Revision Notes for Class 11 Business Studies

Chapter 11 – International Business

International Business: Overview

- International business involves the manufacturing and trading of goods, services, capital, personnel, technology, and intellectual property (patents, trademarks, know-how) across national borders. This encompasses all business activities that occur beyond a country's geographical boundaries.
- The rise of advanced communication and faster, more efficient transportation has significantly facilitated international business, enabling countries to engage in global trade more effectively.

Reasons for International Business

1. **Unequal Distribution of Resources**: Natural resources are not evenly distributed across countries, leading to differences in production costs and quality. This drives countries to trade to access resources they lack.
2. **Varied Differences**: Differences in labor productivity, socioeconomic conditions, and political factors create variations in production costs and capabilities among countries, encouraging international trade.
3. **Specialization Advantage**: Countries tend to specialize in producing goods where they have a comparative advantage, such as labor-intensive products in developing countries. This specialization leads to more efficient production and international trade.
4. **Price Differences**: Firms engage in international trade to capitalize on price differences between countries, importing cheaper goods and exporting products to markets where they can command higher prices.

Scope of International Business

1. **Merchandise Exports and Imports**: This refers to the trade of tangible goods across borders. Merchandise exports and imports are often called trade in goods, excluding services.

2. **Service Exports and Imports**: Also known as invisible trade, this includes the international exchange of services such as transportation, communication, banking, and tourism.

3. **Licensing and Franchising**: Licensing involves granting rights to use a firm's intellectual property, like patents or trademarks, in a foreign country for a fee. Franchising is similar but typically relates to services, where a franchisor allows a franchisee to operate a business using its brand and business model.

4. **Foreign Investments**:

    - **Foreign Direct Investment (FDI)**: Involves investing in physical assets like plants and machinery in foreign countries to produce and distribute goods and services.

    - **Portfolio Investment**: Refers to the acquisition of shares or loans in foreign companies, earning income through dividends or interest.

Benefits of International Business

To Nations:

1. **Foreign Exchange**: Facilitates the flow of foreign currency into a country, helping pay for imports and boosting economic stability.

2. **Efficient Resource Use**: Countries specialize in producing goods where they have a comparative advantage, leading to more efficient resource utilization.

3. **Economic Growth**: International trade drives economic growth by opening up new markets, increasing production, and creating employment opportunities.

4. **Price Stability**: Helps stabilize prices of domestic products by balancing supply and demand through imports and exports.

5. **Improved Living Standards**: Access to a wide variety of goods and services from other countries enhances the standard of living.

To Firms:

6. **Profitability**: Firms can increase profits by accessing global markets where prices may be higher.

7. **Growth Opportunities**: When domestic markets are saturated, international markets offer new growth avenues.

8. **Competition Handling**: Competing globally helps firms enhance their competitiveness and innovation.

9. **Self-Improvement**: Expanding internationally drives firms to improve their strategic capabilities and operational efficiency.

Modes of Entry Into International Business

1. **Exporting and Importing**:
   - **Direct**: The firm handles all export/import activities directly, giving it more control.
   - **Indirect**: Middlemen handle most tasks, reducing the firm's involvement.
   - **Merits**: Provides an easy entry into international markets with lower investment.
   - **Limitations**: High costs from duties, transportation, and potential import restrictions can make products less competitive.
2. **Contract Manufacturing**:
   - **Meaning**: Firms contract local manufacturers in foreign countries to produce goods. Also known as outsourcing.
   - **Merits**: Leverages existing facilities in foreign countries, reducing investment risk and costs.

- **Limitations**: Quality control issues and loss of manufacturing control can arise.

3. **Licensing and Franchising**:

    - **Meaning**: Firms provide rights to use their technology or business model in foreign markets for royalties.

    - **Merits**: Requires little investment, reducing risk while expanding market reach.

    - **Limitations**: Risks include potential loss of intellectual property and conflicts over operational standards.

4. **Joint Ventures**:

    - **Meaning**: Establishing a business owned jointly by two or more independent firms.

    - **Merits**: Shares costs, risks, and local market knowledge, facilitating large-scale projects.

    - **Limitations**: Potential for conflicts between partners, especially over control and sharing of trade secrets.

5. **Wholly Owned Subsidiaries**:

    - **Meaning**: Firms establish or acquire complete ownership of foreign operations.

    - **Merits**: Offers full control over operations and does not require sharing of technology or trade secrets.

    - **Limitations**: High investment and risk, especially if the foreign operations fail.

Export-Import Procedures and Documentation

1. **Export Procedure**:

a. Involves steps like receiving inquiries, securing orders, checking creditworthiness, obtaining export licenses, and arranging pre-shipment finance.

b. Includes production or procurement of goods, pre-shipment inspection, excise clearance, and reserving shipping space.

c. Requires proper packing, forwarding, insuring goods, and obtaining customs clearance, followed by payment and document negotiation.

2. **Import Procedure**:

a. Starts with a trade inquiry and securing an import license.

b. Involves obtaining foreign exchange, placing orders, arranging finance, and receiving shipment advice.

c. Concludes with retiring documents, customs clearance, and releasing goods.

Foreign Trade Promotion: Incentives and Organisational Support

1. **Promotion Measures**:

a. Duty Drawback Scheme: Refunds duties on exported goods.

b. Advance License Scheme: Allows duty-free import of inputs for export production.

c. EPCG Scheme: Permits the import of capital goods with reduced customs duty for export production.

d. Export Finance: Includes pre-shipment and post-shipment financing options.

e. Export Processing Zones (EPZs): Provide duty-free environments for export production.

2. **Organisational Support**:

a. **Department of Commerce**: Manages foreign trade policies.

b. **Export Promotion Councils (EPCs)**: Promote exports of specific products.

c. **Commodity Boards**: Support the development and export of traditional commodities.

d. **Export Inspection Council (EIC)**: Ensures quality control and pre-shipment inspection.

e. **Indian Trade Promotion Organisation (ITPO)**: Organizes trade fairs and exhibitions to promote trade.

f. **Indian Institute of Foreign Trade (IIFT)**: Provides training and research in international trade.

International Trade Institutions and Agreements

1. **World Bank**: Provides financial assistance for development projects, particularly in developing countries.
2. **International Monetary Fund (IMF)**: Facilitates international monetary cooperation and exchange rate stability.
3. **World Trade Organization (WTO)**: Promotes free and fair trade, resolves disputes, and creates a global framework for trade agreements.