise this package to oversee investors. The Franchise holder may help out by providing training and marketing the services or product. McDonalds is a popular example of a Franchising option for expanding in international markets.

Advantages of the international franchising mode: Low political risk , Low cost, Allows simultaneous expansion into different regions of the world ,Well selected partners bring financial investment as well as managerial capabilities to the operation.

Disadvantages of the international franchising mode:

- Franchisees may turn into future competitors
- Demand of franchisees may be scarce when starting to franchise a company, which can lead to making agreements with the wrong candidates
- A wrong franchisee may ruin the company's name and reputation in the market

Turnkey projects

A turnkey project refers to a project in which clients pay contractors to design and construct new facilities and train personnel. A turnkey project is way for a foreign company to export its process and technology to other countries by building a plant in that country. Industrial companies that specialize in complex production technologies normally use turnkey projects as an entry strategy. One of the major advantages of turnkey projects is the possibility for a company to establish a plant and earn profits in a foreign country especially in which foreign direct investment opportunities are limited and lack of expertise in a specific area exists.

EXHIBIT 9-12

ADVANTAGES AND DISADVANTAGES OF DIFFERENT MODES OF ENTRY

Entry Mode	*Advantages*	*Disadvantages*
Indirect exporting	• Low commitment (in terms of resources) • Low risk	• Lack of control • Lack of contact with foreign market • No learning experience • Potential opportunity cost
Direct exporting	• More control (compared to indirect exporting) • More sales push	• Need to build up export organization • More demanding on resources
Licensing	• Little or no investment • Rapid way to gain entry • Means to bridge import barriers • Low risk	• Lack of control • Potential opportunity cost • Need for quality control • Risk of creating competitor • Limits market development
Franchising	• Little or no investment • Rapid way to gain entry • Managerial motivation	• Need for quality control • Lack of control • Risk of creating competitor
Contract manufacturing	• Little or no investment • Overcome import barriers • Cost savings	• Need for quality control • Risk of bad press (e.g., child labor) • Diversion to gray and/or black markets
Joint venture	• Risk sharing • Less demanding on resources (compared to wholly-owned) • Potential of synergies (e.g., access to local distribution network)	• Risk of conflicts with partner(s) • Lack of control • Risk of creating competitor
Acquisition	• Full control • Access to local assets (e.g., plants, distribution network, brand assets) • Less competition	• Costly • High risk • Need to integrate differing national/corporate cultures • Cultural clashes
Greenfield	• Full control • Latest technologies • No risk of cultural conflicts	• Costly • Time consuming • High political and financial risks

Strategic alliance

A strategic alliance is a type of cooperative agreements between different firms, such as shared research, formal joint ventures, or minority equity participation. The modern form of strategic alliances is becoming increasingly popular and has three distinguishing characteristics:

Advantages

- Technology exchange
- Global competition
- Industry convergence
- Economies of scale and reduction of risk
- Alliance as an alternative to merger

Global strategic planning process involves these steps

(1) Analyzing external environment by means of SWOT, PESTLE analysis

(2) Analyzing internal environment

(3) Defining the business and its mission statements

(4) Setting corporate objectives

(5) Quantifying goals

(6) Formulating strategies

(7) Making tactical planning

Types of Strategic Alliance

There are four types of strategic alliances: joint venture, equity strategic alliance, non-equity strategic alliance, and global strategic alliances.

1. **Joint venture** is a strategic alliance in which two or more firms create a legally independent company to share some of their resources and capabilities to develop a competitive advantage.
2. **Equity strategic alliance** is an alliance in which two or more firms own different percentages of the company they have formed by combining some of their resources and capabilities to create a competitive advantage.
3. **Non-equity strategic alliance** is an alliance in which two or more firms develop a contractual-relationship to share some of their unique resources and capabilities to create a competitive advantage.
4. **Global Strategic Alliances** working partnerships between companies (often more than two) across national boundaries and increasingly across industries, sometimes formed between company and a foreign government, or among companies and governments.

Cost benefit analysis: Cost–benefit analysis (CBA), sometimes called **benefit–cost analysis** (BCA), is a systematic process for calculating and comparing benefits and costs of a project, decision or government policy (hereafter, "project"). CBA has two purposes, Whether you know it as a cost-benefit analysis or a benefit-cost analysis, performing one is critical to any project. When you perform a cost-benefit analysis, you make a comparative assessment of all the benefits you anticipate from your project and all the costs to introduce the project, perform it, and support the changes resulting from it.

Cost-benefit analyses help you to

- Decide whether to undertake a project or decide which of several projects to undertake.
- Frame appropriate project objectives.
- Develop appropriate before and after measures of project success.
- Prepare estimates of the resources required to perform the project work.
- To determine if it is a sound investment/decision (justification/feasibility),
- To provide a basis for comparing projects. It involves comparing the total expected cost of each option against the total expected benefits, to see whether the benefits outweigh the costs, and by how much

IV-Unit

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. 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

E-business involves business processes spanning the entire value chain: electronic purchasing and supply chain management, processing orders electronically, handling customer service, and cooperating with business partners, E-business categories:

- business-to-business (B2B) , business-to-consumer (B2C)
- business-to-employee (B2E), business-to-government (B2G)
- government-to-business(G2B) , government-to-government (G2G)
- government-to-citizen (G2C) , consumer-to-consumer (C2C)
- consumer-to-business (C2B)

E-business models

- E-shops, E-commerce, E-procurement, E-malls
- E-collaboration, E-auctions, Virtual Communities

Benefits of e- business

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

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 shell 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

Documents for International trade

Official Documents : Official documents are documents required for the purpose of official (regulatory) authorization to export. Official documents are either submitted to the appropriate authority for legalization or are issued by an appropriate authority. Without local authorization (from competent Jordanian authorities), you will not be permitted to ship your goods out the country.

- Customs or Export Declaration , An export License or Authorization
- A wharf age order (for sea freight) , A pre-shipment inspection certificate
- A certificate of origin , A health certificate

Commercial Documents : Commercial invoice , Packing list , Beneficiary certificate , Verification documents

Transport Documents : Bill of lading, Waybill , Consignment note

Insurance Documents : Insurance certificate, and Insurance-policy

Certificate of origin :A certificate of origin is a formal / official statement issued by either a chamber of commerce or industry.

Bill of lading : The bill of lading (B/L) is the traditional transport document for shipping goods by ocean transport

Other documents are usually attached to the carrier's copy of the bill of lading, some of these documents are: Copy of the commercial Invoice , Copy of the certificate of origin , Packing list Weight list, exporting certificate.

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, more appealing to the customers

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

V-Unit

Global strategic planning is a process adopted by organizations that operate internationally in order to formulate an effective global strategy. Global Strategic Planning is a process of evaluating the internal and external environment by multinational organizations, and make decisions about how they will achieve their long-term and short-term objectives.

global strategic planning process involves these steps:

(1) Analyzing external environment

(2) Analyzing internal environment

(3) Defining the business and its mission statements

(4) Setting corporate objectives

(5) Quantifying goals

(6) Formulating strategies

(7) Making tactical plans

Methods of taking strategy in Global strategic planning

- Top Down planning

In this the decision will be taken at the top management level and the same decision will moves on to all the levels of authorities in the organization

- Bottom up planning

In this strategy the decision would start from the bottom or from the lower management of the company and this will be communicated upward in the organization

- Iterative planning

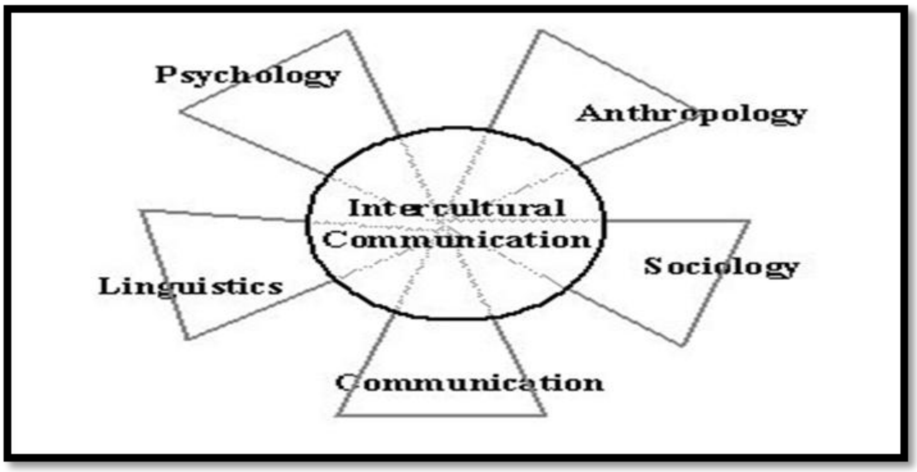
Adopting either top down or bottom up method continuously until any issue in the department is finalized or recon ciliated, this means in case there is a conflict on any issue prevailing in the organization then until the issue is settled down the method of planning will not be changed

Implementing strategy

- Build an Organization , Marshal resources (resources used), ,,,Institute policies, Pursue best practices and continuous improvement ,,,, Information and operating systems, Tying rewards to strategy and goals

Intercultural communications

is a form of global communication. It is used to describe the wide range of communication problems that naturally appear within an organization made up of individuals from different religious, social, ethnic, and educational backgrounds. Intercultural communication is sometimes used synonymously with cross-cultural communication. In this sense it seeks to understand how people from different countries and cultures act, communicate and perceive the world around them. Many people in intercultural business communication argue that culture determines how individuals encode messages, what mediums they choose for transmitting them, and the way messages are interpreted. As a separate notion, it studies situations where people from different cultural backgrounds *interact*. Aside from language, intercultural communication focuses on social attributes, thought patterns, and the cultures of different groups of people. It also involves understanding the different cultures, languages and customs of people from other countries. Intercultural communication plays a role in social sciences such as anthropology, cultural studies, linguistics, psychology and communication studies. Intercultural communication is also referred to as the base for international businesses. There are several cross-cultural service providers around who can assist with the development of intercultural communication skills. Research is a major part of the development of intercultural communication skills. Factors effecting on Inter cultural Communications



Improving Intercultural Communication

1. Avoid using slang and idioms, choosing words that will convey only the most specific *denotative* meaning;
2. listen carefully and, if in doubt, ask for confirmation of understanding (particularly important if local accents and pronunciation are a problem)

3. Recognize that accenting and intonation can cause meaning to vary significantly; and
4. Respect the local communication formalities and styles, and watch for any changes in body language.
5. Investigate their culture's perception of your culture by reading literature about your culture through their eyes before entering into communication with them. This will allow you to prepare yourself for projected views of your culture you will be bearing as a visitor in their culture.

Overcoming Cultural Communication Barriers

In order to improve the level of cross-cultural communication in your workplace. Use these simple concepts to dramatically boost your cross-cultural communication competency.

- Practice active listening.
- Group information in 'bite-size' pieces.That is If you stop to think about it, even a single sentence in a conversation between two fluent speakers can contain a great deal of information. That's why cross-cultural communication experts recommend limiting the amount of information you try to convey at one time. Stick to simple, direct instructions and explanations, and try to avoid complex, multi-part sentences.
- Watch out for cultural assumptions.
- When in doubt, opt for friendly formality.
- Never conclude meaning based on your perception
- Never use body language and facial expressions without knowing the cultural meaning, etc.

Inter cultural Human resource management

The human resources management in global perspective involves many functions and the responsibility of HR becomes more prominent in global scenario, the intercultural human resources management that is international human resources management is supposed to perform these activities, mentioned below.

1. Developing international market based staffing plans, Dealing with employees in different parts of the world
2. Planning a global strategy which is acceptable implementable throughout the world
3. Developing international leadership , Merging or integrating with other companies across borders

4. Developing multicultural teams , Creating a global vision/mission for international integration

5. Implementing transnational management matrices , Dealing with cross-cultural conflict

6. Conducting major international negotiations , Implementing major cultural change

Useful websites for MBA students

1. http://www.valuebasedmanagement.net
2. http://www.quickmba.com
3. http://www.mbanotes.gurukpo.com
4. http://www.mbanotesworld.in
5. http://www.coolavenues.com
6. http://www.managementparadise.com
7. http://www.enotes.com/mba
8. http://www.managementstudyguide.com
9. http://www.managementheaven.com
10. http://www.universalteacherpublications.com/mba
11. http://allmbastuff.blogspot.in
12. www.mbaknol.com