University of Global Village (UGV), Barishal
Department of Business administration

Course Title: International Business

Course Code : 0413-111	**Credits : 03**
Semester End Exam Hours (SEE) : 03	**CIE Marks : 90** **SEE Marks : 60**

- **Course Learning Outcomes (CLOs):** Upon completing this course, students should be able to

CLO1	Understand fundamentals of international business, Basis of international trade, World market environment, Analyse Globalization, Summarize Foreign Direct Investment (FDI) and Political Economy of international Trade
CLO2	List, Illustrate and Analyze Mode of entering international markets, International marketing, Determining Distribution strategies, Analysing Exports and imports practices, Assess the features of Multinational corporations (MNCS), determination of equilibrium prices and quantities, and the effects of changes in supply and demand.
CLO3	Narrate Summarize and Evaluate **Ethical and Financial Aspects of International Business, Analyse** Ethical issues on international business, Determining Financial influence on international business, Make decisions on International Monetary Fund Systems, Understand International liquidity and International finance and lending institutions, how consumers make choices based on utility maximization and how firms make decisions regarding production, costs, and profit maximization for International Business.
CLO4	Comprehend and Apply Economic Trend & **World Business Environment,** Students will apply knowledge of global Markets, Understand Demographic Environment, Natural Environment, Determine Political-Legal Environment, Summarize Socio-Cultural Environment, Technological Environment, Economic Environment , Identify differences in local business cuulture and international business culture, analyze, real-world business issues and make predictions about business outcomes.

❖ Course plan specifying Topics, Teaching time and CLOs

Sl. no	Topic	Hours	CLOs
1	International business and international trade, Theories of international trade, World business environment	06	**CLO1** **CLO2**
2	Foreign Direct Investment, Political Economy of international trade, Modes of entering international markets International marketing	06	**CLO1** **CLO2** **CLO3**
3	Distribution strategies, Exports and Imports practice, Multinational corporations	05	**CLO1** **CLO2**
4	Ethical issues in international business, Financial influence on international business, International Monetary Fund system	05	**CLO2**
5	International liquidity, International finance and lending institutions, Explain mode of entering world markets	O7	**CLO1** **CLO2** **CLO3**
06	Globalization, Foreign direct investment (FDI), exports and imports practice, international liquidity, International finance and lending institutions	06	**CLO2** **CLO3**
07	Operations of multinational corporations (MNCs), ethical issues on international business, international monetary fund and its influence on international business	07	**CLO2** **CLO3** **CLO4**

❖ Course plan specifying content, CLOs, co-curricular activities (if any), teaching learning and assessment strategy matching with CLOs

Week	Course Content	Teaching-Learning Strategy	Assessment Strategy	CLOs
1	**Fundamentals of International Business**: Basic Concepts of international business, Basis of international trade, World market environment, Analyse Globalization, Summarize Foreign Direct Investment (FDI) and Political Economy of international Trade	▪ Lecture ▪ Discussion ▪ Assignment	▪ Question & Answer (Oral) ▪ Written Test	**CLO1** **CLO2**
2	**International Market:** Mode of entering international markets, International marketing, Determining Distribution strategies, Analysing Exports and imports practices, Assess the features of Multinational corporations (MNCS), determination of equilibrium prices and quantities, and the effects of changes in supply and demand.	▪ Lecture ▪ Discussion ▪ Exercise	▪ Question & Answer (Oral) ▪ Class Test ▪ Written Test	**CLO1** **CLO2**
3	**Ethical and Financial Aspects of International Business:** Ethical issues on international business, Determining Financial influence on international business, Make decisions on International Monetary Fund Systems, Understand International liquidity and International finance and lending institutions, how	▪ Lecture ▪ Discussion ▪ Exercise	▪ Question & Answer (Oral) ▪ Written Test	**CLO1**

	consumers make choices based on utility maximization and how firms make decisions regarding production, costs, and profit maximization for International Business.			
4	**World Business Environment**: Economic Trend, **World Business View, G**lobal Markets, Demographic Environment, Natural Environment, Determine Political-Legal Environment, Socio-Cultural Environment Technological Environment, Economic Environment ,	▪ Lecture ▪ Discussion	▪ Question & Answer (Oral) ▪ Written Test	**CLO2**
4	**Differences in Business Culture**: Identify differences in local business culture and international business culture, analyze, real-world business issues and make predictions about business outcomes, Culture as a Challenge, Barriers to International Business	▪ Lecture ▪ Discussion ▪ Assignment	▪ Question & Answer (Oral) ▪ Class Test ▪ Written Test	**CLO2** **CLO3**
5	**International business and international trade:** Theories of international trade, Features of International Business, Features of International Trade, Special Challenges of International Business & International Trade, Different Companies in International Trade, Impact of International Trade.	▪ Lecture ▪ Discussion ▪ Problem Solving ▪	▪ Question & Answer (Oral) ▪ Written Test	**CLO1** **CLO2**
6	**Globalization:** Introduction, Objectives, Globalization of markets, Globalization of production, Benefits of Globalization, Short comings of Globalization, Bangladesh in Context of Globalization.	▪ Lecture ▪ Discussion ▪ Problem Solving ▪ Exercise	▪ Question & Answer (Oral) ▪ Written Test	**CLO1** **CLO2**
7	**Foreign Direct Investment (FDI):** Introduction, Objectives, Foreign direct Investment (FDI), Forms of FDI, Why do Acquisition fail, Greenfield Ventures, Reasons for FDI, Theories of FDI	▪ Lecture ▪ Discussion ▪ Problem Solving	▪ Question & Answer (Oral) ▪ Class Test	**CLO2**
8	**Political Economy of International Trade**: Objectives, Instruments of Trade Policy, Tariffs, Subsidies, Import Quotas, Local content Requirement, Administrative Trade Policies, Anti-Dumping policies, Political Arguments for Intervention, Economic Argument for Intervention	▪ Lecture ▪ Discussion ▪ Problem Solving	▪ Question & Answer (Oral) ▪ Class Test ▪ Written Test	**CLO2**

9	**INTERNATIONAL BUSINESS STRATEGY:** International market entry decisions, Export, Indirect Export, Direct Exports, Joint Venturing, Licensing, Contract Manufacturing, Management Contracting, Turkey Operations, Channel of distribution, Forms of channel of distribution, Types of intermediaries: Direct channel, Channel Adaptation, Determinants of channel Types, Channel Management Decision	▪ Lecture ▪ Discussion ▪ Assignment	▪ Question & Answer (Oral) ▪ Class Test	**CLO1** **CLO2**
10	**International Liquidity** : Direct Investment & Trade Zone**,** Free Trade Zones, Introducing a product into international Markets, Time scale, Firms resources and Goals, Specified Markets, International Liquidity Defined, Problems of International Liquidity, International Liquidity Problem in Developing Countries, IMF and International Liquidity	▪ Lecture ▪ Discussion	▪ Question & Answer (Oral) ▪ Written Test	**CLO2**
11	**Standardized or to differentiate** : Factors considered whether to standardized or to differentiate, Corporate objectives, The market usage of the product, Company resources, Level of service required, Base of production, Legal considerations.	▪ Lecture ▪ Discussion	▪ Question & Answer (Oral) ▪ Written Test	**CLO2**
12	**International Marketing:** International Marketing, Target Market Selection, Identification and Screening, Concentration versus Diversification, Marketing Management, Standardization versus Adaptation, Product Policy, Pricing policy, Distribution policy, Promotion Policy	▪ Lecture ▪ Discussion ▪ Assignment	▪ Question & Answer (Oral) ▪ Class Test ▪ Written Test	**CLO1**
13	**International Finance and Lending Institutions:** International Monetary Fund, International Development Association, International Financial Corporation, African Development Bank	▪ Written exam ▪ MCQ test ▪ Presentation	▪ Written exam ▪ MCQ test ▪ Oral test	**CLO1** **CLO2** **CLO3**
14	**Export and Import Practice**: Export and Import, Why Exports, Reasons why firms don’t export, Sources of Export Counselling, Export payment terms, Payment and Financial Procedures, Export Procedures, Pitfalls and Mistakes of New Exporters, Importing	▪ Lecture ▪ Discussion ▪ Exercise	▪ Question & Answer (Oral) ▪ Class Test ▪ Written Test	**CLO2** **CLO3**

15	**Multinational Corporations (MNCs):** Multinational Corporation, Argument against Multinational Corporations, Forms of Multinational Operations, The Process of Internationalization	▪ Lecture ▪ Discussion ▪ Problem Solving	▪ Question & Answer (Oral) ▪ Written Test	**CLO2** **CLO3**
16	**Financial Influence on International Business**: Financial Force on International Business, Fluctuating Currency Values, Currency Exchange Quotation, Currency Exchange Control, Balance of Payment, Tariffs and Duties, Taxation, Inflation	▪ Lecture ▪ Discussion ▪ Problem Solving ▪	▪ Question & Answer (Oral) ▪ Written Test	**CLO2** **CLO3**
17	**International Monetary Fund System**: International Monetary System Defined, Bretton Woods System, Collapse of Bretton Woods System, European Monetary System, Features of European Monetary System, Suggestions for Monetary System Reform	▪ Lecture ▪ Discussion ▪ Assignment	▪ Question & Answer (Oral) ▪ Written Test	**CLO3** **CLO4**

Assessment and Evaluation

1) **Assessment Strategy:** Group Discussion, Class tests, Case Study, Term Paper, Presentation.

2) **Marks distribution:**

   a) **Continuous Assessment:**

- Class attendance is mandatory. Absent of 70% classes; disqualify the student for final examination only authority recommendation will be accepted with highly reasonable causes.
- Late submission of assignments is not allowed. Late submission of assignments will be only taken with highly reasonable causes and 20% mark will be deducted.
- To pass this course student will have to appear mid-term and final examination.

   b) **Summative:**

❖ **CIE- Continuous Internal Evaluation (90 Marks)**

Bloom's Category **Marks (out of 90)**	**Test** (15)	**Assignments** (15)	**Quiz** (15)	**External Participation in Curricular/ Co-curricular Activities** (15)
Remember	**05**			Bloom's Affective Domain: (Attitude or will) Attendance:15 Copy or attempt to copy: -10 Late Assignment: -10
Understand	05	06	07	
Apply	05			
Analyze	10		08	
Evaluate	05	09		
Create	10			
	05			

❖ **SEE- Semester End Examination (60 Marks)**

Bloom's Category	**Test**
Remember	10
Understand	10
Apply	10
Analyze	10
Evaluate	10
Create	10

3) **Make-up Procedures:** Dates for exams will be strictly followed. No makeup exam (Normal case), for exceptional case university rules and regulation should be followed.

Recommended Books:

1) International Business, Ricky W. Griffin, Michael W. Pustay, Texas A & M University, USA.

Reference Books:

1) International Business: Competing in the Global Marketplace by Charles W.L. Hill
2) International Business: The Challenges of Globalization by John J. Wild.

International Business

Presented By:

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BBA, MBA, ACBA, DIB, DAIBB, PGDIR, ACBA, CS (Executive Level), DBA (Thesis Part)
Assistant Professor

Class No: 01

Lecture Slides 3 to 20

Chapter 1

REGIONAL AND GLOBAL STRATEGY

The specific objectives of this chapter are to:

1 *Define* the terms *international business* and *multinational enterprise*.

2 *Discuss* the two primary ways in which international business occurs: trade and foreign direct investment.

3 *Examine* the impact of the triad on international trade and investment.

4 *Discuss* the determinants of national competitive advantage.

International business

International business: is the study of transactions taking place across national borders for the purpose of satisfying the needs of individuals and organizations.

These economic transactions consist of :

✓Trade, as in the case of exporting and Importing.

✓Foreign direct investment, as in the case of companies funding operations in other countries.

Main Features/Characteristics of International Business

- ✓ Cross-border transaction.
- ✓ Two or more countries are involved in the business.
- ✓ Global as well as domestic competition.
- ✓ Use of foreign currencies.
- ✓ Based on a free-market economy.
- ✓ Import and export of international products.
- ✓ Free flow of factors of production.
- ✓ Impact of international organizations (WTO, IMF, UN, WB, OPEC).
- ✓ Foreign laws.
- ✓ Foreign environment (political, cultural, economic, etc.)

Dimensions of International Business

Multinational business activities are open to a wide range of stakeholders,

G2B (Government to Business) – When the government of any country moves the goods, services, or investments to business enterprises in another country.

G2G (Government to Government) – when the flow of goods, services, and investments takes place between two respective countries.

B2B (Business to Business) – This dimension takes place when a business enterprise of a country moves the goods, services, or investment to a business enterprise(s) in another country.

B2G (Business to Government) – It occurs when the business takes initiative to move goods to the government.

B2C (Business to Customers) – This dimension is more traditional and common. A business enterprise of one country moves the goods, services, or investments to customers or citizens in another country.

International business

Multinational Enterprises (MNEs): are firms that are headquartered in one country but have operations in one or more other countries.

- ✓ Who are these firms? Some of them you know by name because you have used their products or seen their advertising.

Examples:
Wal-Mart (US), General Motors (US), Ford (US), Toyota (Japan).

WORLD BUSINESS: A BRIEF OVERVIEW

Much of MNEs' activity could be classified into two major categories:

✓Exports and imports.
✓Foreign direct investment.

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Exports and imports

International trade: is the exchange of goods and services across international borders and is also known as exports and imports.

Exports: are goods and services produced by a firm in one country and then sent to another country.

For example, many companies in China export clothing and other textile products to the United States.

Exports and imports

Major products that Bangladesh export to other countries,

- ✓ RMG Products
- ✓ Exporters of Paper and Paper Products.
- ✓ Leather and Leather Goods Exporters.
- ✓ List of Pharmaceuticals.
- ✓ Fruits and Vegetables Exporters.
- ✓ Frozen Food (Shrimp and Fish)
- ✓ Jute and Jute Goods.

Exports and imports

Imports: are goods and services produced in one country and brought in by another country. Japan, for example, is a major importer of petroleum because it must rely on outside suppliers for all of its energy needs.

- ✓ In most cases people think of exports and imports as physical goods (clothes, oil, cars), but they also include services such as those provided by international airlines, cruise lines, reservation agencies, and hotels.

Exports and imports

Major products that Bangladesh import from other countries,

- ✓Machinery including computers: US$5.8 billion (11.5% of total imports)
- ✓Cotton: $5.4 billion (10.8%)
- ✓Mineral fuels including oil: $4.4 billion (8.7%)
- ✓Electrical machinery, equipment: $3.2 billion (6.4%)
- ✓Iron, steel: $2.9 billion (5.8%)
- ✓Plastics, plastic articles: $2.2 billion (4.4%)

Why is Information on Import and Export Important?

Information on exports and imports is important to the study of international business for a number of reasons;

- ✓ First, trade is the historical basis of international business and trade activities help us understand MNE practices and strategies.
- ✓ Second, trade helps us better understand the impact of international business on world economies.
- ✓ Third, they are main drivers of FDI.

Foreign direct investment

Foreign direct investment (FDI): is equity funds invested in other nations.

- ✓ It is different from portfolio (financial) investment in that FDI is undertaken by MNEs who exercise control of their foreign affiliates.
- ✓ Like exports and imports, FDI is a driver of international business.

Reasons for FDI

- ✓ To increase sales and profits.
- ✓ To enter rapidly growing markets.
- ✓ To reduce costs.
- ✓ To gain a foothold in economic unions.
- ✓ To protect domestic markets.
- ✓ To protect foreign markets.
- ✓ To acquire technological and managerial know-how.

The triad

The triad:

is a group of three major trading and investment blocs in the international arena: the United States, the EU, and Japan.

- ✓ **North American Free Trade Agreement (NAFTA)**
- ✓ European Union
- ✓ Japan

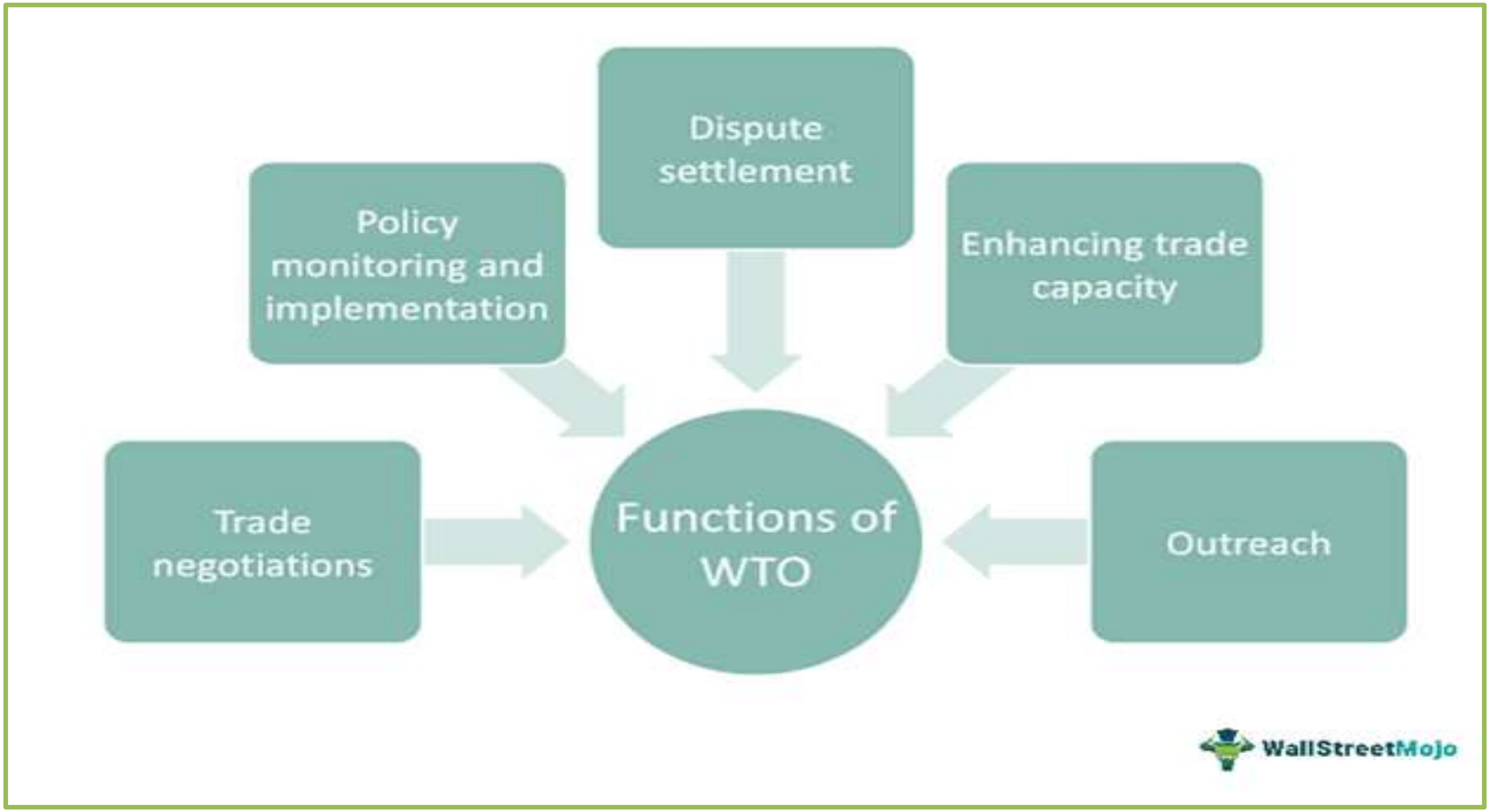
International trade regulation

World Trade Organization (WTO): An international organization that deals with the rules of trade among member countries; one of its most important functions is to act as a dispute settlement mechanism.

- ✓ Established on January 1, 1995.
- ✓ Umbrella organization that governs the international trading system.
- ✓ The successor to the **General Agreement on Tariffs and Trade (GATT).**

WORLD TRADE ORGANIZATION

Functions of WTO



Functions of WTO

Trade negotiations: facilitates trade between the borders of various countries.

Policy monitoring and implementation: requires governments to make their policies transparent.

Dispute settlement: recommends procedures to settle disputes.

Enhancing trade capacity: build trading capacity, especially for developing countries.

Outreach: also engages with parliamentarians, non-governmental organizations, and other international organizations.

International trade regulation

General Agreement on Tariffs and Trade (GATT):

A major trade organization that has been established to negotiate trade concessions among member countries.

Established in 1947.

Purpose of the GATT was to liberalize trade and to negotiate trade concessions among member countries.

TRIPS- Agreement on Trade-Related Aspects of Intellectual Property Rights.

GATS- General Agreement on Trade in Services.

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Technology

Technologies have major impact on two business areas,

- ✓ **One is communication:** technology that has advanced at such a rapid rate that all businesses now use computers and rely on the **World Wide Web to both access and send information**.
- ✓ **The other major application of technology:** is for the production of goods and services. Modern factories can now produce goods in **a shorter period of time** and with **fewer defects** thanks to production process programs.

Strategic alliance

Strategic alliance: A business relationship in which two or more companies work together to achieve a collective advantage.

Example: Apple's collaboration with MasterCard is another strategic alliance example. Apple partnered with MasterCard while launching the Apple Pay system for contactless transactions.

Maintaining economic competitiveness

- ✓ *Factor conditions- Land, Labor, and Capital.*
- ✓ *Demand conditions- Local demand for goods.*
- ✓ *Related and supporting industries- Suppliers located near to the producers.*
- ✓ *Firm strategy, structure, and rivalry.*

Chapter 2

THE MULTINATIONAL ENTERPRISE

The objectives of this chapter are to:

1 Describe the characteristics of multinational enterprises.

2 Explain the internationalization process.

3 Explain why firms become multinational enterprises.

4 Discuss the strategic philosophy of these firms.

5 Introduce a country/firm framework for examining a firm's competitiveness.

6 Study some of the ways in which these firms use strategic management.

The MNE

A **multinational enterprise (MNE):** is a company that is headquartered in one country but has operations in one or more other countries.

Examples: Unilever (Britain/Netherlands), Fiat (Italy), Nokia (Finland), Volkswagen (Germany).

Characteristics of multinational enterprises

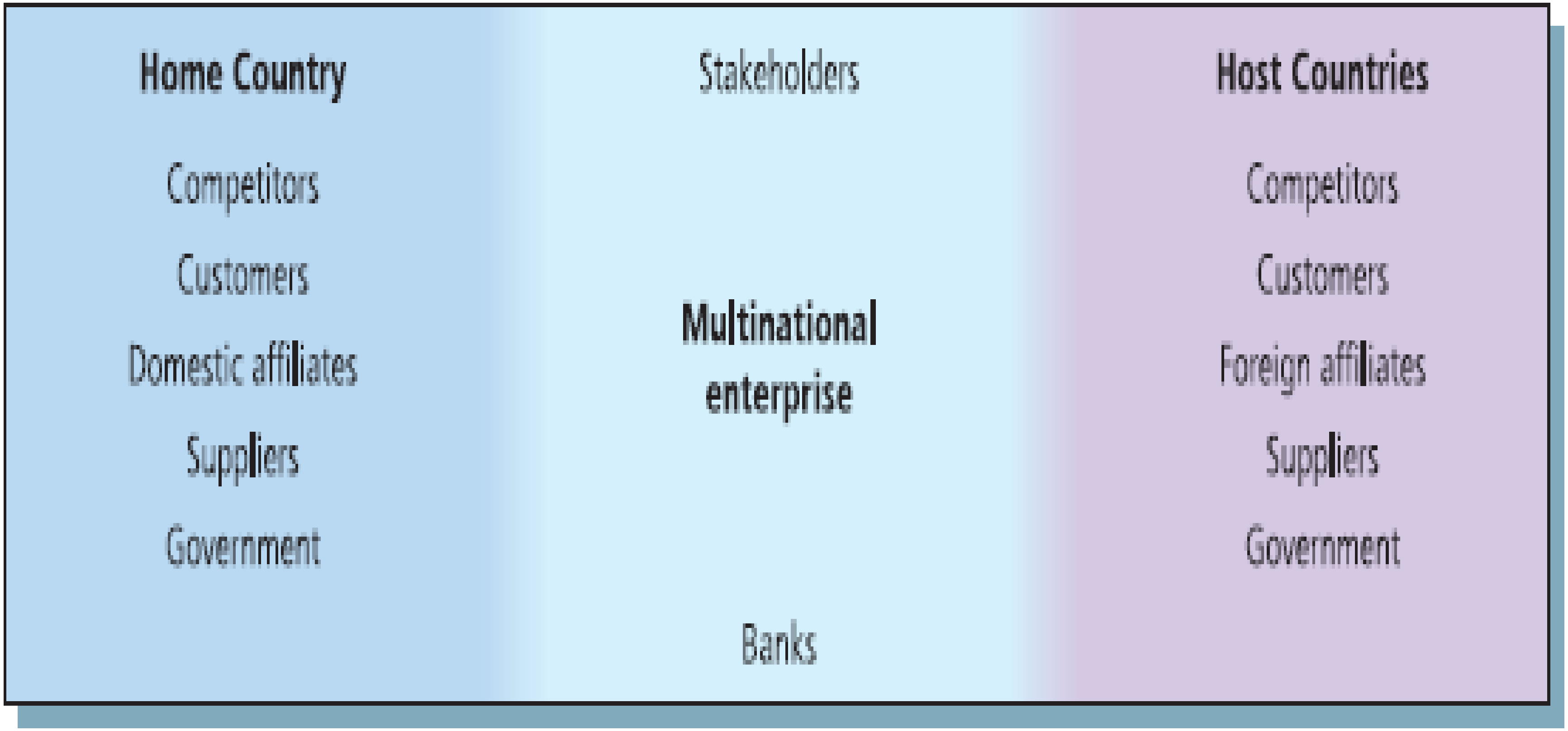

Figure 2.1 The multinational enterprise and its environment

Characteristics of multinational enterprises

- ✓ The affiliates of MNEs must be responsive to a number of important environmental forces, including competitors, customers, suppliers, financial institutions, and government.
- ✓ MNEs draw on a common pool of resources, including assets, patents, trademarks, information, and human resources.
- ✓ MNEs links together the affiliates and business partners with a common strategic vision.

The internationalization process

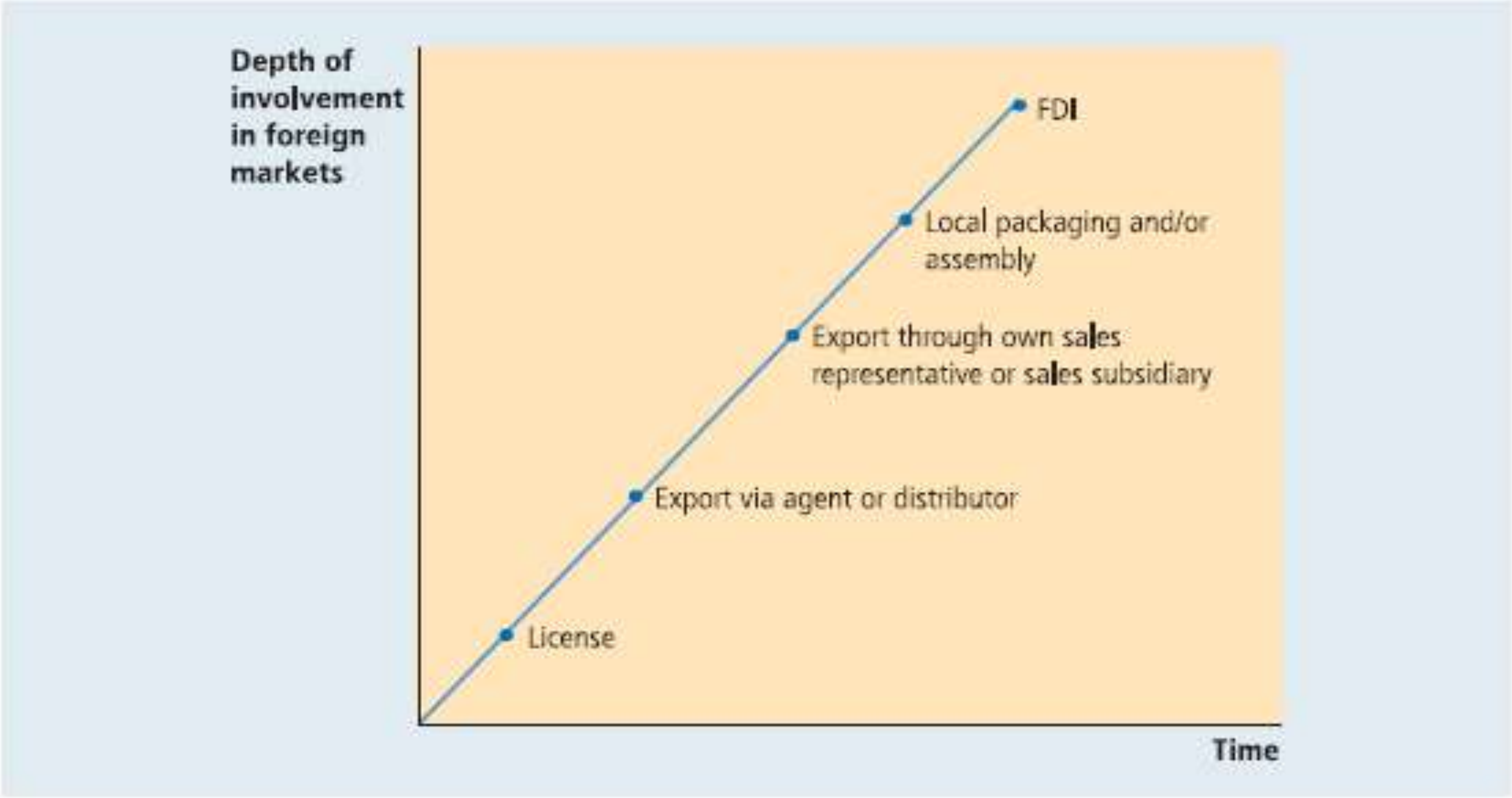

Figure 2.2 Entry into foreign markets: the internationalization process

The internationalization process

Internationalization:

The process by which a company enters a foreign market.

License: A contractual arrangement in which one firm (the licensor) provides access to some of its patents, trademarks, or technology to another firm (licensee) in exchange for a fee or royalty.

Exporting* and uses a *local agent or distributor:

- ✓ Initially for Surplus Production.
- ✓ Local sales representative or marketing subsidiary for stable stream of export

The internationalization process

Export through own sales representative or Sales Subsidiary:

- ✓ Set an office for its sales representative in a major market, or set up a sales subsidiary.
- ✓ Set up a separate export department to manage foreign sales and production.

Local Processing and/ Or assemble:

- ✓ Use host-country workers to engage in local assembly and packaging of its product lines.

Foreign Direct Investment:

- ✓ After generating sufficient knowledge about the host country to overcome its perceptions of risk.

Why firms become multinational enterprises

- ✓ To diversify themselves against the risks and uncertainties of the domestic business cycle.
- ✓ To tap the growing world market for goods and services.
- ✓ To increase foreign competition and a desire to protect their home market share.
- ✓ To reduce costs.
- ✓ To overcome protective devices such as tariff and non-tariff barriers by serving a foreign market from within.
- ✓ To take advantage of technological expertise by manufacturing goods directly

Strategic management of MNEs

Steps in the strategic management process:

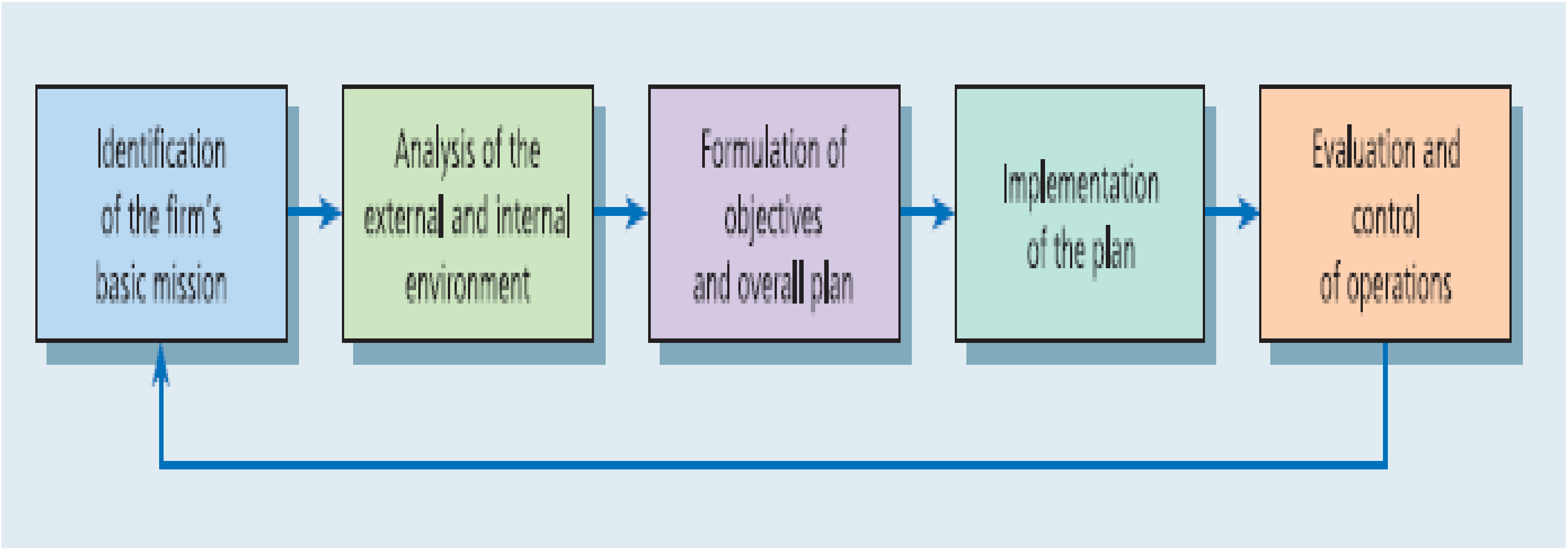

Figure 2.3 The strategic management process in action

Strategic management of MNEs

Basic mission: The reason that a firm is in existence.

- ✓What is the firm's business?
- ✓What is its reason for existence?

By answering these questions, the company clearly determines the direction in which it wants to go.

Strategic management of MNEs

Analysis of external and internal environment:

- ✓ To evaluate the company's financial and personnel strengths and weaknesses.
- ✓ To identify opportunities and threats that will need to be addressed.

Formulation of Objectives and Overall plan:

- ✓ Internal and external analyses will also help the MNE to identify both long-range goals (typically two to five years) and short-range goals (less than two years).

Strategic management of MNEs

- ✓ The plan is then broken down into major parts, and each affiliate and department will be assigned goals and responsibilities.

Implementation of the plan:

- ✓ Execution of the plan.

Evaluation and control of operations:

- ✓ To make periodical evaluation and.

A FRAMEWORK FOR GLOBAL STRATEGIES: THE CSA-FSA MATRIX

Firm-specific advantages (FSAs): Strengths or benefits specific to a firm and a result of contributions that can be made by its personnel, technology, and or equipment. These are unique capabilities proprietary to the organization.

Example: Apple's Advancement in Technology.

Country-specific advantages (CSAs): Strengths or benefits specific to a country that result from its competitive environment, labor force, geographic location, government policies, industrial clusters, etc.

Example: Low-paid workforce available in Bangladesh.

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The competitive advantage matrix

- ✓ It is useful to identify the relative strengths and weaknesses of the CSAs and FSAs they possess.

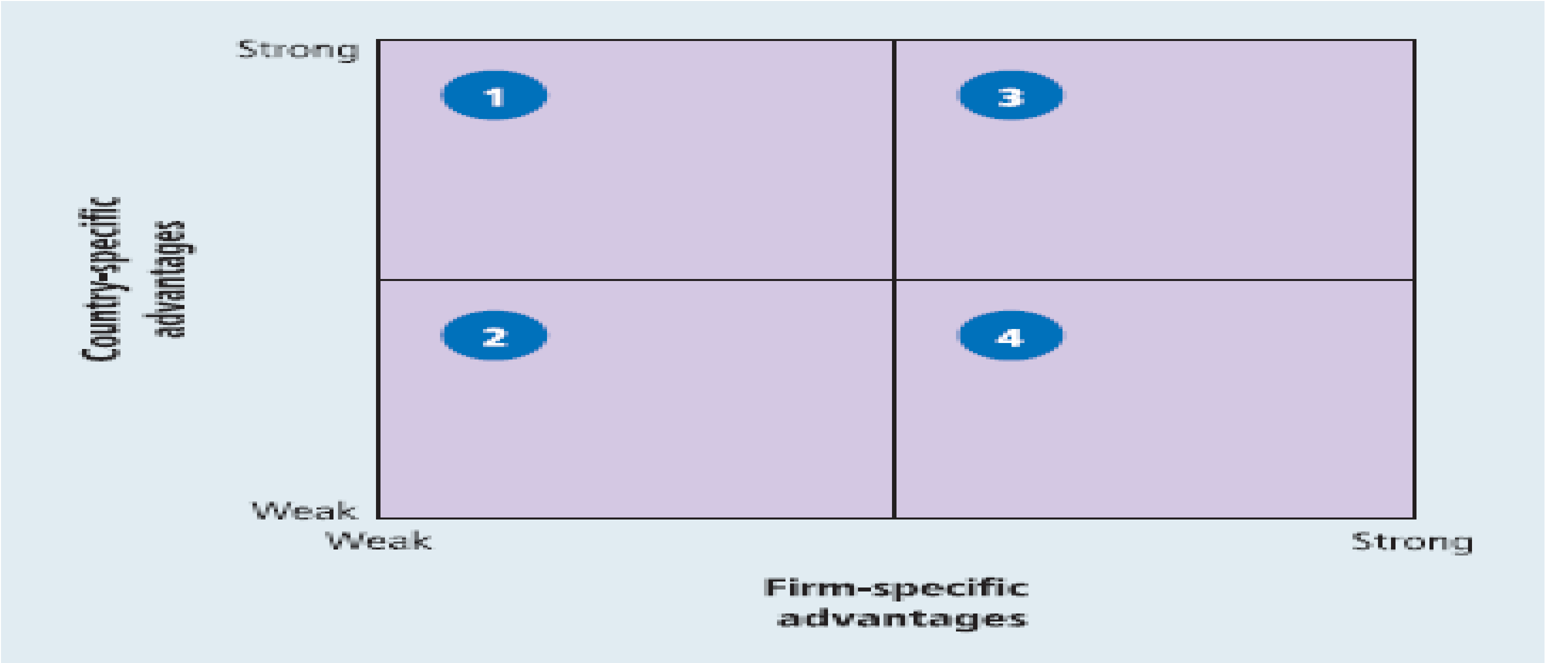


Figure 2.5 The competitive advantage matrix

The competitive advantage matrix

- ✓ Quadrants 1, 2, and 3 correspond broadly to the three generic strategies suggested: **cost leadership, differentiation, and focus**.

- ✓ Quadrant 1 firms are generally resource-based and/or mature, globally-oriented firms producing a commodity-type product.

- ✓ Given their late stage in the product life cycle, production FSAs flowing from the possession of intangible skills are less important than the CSAs of location and energy costs, which are the main sources of the firm's competitive advantage.

The competitive advantage matrix

- Quadrant 2 firms represent inefficient, floundering firms with no consistent strategy, nor any intrinsic CSAs or FSAs.
- These firms are preparing to exit or to restructure. Quadrant 2 can also represent domestically-based small and medium-sized firms with little global exposure.
- Quadrant 3 firms generally can chose to follow any of the generic strategies listed above because of the strength of both their CSAs and FSAs.

The competitive advantage matrix

- ✓ A quadrant 3 firm can benefit from strategies of both low cost and differentiation. Such a firm is constantly evaluating its production mix.

- ✓ Firms in quadrant 4 are generally differentiated firms with strong FSAs in marketing and customization.

- ✓ In quadrant 4 the FSAs dominate, so in world markets the home-country CSAs are not essential in the long run. Thus these firms are following low-cost and price competition strategies.

Chapter # 3
Entrepreneurship and Entrepreneurial Skills: Origination and Development

Who is an Entrepreneur............

The term 'Entrepreneur' means to undertake certain activities:

1) Produces a product

2) Sells & market the product

3) Bear overheads like :-

 * Pays rent of Land and building

 * Wages to labor

 * RR (Rate of Return) on capital

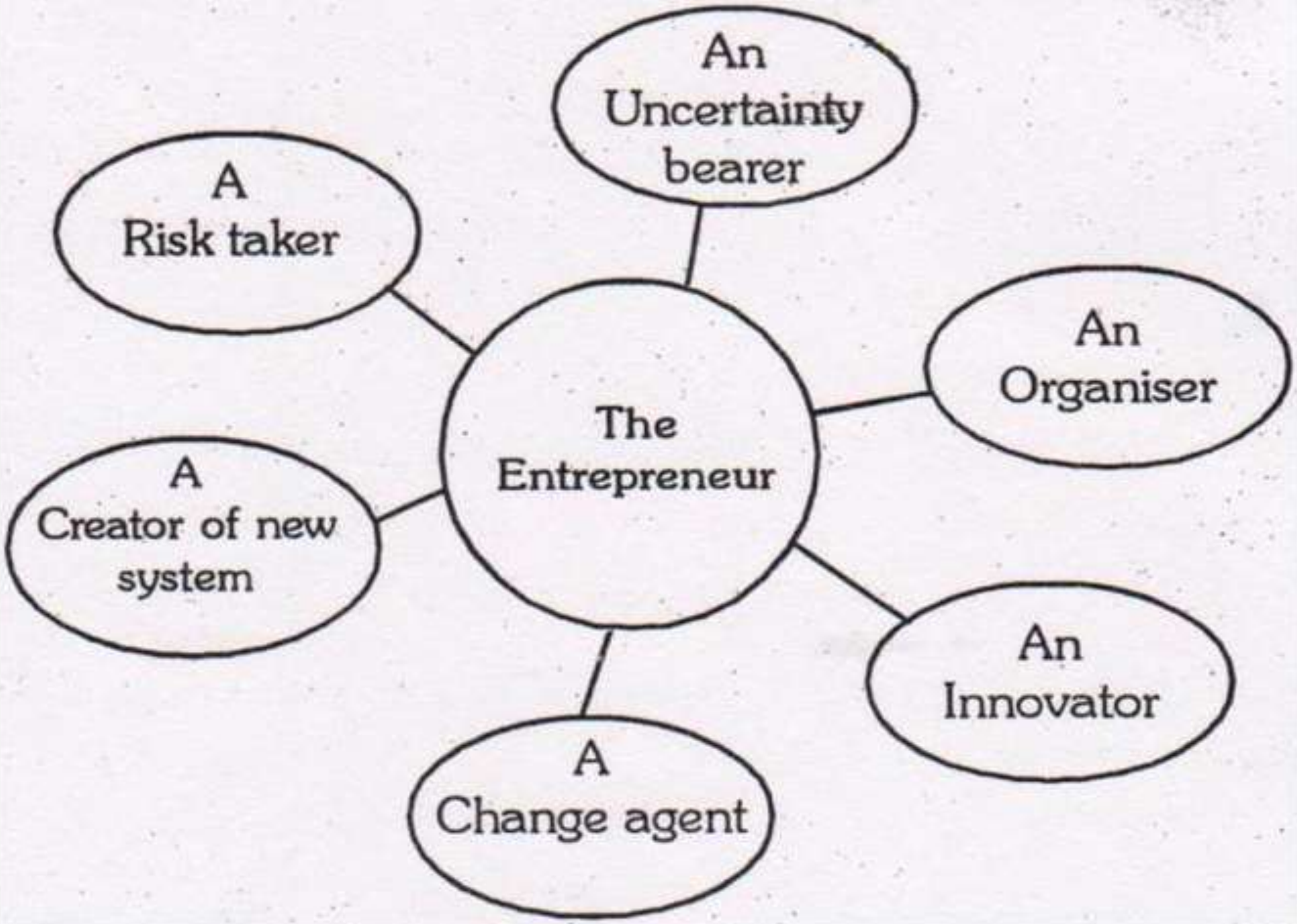
 * Generate profit

Working Definition

An entrepreneur is a person who combines various factors of production, processes raw material, converts the raw material into a finished product and creates utility and sells the produce in the market to earn profit.

ENTREPRENEURS ARE MADE AND NOT BORN.

The Entrepreneur



ENTERPRISE :

Entrepreneurial activity, especially when accompanied by initiative and resourcefulness.

ENTREPRENEURSHIP

may be defined in various ways, but the four key elements involved in it are:

i. Innovation.
ii. Risk-taking.
iii. Vision.
iv. Organizing skill.

The capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit. The most obvious example of entrepreneurship is the starting of new businesses.

Entrepreneurial Characteristics

Being an entrepreneur requires specific characteristics and skills that are often achieved through education, hard work, and planning.

Risk Taker

Businesses face risk. Entrepreneurs minimize risk through research, planning, and skill development.

Perceptive

Entrepreneurs view problems as opportunities and challenges.

Curious

Entrepreneurs like to know how things work. They take the time and initiative to pursue the unknown.

Entrepreneurial Characteristics

Imaginative

Entrepreneurs are creative. They imagine solutions to problems that encourage them to create new products and generate ideas.

Persistent

True entrepreneurs face bureaucracy, make mistakes, receive criticism, and deal with money, family, or stress problems. But they still stick to their dreams of seeing the venture succeed.

Goal-setting

Entrepreneurs are motivated by the excitement of staring a new business. Once achieved, they seek out new goals or ventures to try.

Entrepreneurial Characteristics

Self-confident

Entrepreneurs believe in themselves. Their self-confidence takes care of any doubts they may have.

Flexible

Entrepreneurs must be flexible in order to adapt to changing trends, markets, technologies, rules, and economic environments.

Independent

An entrepreneur’s desire for control and the ability to make decisions often makes it difficult for them to work in a controlled environment.

Hardworking

Entrepreneurs need a great deal of energy to see a venture start and succeed. Yet they are not deterred by the long hours to achieve their goal.

- DOERS : Achievers
- DREAMERS : Doing something through executing dreams into actions

- **Stage One – The Dreamer.**

  This is where the idea for a business is born. The dream is the culmination of the entrepreneur's life experiences and passions.

- **Stage Two – The Architect.**

  This stage is where the dream is interpreted into a business model which becomes the blueprint of the venture. The Dreamer typically does not make a good Architect.

Stage Three – The Builder.

This is the stage where the dream can first become reality. The Builder then literally turns the dream into reality. We are now at a critical juncture of the venture.

Stage Four – The Cultivator.

This is the growth stage. Once the business is launched the Cultivator's primary role is to guide the business through the various levels of growth.

Classification of Entrepreneur

Innovative entrepreneur : -

Such entrepreneurs introduce new goods or new methods of production or discover new markets or reorganize the enterprise. Examples of first movers include innovative companies such as eBay and Coca-Cola. eBay was the first company to take the auction process online, kicking off operations in 1995.

Imitative or adoptive entrepreneur :-

Such entrepreneurs don't innovate, they copy technology or technique of others.. Such entrepreneurs are significant for under-developed economies because they put such economies on high rate of economic development`EX: Chinese mobiles.

Prime mover :-

This entrepreneur sets in motion a powerful sequence of development expansion and diversification of business

Manager :-

Such an entrepreneur doesn’t initiate expansion and its content in just staying in business.

The artists:-

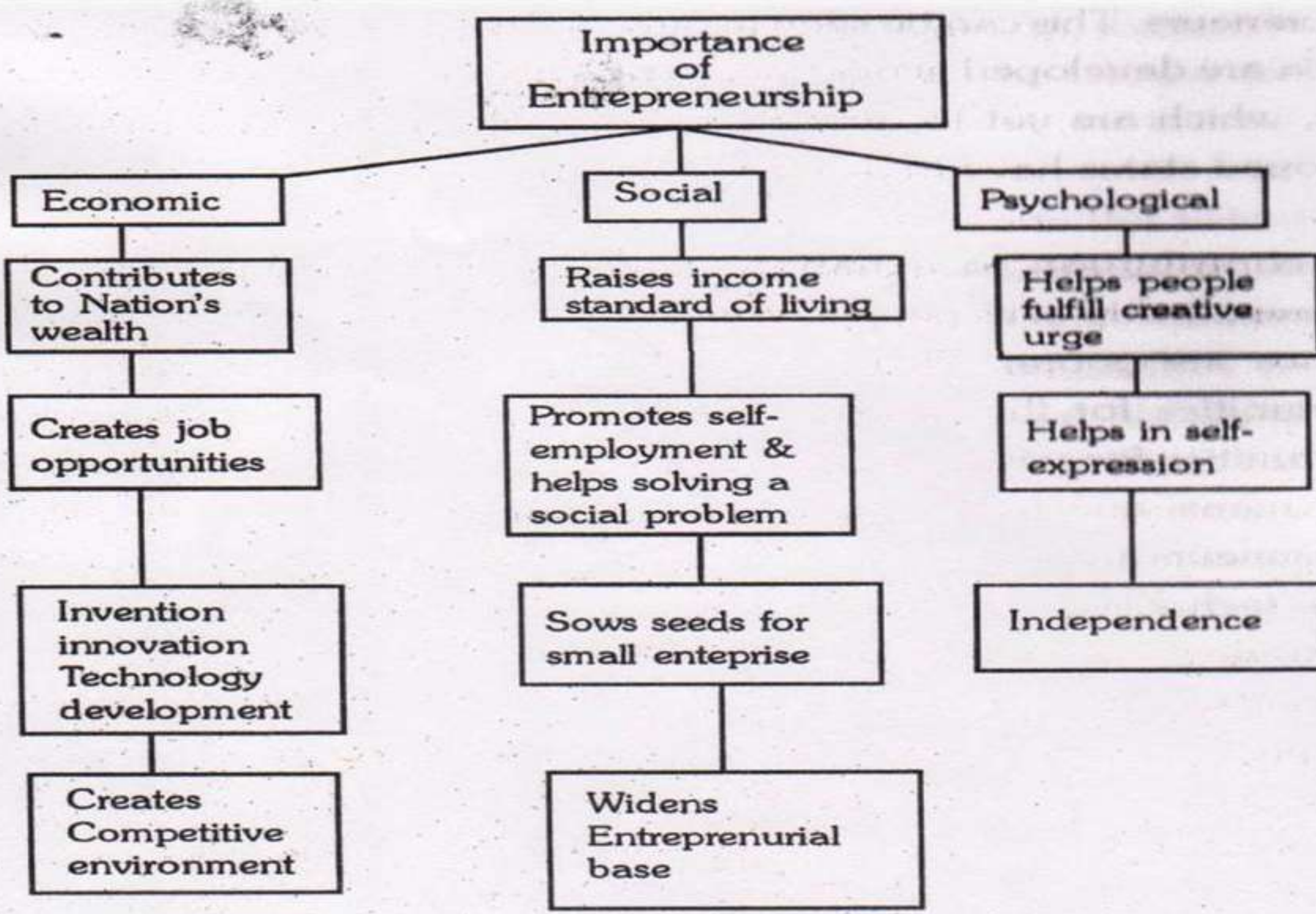
Are highly creative type, very conscious about business.

EX: Aamir Khan, Michael Dell (Dell),

The visionary:-

Too focused on dreams with little focused on reality.

EX: Jack Welch (GE), Bill Gates (Microsoft), Warren Buffet (Berkshire Hathaway), Sam Walton(Wall Mart).


Importance of Entrepreneurship
Economic
Social
Psychological
Contributes to Nation's wealth
Creates job opportunities
Invention innovation Technology development
Creates Competitive environment
Raises income standard of living
Promotes self-employment & helps solving a social problem
Sows seeds for small enteprise
Widens Entreprenurial base
Helps people fulfill creative urge
Helps in self-expression
Independence

Problems of Entrepreneurship Development Programmes (EDPs) are:

1. No Policy at the National Level.
2. Problems at the Pre training Phase.
3. Over Estimation of Trainees.
4. No fixed Duration of EDPs.
5. Non Availability of Infrastructural Facilities.
6. Improper Methodology.

Steps to Promote Entrepreneurship

- Setup Entrepreneurial Development Institutes in district level.
- Recognize and celebrate entrepreneurship among youth as a preferred career.
- Enhance access to finance for start-ups in every possible way.
- Reduce the time of starting a business and ease down the complex procedures of Govt licensing and other such activities like finance and banking etc.
- Promote entrepreneurship.

Every Big Enterprises Starts with a small Dream

So Keep Dreaming ……………………

Now, we shall Discuss on Business Plan with example

Business Plan

- :A business plan is a formal statement of a set of business goals.
- It may contain background information about the organization or team attempting to reach those goals.
- The business goals being attempted may be for profit or non-profit. For-profit business plans typically focus on financial goals.
- A business plan having changes in perception and branding as its primary goals is called a marketing plan.

Business plans may be internally or externally focused .

- Externally focused plans target goals that are important to external stakeholders, particularly financial stakeholders. With for-profit entities, external stakeholders include investors and customers.
- Internally :Internally focused business plans target intermediate goals required to reach the external goals. Business plans that identify and target internal goals, but provide only general guidance on how they will be met are called strategic plans.
-
- 7

Steps of Developing the Business Plan :

- Make the commitment to go into a business for yourself.
- Analyze your strength and weakness paying special attention to your business experience.
- Choose the production.
- Search the market for product or services.
- Forecast share of the market.
- Choose a site of the market.
- Develop the Production plan.
- Develop the Marketing plan.
- Develop the Organizational plan.
- Develop the Legal plan.
- Develop the Accounting plan.
- Develop the Insurance plan.
- Develop the Computer plan.
- Develop a program of Technological Quality Management (TQM)
- Develop Financial plan.
- Write a cover letter for summering a business plan.

Objective of Business Plan :

- To continue our strategy of controlled growth and through improved management to continue to increase our net margin.
- To increase client satisfaction, through improved reporting, accuracy, timeliness and estimates of cost and value.
- To learn how to formulate an effective Business Plan.
- To continue our strategy of controlled growth and through improved management to continue increasing our net margin.
- Operating the firm efficiently.
- Funding the firm.
- Seeking financing.
- Arranging strategic alliances.
- Obtaining large contracts.
- Testing the viability of our plans.
- Attracting key employees.
- It can be used as a selling tool in dealing with important relationships including our lenders, investors and banks.
- Completing mergers and acquisitions.
- To help banks and others who might lend us money.
- Starting international operations

Example : Starting a Restaurant Business

- **Description of the Restaurant :**
- Company Name : " New & Tasty Restaurant "
- Mission Dialogue : Tempted to try something
- Product Type : Thai & Chinese Foods
- **Vision:** Our vision is to capture the restaurant business in Bangladesh & become the highest ranking restaurant.
- **Mission:**
- To sell delicious and remarkable food and drinks.
  To create and maintain a restaurant that is comprehensive and exceptional in its attention to every detail of operation.
- To keep our concept fresh, exciting and on the cutting edge of the hospitality and entertainment industry.
- To use our restaurant to improve the quality of life in the Dhanmondi region.
-
-

- **Goal** :
- Our goal is to sell 80, ,00,000 TK. & to capture customers daily.
- To make a good impression of our restaurant, we will hire experienced employees.
- To keep a good relation with the customers, we will provide better services.

- **Description of Premises & Facilities** : Our Restaurant will be located in Dhanmondi. We are buying 3000 sqft area for our New & Tasty Restaurant. 1 basement is for Parking Lot which can hold approximately 15 cars.
- Our restaurant can hold almost 100 people.
- Basement : The basement is mainly for car parking.. There will be also a lift access to the basement so that, the customers can easily communicate to car parking.

- **Partnership Agreement**

  The agreement is made within the following Two persons :

  i. Mr X , Address: ------, Mobile:----------

  ii. Mr. Y , Address: …………, Mobile: ………..,

- **Partner's Share :** Mr X 60 % , Mr Y 40 %.

.

- **Reasons for choosing Dhanmondi Location :**
- Dhanmondi is a crowded area. Most of the schools, universities, banks, residence are located in Dhanmondi. Moreover, Dhanmondi lake is a popular place & people often used to visit this place.
- The raw material such as chicken, beef, rice, vegetables etc can be found in Mohammadpur Town Hall, Kauran Bazar near to the Dhanmondi 11/A. The transportation of these raw materials is also easy & low cost. Work forces are also available in Dhanmondi. Employee can be located in Rayerbazar, Hazaribag, West Dhanmondi, Mohammadpur, Zigatola.

- **Publicity**. We are also providing home delivery. People can order different food items via telephone, . We will also have an internet domain of our restaurant. We also provide credit-card facilities. We will advertise our restaurant via TV media, radio media, newspaper, magazine, internet, banner, and billboard.

- **Advertising** : Advertising is any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.
- Our advertising massage is our food quality is better than other restaurants' food quality and we are based on customer satisfy.
- **Advertising media** : We shall choose the advertising media, which are the advertising outlets, including newspapers, television, direct mail,, brochures, telephone, internet, billboards and outdoor displays.

SWOT Analysis :

- **Strengths** We have sufficient employers to operate our restaurant business. We will hire well known chef to provide best quality food to the customers. One of our members is highly trained in marketing expertise which will helps us to focus our restaurant to the customers. We are focusing on high quality food items with high quality raw materials. We have home service facilities.
- **Weakness**
- Not enough money to operate business. We have short space, not enough places to parking. We do not have training facility for our employees. We have not employee's transportation facility.
- **Opportunities** : Many customers live in Dhanmondi A crowded place due to Dhanmondi Lake, Offices, Hospitals, Schools, Universities etc. Technology advancement. Employers are available in Dhanmondi
- **Threats**: Price inflation Insufficient Electricity and water. Political instability Huge number of restaurant in Dhanmondi

Ending Notes of New & Tasty Restaurant

- New & Tasty Restaurant is very much promising to give a better services & high quality of foods.
- The calculation shows a high margin of safety, which is a good sign for our business.
- The initial estimation was made for 85 – 150 customers. But if we can fulfill our goal, we can capture 200 – 300 customers, which will make more profits than we imagine.
- If we calculate the CM Ratio, Sales per unit – variable expense per unit
- Sales per unit= 27.84%. This is a good value for our company.
- The analysis shows that, the business is profitable & can bring a good community to the people who live in Dhanmondi.

Next to Business Plan, Marketing Strategy is a must

Steps of Developing a Marketing Strategy:

- Identifying needs of customers
- Making products/services
- Market Segmentation
- Target Market
- Market Positioning

Types of Market Positioning:

1. Cost Leadership Strategy
2. Focus Strategy
3. Niche Marketing Strategy
4. Differentiation Strategy

Differentiation Strategy:

1. Product Differentiation
2. Price Differentiation
3. Image Differentiation
4. Personnel Differentiation

Customers: The Most Valuable Input

Customers go through the Stages:

- Potential Customers
- 1st time customer
- Repeat Customer
- Loyal Customer
- Brand Loyal Customer
- Life Time Customer

Value for Customers

What is Quality?

Offered Value = Perceived Value (Quality)

Offered Value> Perceived Value (Extra Quality)

Offered Value < Perceived Value (Low Quality)

Thanks a Lot !

Any Question Please

Chapter 4

INTERNATIONAL POLITICS

INTERNATIONAL POLITICS

The specific objectives of this chapter are to:

1 Compare and contrast major political and economic systems and note the linkage among them.

2 Examine the primary reasons for the current privatization movement and the economic impact that this movement is having on selected countries.

3 Describe the five major levels of economic integration and how each works.

4 Discuss how MNEs are using strategic planning to benefit from current worldwide economic integration efforts.

5 Discuss the impact of non-governmental organizations (NGOs) on international business.

Political ideologies and economics

An ideology: is a set of integrated beliefs, theories, and doctrines that help direct the actions of a society. Political ideology is almost always intertwined with economic philosophy.

For example, the political ideology of the United States is grounded in the Constitution, which guarantees the rights of private property and the freedom of choice.

Political systems

Democracy: is a system of government in which the people, either directly or through their elected officials, decide what is to be done.

Good examples of democratic governments include the United States, Canada, England.

Common features of democratic governments include;

- ✓ The right to express opinions freely.
- ✓ Election of representatives for limited terms of office.
- ✓ An independent court system that protects individual property and rights.
- ✓ A relatively non-political bureaucracy and defense infrastructure that ensure the continued operation of the system.

Political systems

Totalitarianism: is a system of government in which one individual or political party maintains complete control and either refuses to recognize other parties or suppresses them.

Example: Soviet union under Joseph Stalin.

Communism: is an economic system in which the government owns all property and makes all decisions regarding the production and distribution of goods and services.

The best example of communism is Cuba.

Political systems

Theocratic Totalitarianism: in which a religious group exercises total power and represses or persecutes non-orthodox factions. Iran and some of the sheikdoms of the Middle East are good examples.

Secular Totalitarianism: in which the military controls the government and makes decisions that it deems to be in the best interests of the country. Examples of this are communist North Korea and Chile under Pinochet.

Economic systems

Market-driven economy: In a market-driven economy goods and services are allocated on the basis of demand and supply.

- ✓ If consumers express a preference for cellular telephones, more of these products will be offered for sale.
- ✓ If consumers refuse to buy dot-matrix printers, these goods will cease to be offered.

The US and EU nations have market-driven economies

Economic systems

Centrally-determined economy: In a centrally-determined economy goods and services are allocated based on a plan formulated by a committee that decides what is to be offered.

- ✓ In these economies people are able to purchase only what the government determines should be sold.

Cuba is the best example.

Economic systems

Mixed economies:

Economic systems characterized by a combination of market- and centrally-driven planning.

- ✓ Mixed economies include privately-owned commercial entities as well as government-owned commercial entities
- ✓ Governments in mixed economies typically own the utilities and infrastructural industries—railroads, airlines, shipping lines, Petroleum.

Government control of assets

Privatization: The process of selling government assets to private buyers.

Nationalization: A process by which the government takes control of business assets, sometimes with remuneration of the owners and other times without such remuneration.

Government control of assets

Two Forms of Privatization,

Divestiture: A process by which government or business sells as sets.

Contract management: A process in which the government transfers operating responsibility of an industry without transferring the legal title and ownership.

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Government control of assets

Reasons for Nationalization,

- ✓ Promoting economic development, such as by coordinating the assets of many businesses into one overall master plan
- ✓ Earning profits for the national treasury.
- ✓ Preventing companies from going bankrupt and closing their doors.
- ✓ Enhancing programs that are in the national interest.
- ✓ Increasing the political or economic control of those in power.
- ✓ Ensuring goods and services to all citizens regardless of their economic status.

Government control of assets

Reasons for privatization,

- ✓ It is more efficient to have the goods and services provided by private business than by government-run companies
- ✓ A change in the political culture brings about a desire to sell these assets.
- ✓ The company has been making money, and the government feels there is more to be gained by selling now than by holding on.
- ✓ The purchase price can be used to reduce the national debt.
- ✓ The company is losing money, and the government has to assume the losses out of the national treasury.
- ✓ The company needs research and development funds in order to maintain a competitive stance, and it is unwilling to make this investment.

ECONOMIC INTEGRATION

Economic integration: is the establishment of transnational rules and regulations that enhance economic trade and cooperation among countries.

- ✓ At one extreme, economic integration would result in one worldwide free trade market in which all nations had a common currency and could export anything they wanted to any other nation.
- ✓ At the other extreme would be a total lack of economic integration, in which nations were self-sufficient and did not trade with anyone.

Trade creation and trade diversion

Trade creation: occurs when members of an economic integration group begin focusing their efforts on those goods and services for which they have a comparative advantage and start trading more extensively with each other.

Example: Mexico and USA trade creation.

Trade diversion: occurs when members of an economic integration group decrease their trade with non-member countries in favor of trade with each other.

- ✓ trade is diverted from a more efficient exporter towards a less efficient one by the formation of a free trade agreement or a customs union.

Different Levels of economic integration

A **free trade area** is an economic integration arrangement in which barriers to trade (such as tariffs) among member countries are removed.

Example: N**AFTA**

A **customs union** is a form of economic integration in which all tariffs between member countries are eliminated and a common trade policy toward non-member countries is established.

A **common market** is a form of economic integration characterized by (a) no barriers to trade among member nations, (b) a common external trade policy, and (c) mobility of factors of production among member countries.

Levels of economic integration

An **economic union:** is a deep form of economic integration and is characterized by free movement of goods, services, and factors of production among member countries and full integration of economic policies.

An economic union

- ✓ Unifies monetary and fiscal policy among the member nations, including the same tax rates.
- ✓ Has a common currency (or a permanently fixed exchange rate among currencies).

Levels of economic integration

A **political union:** goes beyond full economic integration to encompass a single government. This occurs only when countries give up their individual national powers to be united and led by one government.

One successful **example** is the United States, which combined independent states into a political union.

Considerations Regarding Economic Integration

- ✓ Countries should choose the appropriate level of economic integration based on their political and economic needs.

- ✓ Economic integration in the form of free trade should typically results in a winning situation for all group members

- ✓ Economic integration should draw on resources in member countries to help increase efficiency.

- ✓ Economic integration should results in all bloc countries becoming much more efficient and competitive.

Strategic alliances and acquisitions

A **strategic alliance** is a business relationship in which two or more companies work together to achieve a collective advantage.

Example: Microsoft and Sony.

These alliances can take a number of forms.

- ✓ In some cases companies jointly conduct research or combine their efforts to market a product.
- ✓ In other instances they will license a firm to produce and sell a particular product in a specific market region.

Acquisition

An acquisition: is when one company purchases most or all of another company's shares to gain control of that company.

- Purchasing more than 50% of a target firm's stock and other assets allows the acquirer to make decisions about the newly acquired assets without the approval of the company’s other shareholders

Localization of business operations

- **Localization of products:** The localization of products requires the development, manufacturing, and marketing of goods best suited to the needs of the local customer and marketplace.
- **Localization of profits:** is the reinvestment of earnings in the local market.
- **Localization of production:** involves the manufacture of goods in the host market
- **Localization of management:** encouraging home office managers to learn the local culture and become part of the community.

Political Risks of International Business

Confiscation: The seizing of a company's assets without payment.

Expropriation: Where government seizes an investment but makes some reimbursement for the assets.

Domestication: occurs when host countries gradually cause the transfer of foreign investments to national control and ownership through a series of government decrees that mandate local ownership and greater national involvement in a company's management.

Economic Risks of International Business

- ✓ Exchange controls
- ✓ Local-Content Laws
- ✓ Import Restrictions
- ✓ Tax Controls
- ✓ Price Controls

Chapter-05

Foreign Exchange Rate

Definition

Definition of Foreign Exchange Rate:

Foreign exchange rate is the exchange rate at which one currency will be exchanged for another. It is also regarded as the value of one currency in relation to another currency.

Exchange rate indicates the **external purchasing** power of money.

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Equilibrium Exchange rate

Equilibrium exchange rate: is the exchange rate at which the supply for a currency meets the demand of the same currency. As foreign exchange rates are affected by a number of factors, the equilibrium exchange rate in turn, also are influenced by its supply and demand.

In broad, equilibrium exchange rate is the specific rate at which export revenue and import spending are equal.

Hence, equilibrium is achieved when a currency's demand is equal to its supply.

Equilibrium Exchange rate

Those in favor of a floating exchange rate regime argue that allowing exchange rates to float will enable trade to balance more quickly.

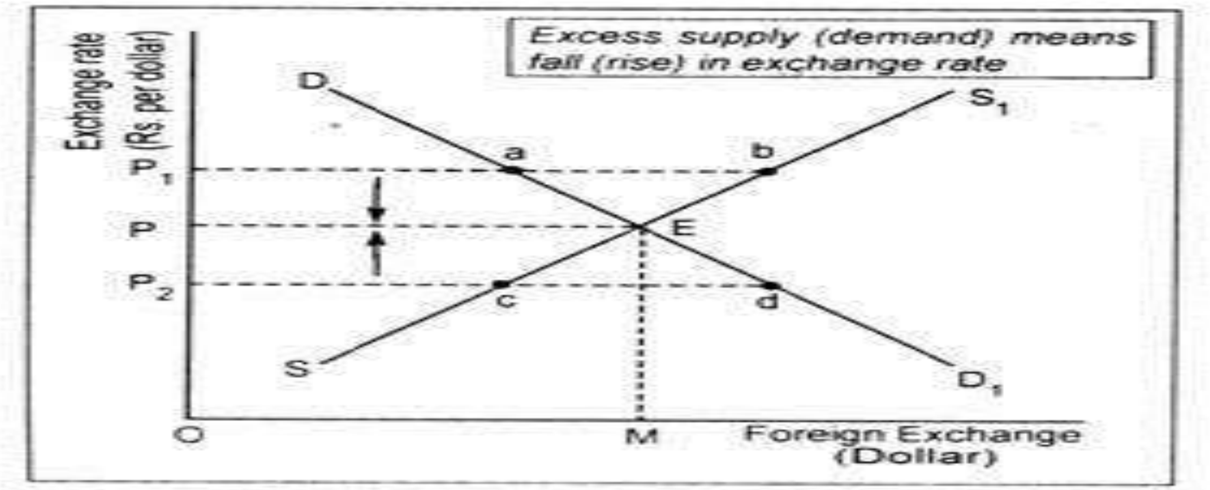

Fig. 5.4: Equilibrium Exchange Rate

Determinants of Exchange Rate

- ✓ Inflation Rate
- ✓ Interest Rate
- ✓ Country’s Current Account/Balance of Payments
- ✓ Government Debt
- ✓ Terms of Trade
- ✓ Political Stability and Performance
- ✓ Recession
- ✓ Speculation

Real Exchange Rate and Nominal Exchange Rate

Real exchange rate is a rate which measures how many times an item of goods purchased locally can be purchased abroad. So, it indicates the ratio of an item purchased in domestic market to the item purchased in the foreign market. It is a complex and difficult method to calculate the real exchange rate. In short, real exchange rate measures the power of domestic currency to the foreign currency at a prevailing time.

Real Exchange Rate and Nominal Exchange Rate

The formula of real exchange rate:

(Nominal Exchange Rate ×Foreign Price) / Domestic Price

For example: If the price of 1 KG Tea in Bangladesh is 200 Taka and suppose the price for the same unit in the Dubai is 15 Dirham. The exchange rate is 1 Dirham = 17.48 taka.

Hence, the real exchange rate is: $(17.48 \times 15)/200 = 1.311$

Real Exchange Rate and Nominal Exchange Rate

Nominal exchange rate is also used to buy and sell the goods and services in the international market. Nominal exchange rate means a rate by which you can exchange your domestic currency with foreign currency at any financial institution like Bank, NBFC and so on.

Real Exchange Rate and Nominal Exchange Rate

There is no particular formula to calculate the nominal exchange rate. If you go to a foreign country, it is obvious that you will require the domestic currency of that country. So, you may go to the bank and demand the foreign currency by giving the Bangladeshi currency and the rate at which it is exchanged is called the nominal exchange rate.

Types of Exchange Rate System

- ✓ **Fixed Exchange Rate:** In a fixed exchange rate system, the exchange rate between two currencies is set at fixed rate by the government policy. It is also known as pegged exchange rate as the rate is pegged or linked to another currency or asset (often gold) to derive its value. A fixed exchange rate is well protected against the rapid fluctuations in inflation. Some countries following fixed exchange rate include: Denmark, Hong Kong, Saudi Arabia and so on.

Types of Exchange Rate System

- ✓ **Floating Exchange Rate:** In a floating exchange rate system, the rate of a currency is determined by the market forces of the demand and supply. Here, the government and central banks do not participate in the market for foreign exchange. This exchange rate system is more preferable since it absorbs the shocks of a global crisis and automatically adjusts to arrive at an equilibrium

Types of Exchange Rate System

- **Managed Float System:** Government and central banks often seeks to increase or decrease their exchange rates by buying or selling their own currencies. In this system, exchange rates are still free to float, but governments attempt to influence their values.
- **Forward Rate:** A forward rate is the one that is determined as per the terms of a forward contract. It stipulates the purchase or sale of a foreign currency at a predetermined rate at some date in the future.

Types of Exchange Rate System

- ✓ **Spot Rate:** The spot rate is the current exchange rate for any currency. It is the rate at which your currency will be converted if you decided to execute a foreign transaction "right now". They represent the day to day exchange rate and vary by a few basis points every day.

Appreciation and Depreciation of Currencies

Currency Depreciation is the loss of value of a country's currency with respect to one or more foreign reference currencies. Depreciation of a country's currency make the foreign goods less competitive in the domestic market as the prices of foreign goods go up. However, depreciation of a currency tends to beneficially affect a country's balance of trade by improving the competitiveness of the domestic goods in foreign markets.

Currency Appreciation is an increase in the value of the currency. When a country's currency appreciates in relation to foreign currencies, foreign goods become cheaper in the domestic market and there are overall downward pressures on domestic prices. In contrast, the prices of domestic goods paid by the foreigners go up, which tends to decrease the foreign demand for domestic products.

Causes of Appreciation and Depreciation of Currencies

- ✓ In a floating exchange rate, the currency's value goes up (or down) if the demand for it goes up more (or less) than the supply does. In the short run, this can happen unpredictably for a variety of reasons, including the balance of trade, speculation or other factors in the international capital market.
- ✓ Another cause of appreciation or depreciation of a currency is speculative movements of funds in the belief that a currency is over or under valued.
- ✓ A longer trend of appreciation (or depreciation) is likely to be caused by home country inflation being lower (or higher) on average than inflation in other countries.

Balance of Payment

Balance of payment (B.O.P): is the systematic record of all the economic transactions between its residents and the residents of foreign countries over a defined period of time such as a quarter or a year. B.O.P reflects the clear economic position of a country.

Characteristics of Balance of Payments

- ✓ Balance of payment is a systematic record of receipts and payments of a country with other countries.
- ✓ It is a statement of accounting pertaining to a given period of time, usually one year.
- ✓ Balance of payment includes all the three items i.e. visible, invisible, capital transfers.
- ✓ Balance of payment is recorded on the basis of double entry system which means the total debits must equal to total credits. Debit side shows the use of total foreign exchange acquired in a particular period whereas the credit side shows the sources from which the foreign exchange is acquired during a particular period.
- ✓ Whenever there is any difference in the total receipts and payment, a need for necessary adjustment is felt. In case of unfavorable balance of payment, government will have to take foreign loans or promote foreign investment so as to meet the differences.

Elements of Balance of Payments

Balance of payment is generally grouped under the following heads

- ✓ **Current Account:** Capital account is a record of all merchandise exports, imports, services, and unilateral transfer of funds.
- ✓ **Capital Account:** Capital account can be defined as a record of direct investment, portfolio investment, and short term capital movements to and from countries. It includes the flow of items such as borrowing, lending, financial securities trading, and direct investment.
- ✓ **Official Reserves Account**: Official reserves account may be defined as the exports and imports of goods, increases or decreases in foreign exchange, and liabilities to foreign central banks.

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Chapter 6

Trade Protectionism

Protectionism

Protectionism: refers to government policies that restrict international trade to help domestic industries.

Protectionist policies are usually implemented with the goal to improve economic activity within a domestic economy but can also be implemented for safety or quality concerns.

Example, Import or export Tariffs and Quotas.

Economic Rationales for Governmental Intervention

- ✓ Fighting unemployment
- ✓ Protecting infant industries
- ✓ Promoting industrialization
- ✓ Improving comparative position

Non-economic Rationales

- ✓ Maintaining essential industries
- ✓ Promoting acceptable practices abroad
- ✓ Maintaining or extending spheres of influence
- ✓ Preserving national culture

Instruments of Trade Control

- ✓ Tariff Barriers
- ✓ Non-tariff barriers

Tariff Barriers

Tariff: is a tax levied on a good shipped internationally. That is, governments charge a tariff on a good when it crosses an official boundary.

Types of tariff,

Import tariff

Export tariff

Transit tariff

Tariff Barriers

Import tariff: Tariffs collected by importing countries.

Export tariff: Tariffs collected by exporting countries.

Transit tariff: Tariffs collected by countries through which goods pass.

Tariff Barriers

Criteria for Assessing Tariffs:

A specific duty: is a tariff based on units, such as $1 for each item shipped into the country. So a manufacturer shipping in 1,000 pairs of shoes would pay a specific duty of $1,000.

An ad valorem duty: is a tariff based on a percentage of the value of the item, so a watch valued at $25 and carrying a 10 per cent duty would have a tariff of $2.50.

A compound duty: is a tariff consisting of both a specific and an ad valorem duty, so a suit of clothes valued at $80 that carries a specific duty of $3 and an ad valorem duty of 5 per cent would have a compound duty of $7.

Nontariff Barriers

Quotas: limiting the quantity of a product that can be imported or exported in a given time frame, typically per year. *Import quotas* normally raise prices for two reasons:

(1) to limit supply and (2) to provide little incentive to use price competition to increase sales

Nontariff Barriers

Voluntary Export Restraint: is a trade restriction on the quantity of a good that an exporting country is allowed to export to another country.

Embargo: is a trade restriction, typically adopted by a government, a group of countries or an international organization as an economic sanction.

"Buy Local" Legislation: Government issues laws to make it sure citizens buy locally produced products.

Nontariff Barriers

Standards and Labels: Goods not meeting the standards and labels are not permitted to import.

Specific Permission Requirements:

Administrative Delays

Reciprocal Requirements

Countertrade

Dealing with Governmental Trade Influences

When companies face possible losses because of import competition, they have several options, four of which stand out:

1. Move operations to another country.

2. Concentrate on market niches that attract less international competition.

3. Adopt internal innovations, such as greater efficiency or superior products.

4. Try to get governmental protection.

Chapter-07

The cultural Environment of International Business

What is Culture?

Definition: A system of values and norms that are shared among a group of people and that when taken together form a design for living.

Ethnocentricity:
Belief that one's ethnic group or culture is superior to that other.

Cultural Literacy:
Detailed of culture that enable a person to function efficiently within it.

Priorities of Cultural Values

Priorities of Cultural Values: United States, Japan, and Arab Countries

United States	Japan	Arab Countries
1. Freedom	1. Belonging	1. Family security
2. Independence	2. Group harmony	2. Family harmony
3. Self-reliance	3. Collectiveness	3. Parental guidance
4. Equality	4. Age/seniority	4. Age
5. Individualism	5. Group consensus	5. Authority
6. Competition	6. Cooperation	6. Compromise
7. Efficiency	7. Quality	7. Devotion
8. Time	8. Patience	8. Patience
9. Directness	9. Indirectness	9. Indirectness
10. Openness	10. Go-between	10. Hospitality

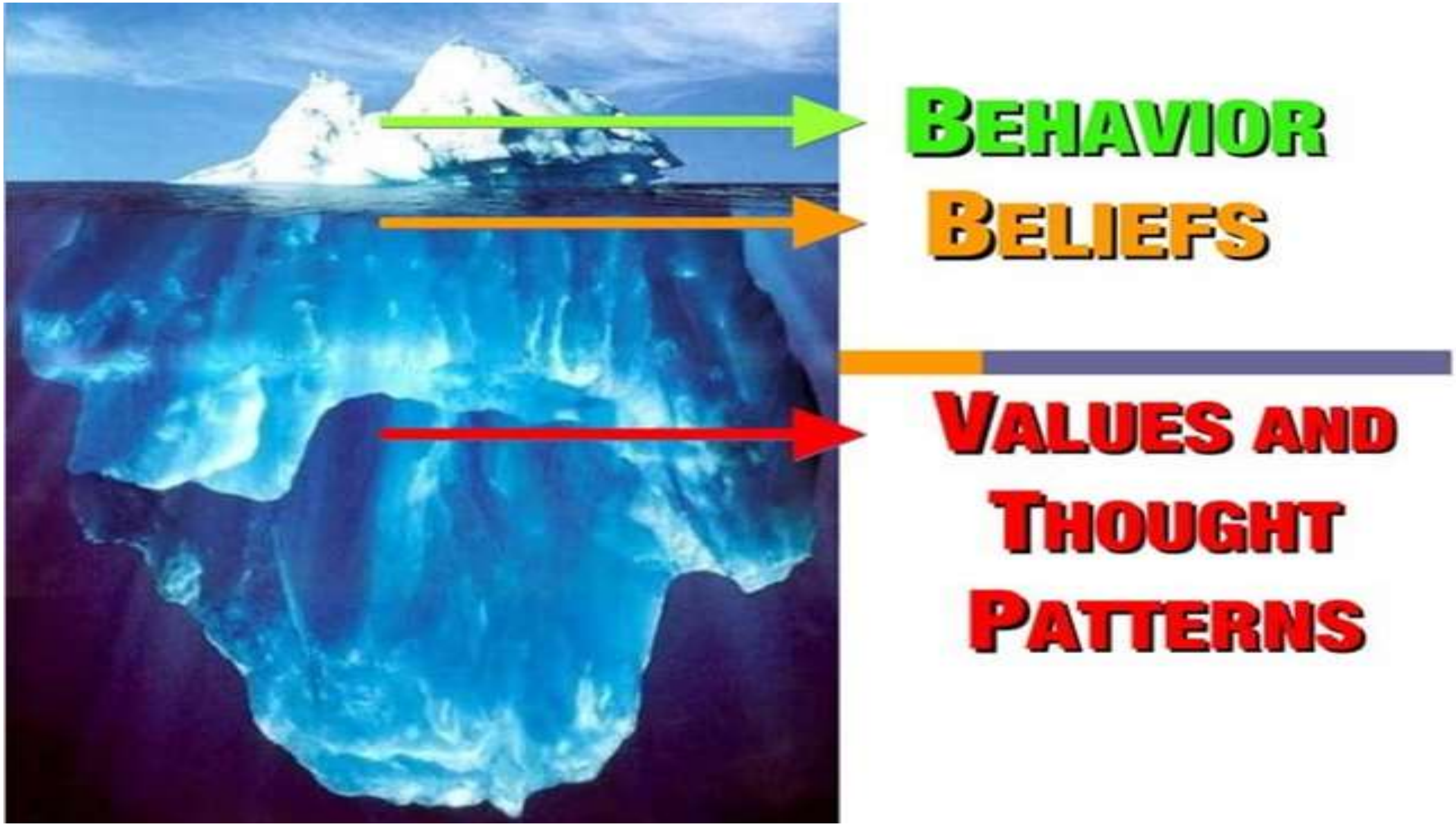
Note: "1" represents the most important cultural value, "10" the least.

Source: Adapted from information found in F. Elashmawi and Philip R. Harris, *Multi-cultural Management* (Houston: Gulf Publishing, 1993), p. 63.

- Class No. 07

- Lecture Slides: 137 to 151

Pattern of Cultural Understanding



Elements of Culture

Basic elements of culture,

Language
Religion
Education
Norms
Customs and Traditions
Values and Beliefs

Arts and literature
Political systems
Economic system
Symbols
Rituals
Family system

Cultural Diffusion

Definition: is the spread of cultural ideas, practices and values from on group of people to another.

Impact of cultural diffusion,

Positive Impacts

- Access to information and ideas
- Access to products
- New entertainment

Negative Impacts

- Loss of local businesses
- Introduces new problem
- Loss of cultural identity

Behavioral practices affecting business

1-Issues in Social Stratification

2- Work Motivation

3-Relationship Preferences

4- Risk-taking Behavior

5- Information and Task Processing

6-Communications

1-Issues in social stratification

Caste system- Priest, Ruler, Warrior, Farmer etc.

Social class- Upper class, Middle class, lower class.

Performance Orientation- Individualism vs team work.

- Employment : In US individual **competence** --- to avoid discrimination rules are set
- Whereas in Japan **cooperation** is stressed

2-Work Motivation

- ✓ Desire for material wealth vs leisure.
- ✓ Masculinity vs Feminity – high masculinity score prefer ‘to live to work’ to ‘ work to live’.
- ✓ Hierarchy of needs priority- Physiological, safety, social, esteem, self-actualization needs.

2-Work Motivation

Masculine	Feminine
compete	collaborate
hierarchies, rules	networks, alliances
infiltrate	adapt
explain	explore
independent	interdependent
firm	flexible, compromising
single-minded	understanding
tough	discussion, open
achievement	relationships
disciplined	learning

- Managers in U.S., U.K, Europe and Latin America report that **autonomy and self-actualization** are the most important but least satisfied needs.
- Some East Asian managers think that hierarchy of needs is western-oriented and focuses on the individual

3-Relationship Preference

Power distance- high vs low.

Individualism or Collectivism.

3-Relationship Preference

Power Distance

High Power Distance

- Those in authority openly demonstrate their rank.
- Subordinates are not given important work and expect clear guidance from above.
- Subordinates are expected to take the blame for things going wrong.
- The relationship between boss and subordinate is rarely close/personal.
- Politics is prone to totalitarianism.
- Class divisions within society are accepted.

Low Power Distance

- Superiors treat subordinates with respect and do not pull rank.
- Subordinates are entrusted with important assignments.
- Blame is either shared or very often accepted by the superior due to it being their responsibility to manage.
- Managers may often socialise with subordinates.
- Liberal democracies are the norm.
- Societies lean more towards egalitarianism.

4-Risk taking behavior

- ✓ Uncertainty avoidance
- ✓ Trust
- ✓ Future Orientation
- ✓ Fatalism

4-Risk taking behavior

High uncertainty avoidance countries:

- high need for security- people worried
- strong belief in experts and their knowledge
- structure organizational activities
- more written rules
- less managerial risk taking

(e.g., Germany, Japan, Spain)

- **Low uncertainty avoidance countries**:
- people more willing to accept risks of the unknown
- less structured organizational activities
- fewer written rules
- more managerial risk taking
- more ambitious employees

(e.g., Denmark and Great Britain)

5-Information and Task processing

Obtaining information- high context vs low context.

Information processing- monochonic vs polychronic and idealism vs pragmatism.

5-Information and Task processing

- High-context cultures
  - Emphasize on establishing and strengthening relationships in the communication process
  - Non-verbal communication is as important as verbal communication
  - Examples: Asians, Arabians, Latin Americans

- Low-context cultures
  - Emphasize on exchanging information and is less focused on building relationships
  - Pay more attention on spoken words and less attention on non-verbal communication (body language, eye movement
  - Examples: Americans, Canadians, Australians, Germans

5-Information and Task processing

- **Monochronic cultures**
  - Like to do just one thing at a time
  - Orderliness
  - They do not value interruptions.
  - The Germans tend to be monochronic

- **Polychronic cultures**
  - Like to do multiple things at the same time.
  - A manager's office in a polychronic culture typically has an open door, a ringing phone and a meeting all going on at the same time.

  - Polychronic cultures include the French and the Americans.

6-Communication

Cross-boarder communication is not always translated as intended.

- ✓ Spoken and Written language.
- ✓ Silent language.

- Class No. 08
- Lecture Slides: 153 to 167

6-Communication

AMERICAN	BRITISH
Apartment	Flat
Argument	Row
Lawyer	Solicitor
Bathroom	Loo
Can	Tin
Cookie	Biscuit

- Motorola face difficulty assigning cell phone numbers in China because certain sound in Mandarin came out wrong
- If the number end in **54 7424**
- You will sound as if you are saying

I die, my wife dies and my child dies

6-Communication

- **GREEN**: Represents danger or disease in Malaysia, envy in Belgium, happiness in Japan and sincerity, trustworthiness in China.

- **BLACK**: In western countries black is colour of mourning whereas in some countries is associated with power.

- **WHITE**: Symbolizes mourning or death in East Asia, but happiness and purity in Australia, New Zealand and USA

Dealing with cultural differences

- ✓ Host society acceptance.
- ✓ Degree of cultural difference.
- ✓ Ability to adjust.
- ✓ Company and management orientation-
- ✓ Polycentric, Ethnocentric, Geocentric.

Cultural Adaptation

Cultural Adaptation:

reviewing and changing the structure of a program or. practice to more appropriately fit the needs and preferences of a particular cultural. group or community.

Cultural Adaptation

There are three groups of business customs that one should be aware of,

Cultural Imperatives: are customs that you must conform to if you want to be successful. An example of a cultural imperative is relationship building.

Cultural Electives: are those customs to which adaptation is helpful but not necessary.

Cultural Exclusives: are those customs reserved exclusively for locals and from which foreigner is barred.

Strategies For Instituting Change

- ✓ Value systems
- ✓ Cost-benefit analysis of change
- ✓ Resistance to too much change
- ✓ Participation
- ✓ Reward sharing
- ✓ Opinion leadership
- ✓ Cultural bridges
- ✓ Timing
- ✓ Learning abroad

Chapter-8

International Trade Theories

Trade Theories

Trade theory helps managers and government policymakers focus on these questions:

- ✓ What products should we import and export?
- ✓ How much should we trade?
- ✓ With whom should we trade?

Interventionist or Laissez-fair approach

Interventionist approach: prescribes a great deal of government intervention in trade.

Laissez-faire approach: is one that allows market forces to determine trading relations not the government body's intervention. Free-trade theories (absolute advantage and comparative advantage) take a complete laissez-faire approach because they prescribe that governments should not intervene directly to affect trade.

Interventionist Theories

Mercantilism: holds that a country's wealth is measured by its holdings of "treasure," which usually means its gold.

According to this theory, countries should export more than they import and, if successful, receive gold from countries that run deficits.

To export more than they imported, governments restricted imports and subsidized production that otherwise could not compete in domestic or export markets.

Interventionist Theories

Neo-mercantilism: describes the approach of countries that try to run favorable balances of trade in an attempt to achieve some social or political objective.

- ✓ A country may aim for increased employment by setting economic policies that encourage its companies to produce in excess of the demand at home and send the surplus abroad.
- ✓ Or it may attempt to maintain political influence in an area by sending more merchandise there than it receives from it

Free-Trade Theories

This theory of absolute advantage: is the ability of an entity to produce a product or service at a lower absolute cost per unit using a smaller number of inputs or a more efficient process than another entity producing the same good or service.

Example:

A clear example of a nation with an absolute advantage is Saudi Arabia, a country with abundant oil supplies that provide it with an absolute advantage over other nations

Free-Trade Theories

According to Smith, lower absolute cost can be attained through efficiency and efficiency can be attained through,

- ✓ Repeating the same tasks.
- ✓ Not lose time in switching production from one kind of product to another.
- ✓ Long production runs which would provide incentives for developing more effective working methods.

Free-Trade Theories

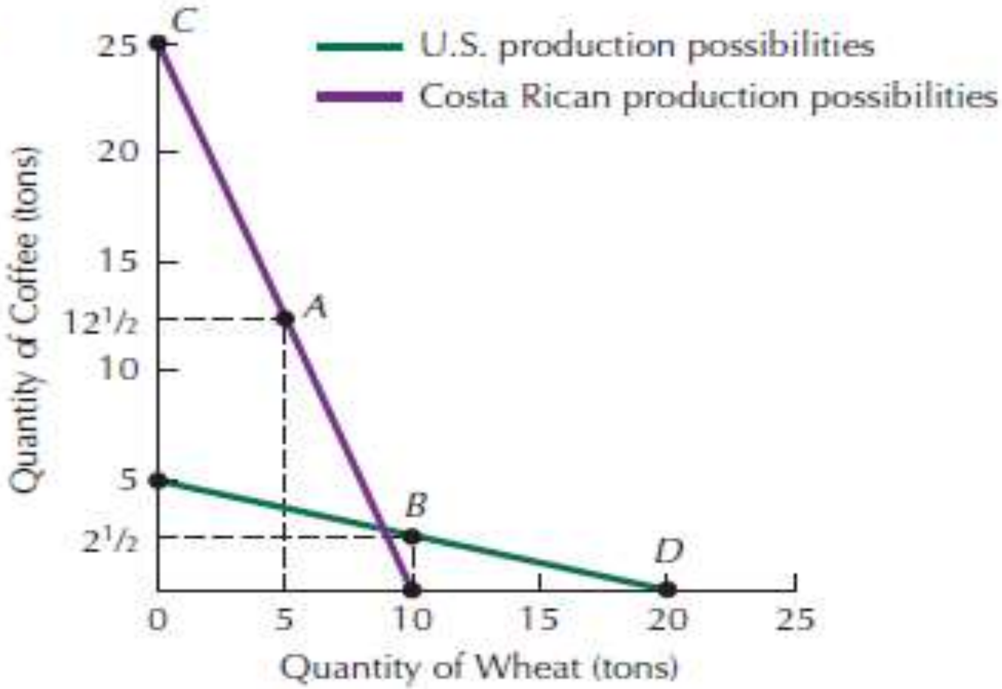
ASSUMPTIONS
for Costa Rica

1. 100 units of resources available
2. 10 units to produce a ton of wheat
3. 4 units to produce a ton of coffee
4. Uses half of total resources per product when there is no foreign trade

ASSUMPTIONS
for United States

1. 100 units of resources available
2. 5 units to produce a ton of wheat
3. 20 units to produce a ton of coffee
4. Uses half of total resources per product when there is no foreign trade

PRODUCTION	Coffee (tons)	Wheat (tons)
Without Trade:		
Costa Rica (point *A*)	$12\frac{1}{2}$	5
United States (point *B*)	$2\frac{1}{2}$	10
Total	15	15
With Trade:		
Costa Rica (point *C*)	25	0
United States (point *D*)	0	20
Total	25	20



Free-Trade Theories

Comparative advantage: Says that gains from trade will occur even in a country that has absolute advantage in all products, because the country must give up less efficient output to produce more efficient output.

Example,

Imagine that the best physician in town also happens to be the best medical administrator. It would not make economic sense for the physician to handle all the administrative duties of the office, because of earning more money by concentrating on medical duties, even though that means having to employ a less-skilled office administrator.

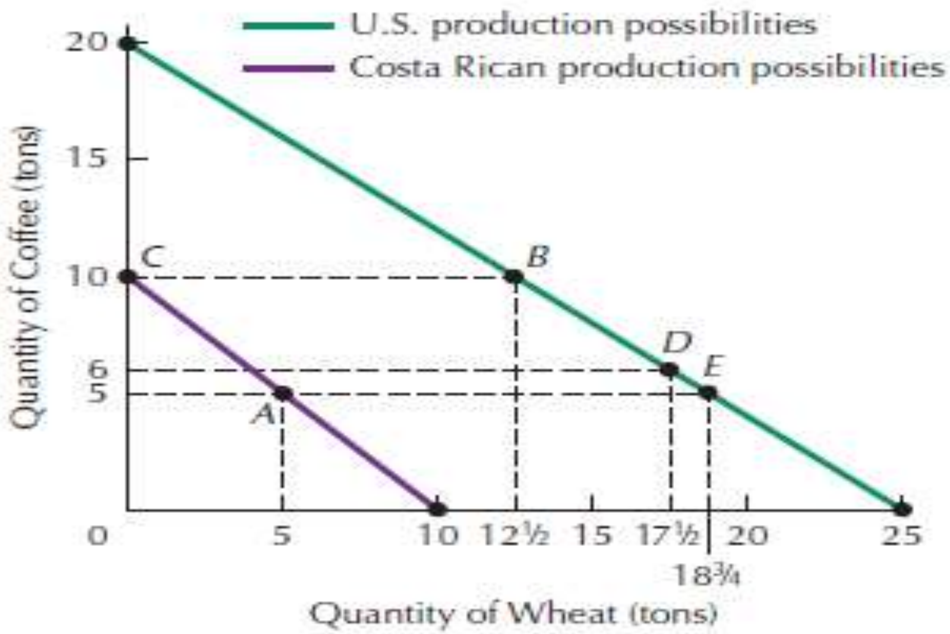
- Class No. 09
- Lecture Slides: 169 to 183

Free-Trade Theories

ASSUMPTIONS
for Costa Rica
1. 100 units of resources available
2. 10 units to produce a ton of wheat
3. 10 units to produce a ton of coffee
4. Uses half of total resources per product when there is no foreign trade

ASSUMPTIONS
for United States
1. 100 units of resources available
2. 4 units to produce a ton of wheat
3. 5 units to produce a ton of coffee
4. Uses half of total resources per product when there is no foreign trade

PRODUCTION	Coffee (tons)	Wheat (tons)
Without Trade:		
Costa Rica (point *A*)	5	5
United States (point *B*)	10	12½
Total	15	17½
With Trade (increasing coffee production):		
Costa Rica (point *C*)	10	0
United States (point *D*)	6	17½
Total	16	17½
With Trade (increasing wheat production):		
Costa Rica (point *C*)	10	0
United States (point *E*)	5	18¾
Total	15	18¾



Free-Trade Theories

Assumptions related to free trade theories,

- ✓ Full Employment
- ✓ Economic Efficiency
- ✓ Division of Gains
- ✓ Transport Costs
- ✓ Statics and Dynamics
- ✓ Services
- ✓ Production Networks
- ✓ Mobility

The Diamond of National Competitive Advantage

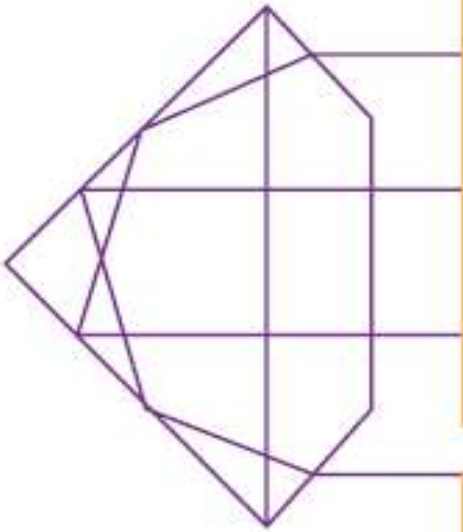
Diamond of National Competitive Advantage:

According to the diamond of national competitive advantage theory, companies' development and maintenance of internationally competitive products depends on favorable

- Demand conditions.
- Factor conditions.
- Related and supporting industries.
- Firm strategy, structure, and rivalry.

The Diamond of National Competitive Advantage

The Diamond of National Competitive Advantage



Factor conditions: Are sufficient quantities and combinations of the quality of labor, capital, and raw materials available at acceptable prices?

Demand conditions: Are consumers likely to buy what we can produce with the factor conditions above and at the price we can deliver to them?

Related and supporting industries: Can we outsource production of sufficient components and services to allow us to concentrate our efforts on what we can do best?

← Development

Firm strategy, structure, and rivalry: Will competitive conditions and our reactions to them enable us to evolve our operations to sustain and improve our market position?

← Sustainability

Factor-Mobility Theory

Factor-mobility theory: focuses on why production factors move, the effects of that movement on transforming factor endowments, and the impact of international factor mobility (especially people) on world trade.

Why Production Factors Move?

Capital and labor move internationally to

- ✓ Gain more income.
- ✓ Flee adverse political situations-persecution or war dangers.

Chapter 9:

Modes of Entry into International Business

International Business: Trade between & among the countries

- A person cannot meet all of his requirements using only his available resources. He needs to trade goods and services with other people.
- In a similar way, a nation may meet all of its needs using its own resources. But, there are some circumstances where it must depend on other nations.
- This dependence on a single country for any given good is entirely due to the natural resources of that country.
- The items created in this manner are first consumed domestically in a country and the excess is exported to other countries.
- In exchange for this sale, the country makes purchases of goods that are not widely available in that country.
- Hence, supply and demand are in balance. This trade between the two countries is known as **international business.**

In simple terms, international business refers to those business activities that take place beyond the geographical limits of a country.

It includes

- **not just international trade in <u>products and services</u>, but also**
- **<u>capital,</u>**
- **<u>labour,</u>**
- **<u>technology</u>, and**
- **<u>intellectual property</u> such as patents, trademarks, and copyrights.**

A corporation can enter into international trade in a variety of ways:

1. Exporting and Importing

Exporting and Importing is a very common mode to enter into International business.

Exporting : Selling goods and services to a company in a foreign country is referred to as **Exporting**. For instance, Gulab sold sweets to a store in Canada.

Importing : Purchasing goods from a foreign company is known as **Importing**. For instance, the purchase of dolls from a Chinese company by an Indian dolls dealer.

Exports and imports are the typical way through which businesses begin their activities overseas before moving on to other kinds of international trade.

Important Ways to Export and Import

i) Direct Importing/ Exporting: The company handles all of the necessary paperwork for the shipment and <u>financing</u> of goods and services and deals directly with foreign <u>suppliers</u> or purchasers.

ii) Indirect Importing/ Exporting: The company uses a middleman to handle all the paperwork and negotiate with foreign suppliers or customers. The firm’s involvement is limited.

2. Contract Manufacturing

- **Contract manufacturing** is a type of international business, in which a firm enters into a contract with another firm in a foreign country to manufacture certain components or goods as per its specifications.

- According to Contract Manufacturing, every well-known company in a nation accepts responsibility for promoting the goods and services created by a business in another nation.
- Here, the company is specialized in the manufacturing process but lacks marketing skills, whereas the other company, due to its established reputation, is capable of selling those items and services.
- Offering these items and services is not the primary business of these organizations, but they do it for the benefit of their name and reputation, as well as to provide high-quality products at a low cost to their customers.

- Multinational firms, like Maybelline, Loreal, Levis, and others use contract manufacturing to have their products or component parts produced in developing nations. Contract manufacturing is also known as international outsourcing.

3. Licensing

- When a corporation from one country (the Licensor) grants a license to a company from another country (the Licensee) to use its brand, patent, trademark, technology, copyright, marketing skills; etc., to assist the other firm sell its products, this contractual agreement is referred to as **Licensing**.
- The licensor corporation receives returns in proportion to sales. Returns may take the form of royalties or fees.
- In other nations, the government determines how the returns are fixed. This cannot exceed 5% of revenues in several developing nations.
- **For instance,** Pepsi and Fanta are made and distributed globally by local bottlers in other nations under the licensing system.

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- Lecture Slides: 185 to 199

- The company that provides such authorization is known as the **Licensor** while the other company in a different country that receives these rights is known as the **Licensee**. The mutual sharing of knowledge, technology, and/or patents between the companies is called **Cross-licensing.**

4. Franchising

Franchising is a contractual agreement that involves the grant of rights by one party to another for use of technology, trademark, and patents in return for the agreed payment for a certain period of time.

- The franchise is the unique right or freedom that a producer grants to a certain person or group of people to establish the same business at a specific location.
- The producers use this contemporary business model to market their products in far-off locations.
- In general, producers who have a good reputation use this system.
- Individuals are motivated by their goodwill and try this mode of business in order to earn profit.

- The business that gives the rights (i.e., the parent company) is referred to as the **Franchisor**, and the business that purchases the rights is referred to as the **Franchisee**.

Advantages of Licensing and Franchising

- **Less expensive method**: In the licensing/franchising system, the licensor/franchisor establishes the business unit and invests his/her own money in it. As a result, the licensor/franchisor is bound to make almost no international investment. As a result, licensing/franchising is considered, as a less expensive method of entering an international business.

- **Not liable for any losses**: Since no or very little foreign investment is involved, the licensor/franchisor is not liable for any losses incurred by foreign business. The licensee/franchisee pays the licensor/franchisor fees that are fixed in advance as a proportion of production or sales turnover. This royalty or fee continues to accrue to the licensor/franchisor as long as production and sales continue to take place in the licensee's/ franchisee's business unit.

- **Lesser Risks**: There are lesser risks of business takeovers or government interference because the licensee/franchisee is a local person who manages the company in a foreign country.

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- **Greater market knowledge and contacts**: Being a local, the licensee or franchisee has a better understanding of the market, as well as more contacts, which may be very beneficial to the licensor or franchiser in running its marketing activities.

- **Legal safety**: Only the parties to the licensing/franchising agreement are legally permitted to use the licensor's/copyrights, franchisor's patents, and brand names in foreign countries, according to the terms of the licensing/franchising agreement. As a result, such trademarks and patents cannot be used by other companies in the international market.

Disadvantages of Licensing and Franchising

- **Risks of starting a similar business**: There is a risk that a licensee/franchisee might start marketing an identical product under a slightly different brand name if they become skilled in the production and marketing of the licensed/franchised products. The licenser/franchisor may be exposed to intense competition in the industry.

- **Problem of secrecy**: Trade secrets may be revealed to third parties in foreign markets if they are not properly protected. The licensor or franchisor may suffer significant losses as a result of the licensee's/franchisee's errors.

- **Conflicts and disputes**: Over time, conflicts frequently arise between the licensee/franchisee and the franchisor/licensor over matters, such as the maintenance of accounts, payment of royalties, and the disregard of standards for the production of high-quality products. These disagreements can lead to expensive legal disputes that affect both parties.

Digital Marketing

The skill of standing out online is needed more than ever in today's digital world. Whether to become a young marketer or grow one's brand, it is most important to learn digital marketing concepts. With our **Digital Marketing Live Training Program**, you can do all that, right in line with what any willing student needs. The course focuses on hands-on training in **SEO**, **Social Media**, and **Content Marketing**. Build the skills to make a difference in creating campaigns and driving accurate results. Set trends, not follow them. Enroll now and dominate the digital world!

5. Joint Ventures

- A **joint venture** is formed when two or more businesses decide to work together for a common goal and mutual benefit.
- These two commercial entities could be private, public, or foreign-owned.
- Joint ventures are those types of businesses that are established in international trade where both domestic and foreign entrepreneurs are partners in ownership and management.
- The trade is carried out in collaboration with the importing nation's firm.
- **For instance,** the Joint venture of the Indian company Maruti with the Japanese Company Suzuki.

6. Wholly Owned Subsidiary

When a foreign company establishes a business unit or acquires a full stake in any domestic company, then they are called a **Wholly-owned Subsidiary**. Wholly owned subsidiaries are set by a foreign company to enjoy full control over their overseas operations.

A wholly-owned subsidiary in a foreign country may be established in two ways:

- Setting up of wholly-owned new firm in the foreign land, also called **Green Field Venture**.
- Acquiring an established firm in a foreign country and using that firm to do business in a foreign country.

Question 1: "International business is more than international trade". Comment.

Answer: It is true that international business is more than just international trade.

- International business encompasses a considerably broader range of activities than international trade.
- International trade refers to the export and import of products, which is an essential component of international business.
- International trade in services such as travel and tourism, transportation, communication, banking, warehousing, distribution, and advertising is a component of international business.
- Foreign direct investments, contract manufacturing, and the establishment of wholly owned subsidiaries are elements of international business that are not included in international trade.

2. What are some of the primary operations that include international business and help differentiate it from <u>international trade</u>:

1. **Trade of Services** is a significant component of international business. Travel and tourism, entertainment, communication, transportation, construction, advertising, R&D, and banking are all services that are part of international business.

2. **<u>Licensing and Franchising</u>** are elements of international business activities. A home business grants intellectual property rights to a foreign firm in exchange for a fee, allowing the foreign firm to produce and sell items under the home company's trademarks, patents, or copyrights. Similarly, in exchange for a fee, a home nation grants a foreign firm the right to make and sell items under a common brand name using the same operations support system.

3. **Foreign Investment** refers to funds that are invested abroad for a profit. It is a crucial aspect of international business and consists of two components:

- **Direct Investment:** This is an investment made directly in a foreign company's plants and machinery in order to begin production by acquiring controlling rights.
- **Portfolio Investment:** This is an investment in securities or a loan to a foreign firm with the objective of generating profits in the form of dividends or loan interest.

Merchandise refers to tangible goods, such as those that can be seen and felt. From this perspective, it is clear that, although merchandise exports mean shipping tangible goods abroad, merchandise imports mean bringing tangible goods from a foreign country to one's own. Merchandise exports and imports, commonly known as trade in products, only include tangible goods and services and do not include trade in services which is included in international business.

- Class No. 11

- Lecture Slides: 200 to 221

What benefits do firms derive by entering into international business?

International Business refers to those business activities that take place beyond the geographical boundaries of a country.

It involves not only the international movements of goods and services but also capital, technology, and IP like patents, trademarks, copyright, etc.

For example, India selling agricultural products to foreign countries is an international business.

Advancements in technology and better communication facilities have increased international business with great success in various countries.

International business provides a wide market range to organizations and gives them an opportunity to satisfy the needs of customers all over the world.

The firms derive the following benefits by entering in international business

1. **Profit Opportunities**: When compared to local business, international business is more profitable. When domestic prices are lower, businesses can make more money by selling their products in other countries.

2. **Increased Resource Utilization**: Many enterprises anticipate international growth and get orders from foreign clients to set up production capabilities for their products that are more in demand in the local market. It enables them to better utilize their excess resources.

3. **Growth Prospects**: When demand falls or the domestic market reaches saturation point, business enterprises become irritated. By expanding internationally, such businesses can increase their growth potential significantly.

4. Decrease Competition: When domestic competition is fierce, internationalization appears to be the only option to achieve success and required growth. Many businesses are motivated to expand into overseas markets because of the fierce competition in the domestic markets.

5. Improved Business Vision: Many firms' existence and goodwill depend on their ability to expand their worldwide business. The desire to expand and diversify, as well as to take advantage of the strategic advantages of internationalization, is expressed in the desire to become more international.

Besides, other benefits that make exporting a better way of entering into international markets than setting up wholly owned subsidiaries are as follows:

1. **Easy Access:** Exports are the simplest way to access overseas markets as compared to wholly owned subsidiaries.

2. Foreign Investment poses Minimal Risk: Exporting does not necessitate significant investment in foreign nations. As a result, foreign investment risks are lower compared to when a company establishes a wholly-owned subsidiary in a foreign nation.

In what ways is exporting a better way of entering international markets than setting up wholly owned subsidiaries abroad?

Exporting goods and services refers to sending them from the home country to a foreign country. There are two major ways for a company to export products: direct and indirect exporting. In direct exporting, a company approaches overseas buyers and handles all formalities associated with exporting activities, including transportation and financing of products and services. Indirect exporting, on the other hand, is one in which the firm's engagement in the export operations is minimal, and most of the tasks associated with the export of the goods are carried out by some middlemen such as export houses or buying offices of foreign clients based in the home country. Such companies do not interact directly with overseas clients for exports.

- A wholly owned subsidiary is a corporation that is controlled or owned by another. The controlling company is referred to as the parent company, while the subsidiary is referred to as the daughter company. A corporation or a limited liability company can be established. It might also be owned by the government or the state.
- Exporting is a better strategy to reach foreign markets than establishing wholly owned subsidiaries abroad. Exporting is the simplest way to enter overseas markets as compared to other methods. It is a simpler process than establishing and maintaining joint ventures or wholly owned subsidiaries abroad. Exporting is less involved in the sense that businesses do not have to devote as much time and money as they do when they want to form joint ventures or establish manufacturing plants and facilities in host nations.

Benefits of a Whole Owned Subsidiary

3. Less Expensive: A wholly-owned subsidiary requires a foreign business to spend 100% of its equity. As a result, small and medium-sized manufacturers cannot consider this method of entering an international business.

4. Profit and Loss Risk: As a wholly owned subsidiary, the foreign business contributes 100% of the equity capital. As a result, it must bear the risk of losses on its own which is not an issue in exporting.

5. Government Intervention: Several governments are opposed to foreign firms establishing wholly owned subsidiaries. This type of corporate activity is filled with high political risk.

Rekha Garments has received an order to export 2000 men’s trousers to Swift Imports Ltd., located in Australia. Discuss the procedure that Rekha Garments would need to go through for executing the export order.

Export is a key component of international business, involving the movement of goods and services across borders as well as the exchange of foreign currency between the parties involved. This complicates the export procedure, and the exporter is obligated to fulfill the legal and mandatory formalities imposed by the exporting country. No country in today’s world wants to supply illegal or low-quality goods and services to other countries, because international trade is now supervised by the World Trade Organization’s strict laws. As a result, before the items leave the borders of the home country, the exporter must undergo a set of strict procedures.

In the given question, Rekha Garments has received an order for exporting men’s trousers to a firm located in Australia.

The following steps are involved in export procedure:

- **1. Receipt of Enquiry and Sending Quotation:**
- **2. Receipt of Order or Indent:**
- **3. Assessing the importer's creditworthiness and securing a guarantee for payments:**
- **4. Obtaining an Export License:**
- **5. Obtaining Pre-shipment Finance:**
- **6. Production or Procurement of Goods**
- **7. Pre-shipment Inspection**
- **8. Excise Clearance:**
- **9. Obtaining a Certificate of Origin**
- **10. Reservation of Shipping Space:**
- **11. Packing and Forwarding:**
- **12. Insurance of Goods:**
- **13. Customs Clearance:**
- **14. Obtaining Mates Receipt:**
- **15. Payment of Freight and Issuance of Bill of Lading:**
- **16. Preparation of Invoice:**
- **17. Securing Payment**

Required Papers for Exporting goods:

- Verified copy of the invoice.
- Invoice of lading.
- Packing list.
- Insurance policy.
- Certificate of origin.
- Letter of credit.

Question 5: Your firm is planning to import textile machinery from Canada. Describe the procedure involved in importing.

- **Answer:** The purchase of goods from a foreign country is referred to as import trade. The Import procedure varies by country, depending on the country's import and customs policies, as well as other statutory requirements. Import procedures are the procedures for import and export activities that include ensuring licencing and compliance prior to shipping goods, arranging for transport and warehousing after goods are unloaded, and obtaining customs clearance and paying taxes prior to the release of goods.
- **The firm is planning to import textile machinery from Canada. The steps involved in the import of textile machinery are as follows:**
- **1. Trade Enquiry:** The firm has to gather information about the firms in Canada exporting textile machinery. Then the firm will contact those exporting companies by using a trade enquiry to learn about their export prices and terms of export. A trade enquiry is a written request from an importing firm to an exporter for information on the price and various terms and conditions under which the latter is willing to export goods. The firm will receive a quotation from the exporter in response to this enquiry. The quotation includes information about the goods available, such as their quality and price, as well as the terms and conditions of the sale.

2. **Procurement of Import License:** Certain goods can be imported freely, while others require licensing. The given firm must consult the current Export-Import (EXIM) policy to determine whether the goods they intend to import require import licensing. If goods can only be imported with a license, the firm will have to obtain an import license.

3. **Obtaining Foreign Exchange:** The supplier; i.e., the firm in Canada will now request payment in a foreign currency. Indian currency must be converted into foreign currency (Canadian Dollar) in order to make a payment. The Reserve Bank of India's Exchange Control Department oversees all foreign exchange transactions in India (RBI).

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- Every importer is required by the current regulations to obtain the approval of foreign currency. For this, the firm will have to submit an application to a bank that the RBI has authorised to issue foreign currency in order to receive such a sanction. In accordance with the Exchange Control Act's guidelines, the application must be submitted in the prescribed format and include an import license.
- The exchange bank endorses and forwards the applications to the Reserve Bank of India's Exchange Control Department. The Reserve Bank of India sanctions the release of foreign exchange after scrutinising the application on basis of the Government of India's exchange policy in effect at the time of application. The firm can now obtain the necessary foreign exchange from the relevant exchange bank.
- **4. Placing Order or Indent:** The firm will now place an import order or indents with the firm in Canada for the supply of textile machinery after obtaining the import license. The import

Contd.

- **5. Obtaining a Letter of Credit:** If a letter of credit is the preferred method of payment between the firm and the firm in Canada, the domestic firm will have to obtain one from its bank and send it to the supplier. A letter of credit, as previously mentioned, is a guarantee made by the bank of the importer that it will honour payment of export bills to the bank of the exporter up to a certain amount.
- **6. Arrangement of Finance:** Prior to the arrival of the goods at the port, the firm should make arrangements to pay the firm in Canada. To avoid grossly overpaying demurrages (fines) on imported goods that are lying uncleared at the port due to lack of payments, advanced planning for financing imports is required.
- **7. Advice for Shipment Receipt:** The firm in Canada will now send the firm, the shipment advice after loading the goods onto the ship. Information regarding the shipment of goods is included in shipment advice. The shipment advice includes information such as the invoice number, bill of lading/airways bill number and date, vessel name with date, port of export, description of goods and quantity, and date of vessel sailing.

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- **8. Retirement of Documents:** After the goods have been shipped, the firm in Canada gathers the required paperwork in accordance with the contract and letter of credit terms and gives it to their banker for negotiation with the firm in the manner indicated in the letter of credit. A bill of exchange, commercial invoice, bill of lading or airline bill, packing list, certificate of origin, marine insurance policy, etc. are generally included in a set of documents. Retirement of import documents refers to the acceptance of a bill of exchange for the purpose of receiving delivery of the documents. When retirement is finished, the bank will give the importer the import documents.

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9. Goods Arrival: The firm in Canada ships the goods in accordance with the agreement. The person in charge of the carrier, whether it be a ship or an airline, notifies the person in charge at the dock or the airport of the arrival of goods in the importing country. The import general manifest document is presented by him. The specific details of the imported goods are listed in an import general manifest document. It is a document that the unloading of cargo is based.

10. Custom Clearance: After they cross Indian borders, all imported goods are required to go through customs clearance. A number of formalities must be completed in the somewhat time-consuming process of customs clearance. The firm will have to appoint C&F agents who are familiar with such formalities and play a crucial role in getting the goods cleared through customs. Also, the firm must first obtain a delivery order also called an endorsement for delivery.

Question 6: Identify various organisations that have been set up in the country by the government for promoting the country's foreign trade.

The following are some of the most important institutions :

- **1. Department of Commerce:** The Department of Commerce of the Ministry of Commerce, Government of India is the supreme authority in charge of the country's external trade and all affairs related to it. Increased commercial links with other countries, state trading, export promotion measures, and the development and regulation of particular export-oriented businesses and commodities are examples of such initiatives. Foreign trade policies are devised by the Department of Commerce. It frames the import and export policy of the country.
- **2. Export Promotion Councils (EPCs):** Export Promotion Councils are non-profit organisations that are incorporated under the Companies Act or the Societies Registration Act, as the case may be. The primary goal of export promotion councils is to increase and promote the country's exports of certain items under their jurisdiction. There are now 21 EPCs dealing with various commodities.

- **Question 7: What is IMF? Discuss its various objectives and functions.**

Contd.

3. Commodity Boards: Commodity Boards are boards formed specifically by the Government of India to promote the production and export of traditional commodities. These boards supplement the EPCs. Commodity boards' functions are similar to those of EPCs. There are now seven commodities boards: the Coffee Board, the Rubber Board, the Tobacco Board, the Spice Board, the Central Silk Board, the Tea Board, and the Coir Board.

Contd.

- **4. Export Inspection Council (EIC):** The Government of India established the Export Inspection Council of India under Section 3 of the Export Quality Control and Inspection Act 1963. The council's goal is to promote sound export trade development through quality control and pre-shipment inspection. The council is the ruling body for quality control and pre-shipment inspection of commodities destined for export. Except for a few exceptions, all goods going for export must be approved by EIC.
- **5. Indian Trade Promotion Organisation (ITPO):** The Ministry of Commerce established the Indian Trade Promotion Organization on January 1, 1992, under the Companies Act 1956. Its headquarters is in New Delhi. It was constituted by the merger of two erstwhile agencies, the Trade Development Authority and the Trade Fair Authority of India. ITPO is a service organisation that interacts with commerce, industry, and government in a regular and close relationship. It serves the industry by organising trade fairs and exhibits both within and outside the country.

Contd.

- **6. Indian Institute of Foreign Trade (IIFT):** The Indian Institute of Foreign Trade was established by the Government of India in 1963 as an autonomous entity registered under the Societies Registration Act with the primary goal of professionalising the country's foreign trade administration and management. It was recently certified as a Deemed University. It offers training in international trade, conducts research in international business fields, and analyses and disseminates statistics on international trade and investments.
- **7. Indian Institute of Packaging (IIP):** The Indian Institute of Packaging was established in 1966 as a national institute by the Ministry of Commerce, the Government of India and the Indian Packaging Industry, and other interested parties. Its headquarters and primary laboratory are in Mumbai, while three regional laboratories are in Kolkata, Delhi and Chennai. It is a training and research institute for packaging and testing. It offers a good infrastructure to meet the diverse demands of the package manufacturing and package user industries. It meets the packaging requirements of both the local and international markets. It also provides technical consulting, package development testing services, training and educational programmes, promotional award contests, information services, and other related activities.

- **8. State Trading Organisations:** A large number of Indian domestic firms found it extremely difficult to compete in the global market. At the same time, current trade channels were inappropriate for promoting exports and diversifying business with countries other than European countries. Under these circumstances, the State Trading Organisation (STC) was established in May 1956 with the principal aim to promote trade, particularly export trade among the world's different trading partners. Later, the government established several more organisations, like the Metals and Minerals Trading Corporation (MMTC) and the Handloom and Handicrafts Export Corporation (HHEC).

- Class: 12
- Lecture Slides: 223 to 235

Chapter 10

Globalization and International Business

Introduction

- The international dimension of management and business due mainly *to* ***Globalization*** has become a major challenge to governments, institutions and Organizations.
- This helps explain why the area of **international management (IM)** is becoming more important within the academic setting.

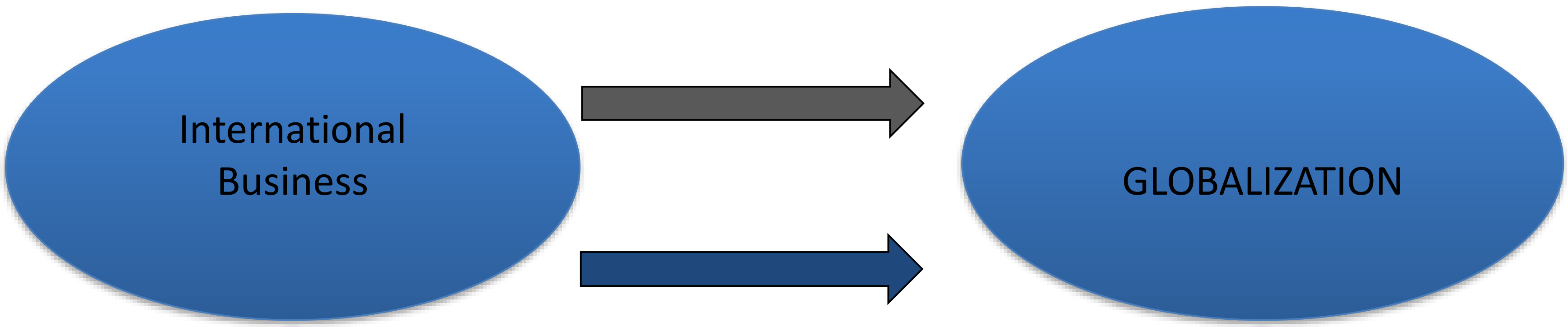
What is International Business?

- ***International business:*** all commercial transactions between parties in two or more countries.
  - These transactions include the transfer of goods, services, technology, and capital to other countries, and involves exports and imports.

International Business

International Business	• Commercial transaction that crosses the borders of two or more nations
Imports	• Goods and services purchased abroad and brought into a country
Exports	• Goods and services sold abroad and sent out of a country

- ***Globalization:***
  - The ongoing social, economic, and political process that extends the relationships and inter-dependencies amongst nations, their people, their firms, their organizations, and their governments.
    - *International business facilitates the globalization process.*


International
Business
GLOBALIZATION

Globalization of Markets

Benefits of Globalization of Markets

- Reduces marketing costs
- Creates new market opportunities
- Global sustainability

Globalization of Production

Benefits of Globalization of Production

- Access lower-cost workers
- Access technical expertise
- Access production inputs

Forces Driving Globalization
Technological innovation

- E-business (E-commerce)
- E-mail and Videoconferencing.
- Internet

Key Players in International Business

- Large companies from the richest nations
- Firms from emerging markets
- Small and medium-sized companies
- Multinational corporation (MNC)

Need for International Business

- More and more firms around the world are going global, including:
  - Manufacturing firms.
  - Service companies (i.e. banks, insurance, consulting firms)
  - Art, film, and music companies.

Why Studying International Business is Important?

- Most companies are either international or compete with international companies.
- **Significant differences exist in countries such as**:

  -Consumer tastes and preferences.

  -Distribution channels.

  -Culturally rooted value systems.

  -Business systems.

  -Legal systems.

Why Studying International Business is Important?

- These differences required that product features, product mix, marketing strategies and operating practices **are customized** to match conditions of a particular country.

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- Lecture Slides: 237 to 251

Factors Contributing to Fast Growth of International Business

1. Increase in and expansion of technology.
2. Development of services that support international business.
3. Growing consumer pressures.
4. Increased global competition.
5. Changing political situations.
6. Expanded cross-national cooperation.

An international business has many options for doing business, <u>it includes:</u>

- Exporting and importing goods and services.
- Giving license to produce goods in the host country.
- Starting a joint venture with a company.
- Opening a branch for producing & distributing goods in the host country.
- Providing managerial services to companies in the host country.

- International business is either ***private*** or ***governmental*** business relationships conducted across political boundaries of the country .
- It may be for *profit or non-profit* oriented.
- This combine selling and buying goods/services across political boundaries of the country, and it generally require to deal with multinational operations across national borders.

Reasons That Firms Engage in International Business:

<u>1. To expand sales:</u>

- Ericsson [Sweden]
- Nestlé [Switzerland]
- IBM [USA]
- Sony [Japan]

2. To acquire resources:

- Products components.
- Foreign capital.
- Technologies.
- Information.

3. To minimize risk:

- Diversify suppliers across countries.
- Competitors’ advantages.

What is International Business Management ?

- **International Business Management :**
- ***The management of business operations for an organization that conducts business in more than one country.***
- International management requires knowledge and skills more than normal business expertise, such as familiarity with the business regulations of the nations in which the organization operates, understanding of local customs and laws.

International Business Managers Must Understand The Importance of:

- Domestic and international law.
  - Political science.
  - Sociology.
  - Psychology.
  - Economics.
  - Geography.

❖ Must be knowledgeable about the competitive dimensions of the international business environment.

International Business Managers

- International Business Managers should have the knowledge and the skills to manage and handle cross-cultural processes, stakeholders, the capability to conduct transactions that may involve multiple currencies and environments in a right way.

Implications/Conclusions

- Managing an international business differs from managing a domestic business **<u>because of :</u>**

  1. Countries and cultures are different.

  2. International business operations are more complex than domestic operations.

  3. From one country to another, a company's relative competitiveness will vary because of the differences in the local and foreign competitors that are present.

- Management ---- Business Management ---- International Business Management
- Manager----Business Manager----International Business Manager

Group Presentation

Presentation on :

3 groups will present on :

“Newly opened Sea Connectivity with Pakistan”

3 groups will present on

: “Newly opened Electricity inflow from Nepal’’

Chapter 11:

Global Competitiveness & Regional Trade Blocs

Selected Question patterns

- Define Global Competitiveness. What are the factors which affect Global Competitiveness?
- What do you mean by Regional Trade Block? What are different forms of Regional Trade Block in modern world?
- What are different types of Trading Block? What functions they play?
- What are advantages and disadvantages of Regional Trade Blocks?
- Discuss the activities shortly of ASEAN, European Union (EU) and NAFTA
- Who are the Members of ASEAN, European Union (EU) and NAFTA
- What are the goals of different Trading Blocks like ASEAN, European Union (EU) and NAFTA
- What are the advantages and disadvantages on Bangladesh economy and Business by existing Trading Blocks in International Business?
- **Is it necessary for Bangladesh to join in a Trading Block or better to go on independently?**
- What are the affects on International Business by ASEAN, European Union (EU) and NAFTA?

Global Competitiveness

The International Institute for Management Development defines competitiveness as

"a field of economic knowledge which analyzes the facts and policies that shaped the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people."

The World Economic Forum defines global competitiveness as "the ability of a country to achieve sustained high rates of growth in gross domestic product (GDP) per capita."

Factors Affecting Global Competitiveness

- Business firms abide by the **rules and regulations** formed by the government. The government assumes a very important role in enhancing competitiveness. Governments must promote trade by re engineering the system and procedure.
- Governments should be more responsive, **reducing bureaucratic red tape**. Physical **infrastructur**e plays a critical role in improving the global competitiveness of a country.
- This will lead to the **smoother movement of people, products, and services**, facilitating faster delivery of goods and services.
- The business environment should be as such that it **improves coordination** among public-sector agencies. The best methods include providing support and incentives for R&D activities, HRD and education, encouraging innovativeness and creativity, facilitating the improvement of industrial blocks, and productivity enhancements **of SMEs**. High total **factor productivity (TFP)** is a boon for economic growth. It shows the synergy and efficiency of both capital and HR utilization and promotes national competitiveness.
- **Productivity campaigns** are important because they promote **public-awareness** and provide mechanisms to use the productivity tools and techniques. Intensifying **R&D activities that contribute to creativity, innovation,** and indigenous technological development is also an important factor. Improving the capacities of SMEs to become increasingly productive suppliers and exporters makes strategic sense.

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- Lecture Slides: 253 to 259

Regional Trading Blocs

- A regional trading bloc (RTB) is a co-operative union or group of countries within a specific geographical boundary.
- RTB protects its member nations within that region from imports from the non-members.
- Trading blocs are a special type of **economic integration.** There are four types of trading blocs

There are **four types of trading blocs** −

- **Preferential Trade Area** − Preferential Trade Areas (PTAs), the first step towards making a full-fledged RTB, exist when countries of a particular geographical region agree to decrease or eliminate tariffs on selected goods and services imported from other members of the area.
- **Free Trade Area** − Free Trade Areas (FTAs) are like PTAs but in FTAs, the participating countries agree to remove or reduce barriers to trade on all goods coming from the participating members.
- **Customs Union** − A customs union has **no tariff barriers between members**, plus they agree to a common (unified) external tariff against non-members. Effectively, the members are allowed to negotiate as a single bloc with third parties, including other trading blocs, or with the WTO.
- **Common Market** − A common market is an exclusive economic integration. The member countries trade freely all types of economic resources – not just tangible goods. All barriers to trade in goods, services, capital, and labor are removed in common markets. In addition to tariffs, non-tariff barriers are also diminished or removed in common markets.

Regional Trading Blocs : 5 Advantages

- Foreign Direct Investment – Foreign direct investment (FDI) surges in TRBs and it benefits the economies of participating nations.
- **Economies of Scale** – The larger markets created results in lower costs due to mass manufacturing of products locally. These markets form economies of scale.
- Competition – Trade blocs bring manufacturers from various economies, resulting in greater competition. The competition promotes efficiency within firms.
- Trade Effects – As tariffs are removed, the cost of imports goes down. Demand changes and consumers become the king.
- Market Efficiency – The increased consumption, the changes in demand, and a greater amount of products result in an efficient market.

Regional Trading Blocs : 4 Disadvantages

- **Regionalism** – Trading blocs have bias in favor of their member countries. These economies establish tariffs and quotas that protect intra-regional trade from outside forces. Rather than following the World Trade Organization, regional trade bloc countries participate in regionalism.
- **Loss of Sovereignty** – A trading bloc, particularly when it becomes a political union, leads to partial loss of sovereignty of the member nations.
- **Concessions** – The RTB countries want to let non-member firms gain domestic market access only after levying taxes. Countries that join a trading bloc need to make some concessions.
- I**nterdependence** – The countries of a bloc become interdependent on each other. A natural disaster, conflict, or revolution in one country may have adverse effect on the economies of all participants.

Major Trade Blocs

ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN)

- Association of Southeast Asian Nations (ASEAN) was established on August 8, 1967, in Bangkok (Thailand). Members – The member states are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam.
- **Goals** – The goals of ASEAN are to
- (a) accelerate economic growth, social progress, and cultural development in the region and
- (b) promote regional peace and stability and adhere to United Nations Charter.

ASEAN Economic Community (AEC) – The AEC is aiming to transform ASEAN into a single entity and a **production powerhouse** that is highly competitive and fully compatible with the global economy

EUROPEAN UNION (EU)

- The European Union (EU) was founded in 1951 by six neighboring states as the European Coal and Steel Community (ECSC).
- Over time, it became the European Economic Community (EEC), then the European Community (EC), and was ultimately transformed into the European Union (EU).
- EU is the single regional bloc with the largest number of member states (28).
- **Members** – Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, The Netherlands, and the United Kingdom.
- **Goal of EU** – To construct a regional free-trade association of states through the union of political, economic, and executive connections

NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

The North American Free Trade Agreement (NAFTA) was signed on 1 January 1994.

Members – Canada, Mexico, and United States of America.

Goals – The goals of NAFTA are to :

(a) eliminate trade barriers among its member states,

(b) promote an environment for free trade,

(c) increase investment opportunities, and

(d) protect intellectual property rights.

- Class No. 15
- Lecture Slides: 261 to 267

Chapter 5: Strategic Compulsion

Strategic Compulsions

- To survive in the world of **cut-throat competition**, companies must sell their products in the global market. It is necessary to come up with **new strategies to win more customers.**
- Effective strategic management requires strategic estimation, planning, application and review/control. The path for strategic management is activated by compulsions like modern developments in the societal and economic theory and the recent changes in the form of business, apart from the economic context.

Areas of Strategic Compulsions

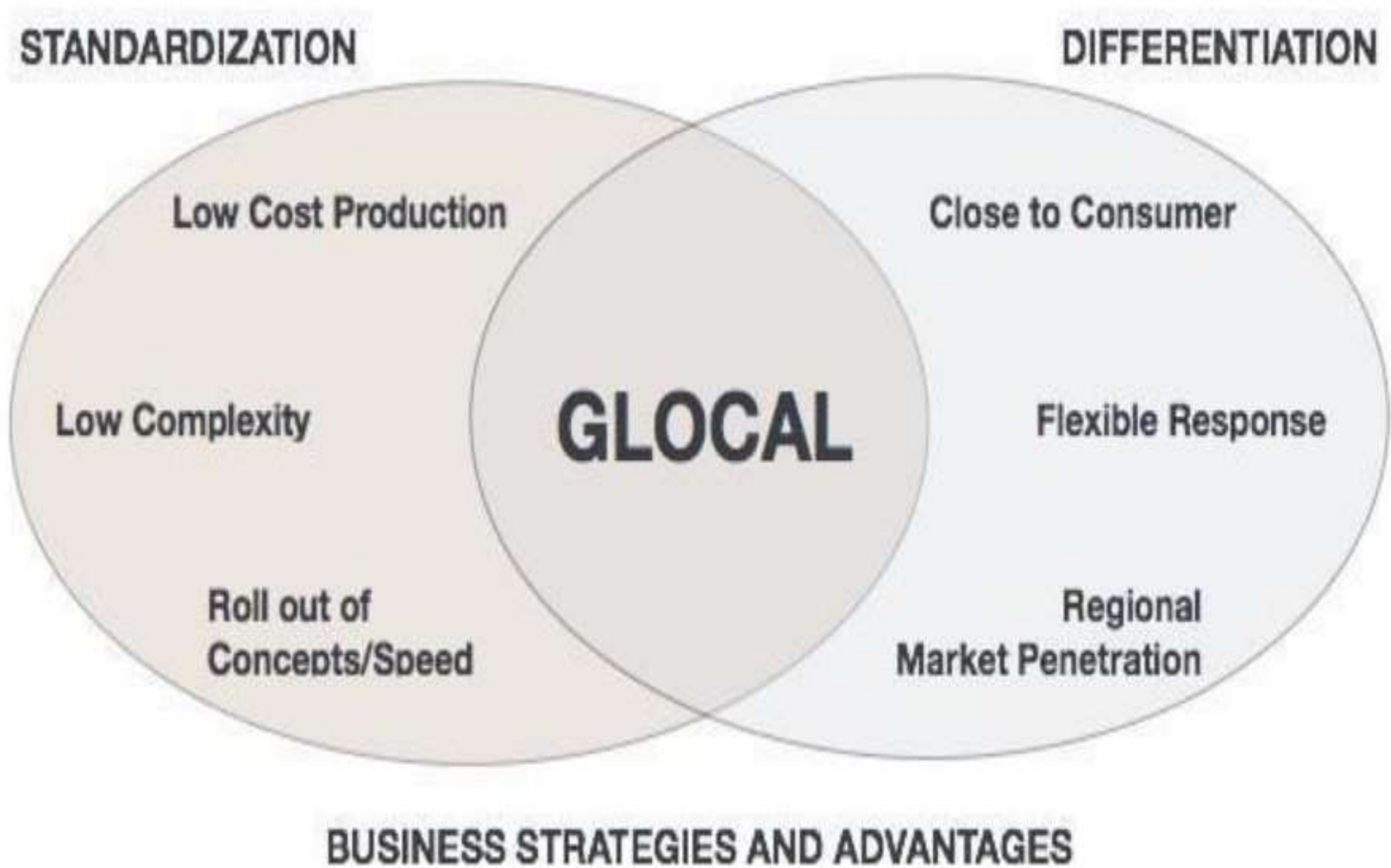
A list of compulsions that a global business might have to face is the following:

- E-commerce and Internet Culture − Expansion of internet and information technology made the business move towards e-commerce.
- Online shopping /Selling and Advertising are important issues. These factors compel the businesses to go modern.
- Hyperactive Competition − Businesses now are hyper-competitive which compel them to draw a competitive strategy that includes general competitive intelligence to win the market share.
- Diversification − Uncertainty and operational risks have increased in the current global markets. Companies now need to protect themselves by diversifying their products and operations. Businesses now are compelled to focus on more than one business, or get specialized in one business.
- Active Pressure Groups − Contemporary pressure groups direct businesses to be more ethical in their operations. Most of the multinationals are now spending a good deal to address their Corporate Social Responsibility (CSR).

Standardization Vs Differentiation

- Standardization and differentiation are the two sides of globalization.
- By standardization, we mean to show the global representation,
- while differentiation looks upon local competitiveness.

The following figure depicts how standardization differs from differentiation



- Class Review
- Question & Answer Session

Thanks

- Class No. 16
- Lecture Slides: 268 to 276

Chapter 12:

Summary of Business Management

What are the ways to succeed in Business?............

Foundations to Business Knowledge

Managing People

Marketing & Communication

Product Offer & Management

Knowledge in Business Disciplines

Contd.

- Class No. 17
- Lecture Slides: 278 284

Legal Environment

Get Ready

- Personal Development
- Decision
- Planning
- Investment
- Time Management
- Discipline
- Never say No

- Review of Class

- Review of Syllabus

- Questions & Answer Session

Thanks a Lot