Department of Management Studies
University of Rajshahi
Master of Business Administration (Evening)
Course Title: International Business and Management (E-514)
2nd Lecture

INTERNATIONAL BUSINESS

A business activity done across national borders is International Business. The International business is the purchasing and selling of the goods, commodities and services outside its national borders.

The organization explores trade opportunities outside its domestic national borders to extend their own particular business activities, for example, manufacturing, mining, construction, agriculture, banking, insurance, health, transportation, communication and so on.

Any business that involves operations in more than one country can be called an international business. International business is related to the trade and investment operations done by entities across national borders.

Firms may assemble, acquire, produce, market, and perform other value-addition-operations on international scale and scope. Business organizations may also engage in collaborations with business partners from different countries.

ELEMENTS OF INTERNATIONAL BUSINESS

Element # 1 *Import and Export of Goods and Services*

Imports are foreign goods and services bought by residents of a country. Residents include citizens, businesses, and the government. It doesn't matter what the imports are or how they are sent. They can be shipped, sent by email, or even hand-carried in personal luggage on a plane. If they are produced in a foreign country and sold to domestic residents, they are imports.

Exports are the goods and services produced in one country and purchased by residents of another country. It doesn't matter what the good or service is. It doesn't matter how it is sent. It can be shipped, sent by email, or carried in personal luggage on a plane. If it is produced domestically and sold to someone in a foreign country, it is an export.

Element # 2 *Expansion in the Global Markets*

The "import and export" activities are the first but basic step towards global trade. The next one is expansion of business operations in the overseas countries. It involves manpower, money and operating under other country's specific laws, and including activities like procurement, production, promotion and distribution for the global markets.

The cold drink giants Pepsi & Coca-Cola are now found in most of the countries of the world. The Macdonald, Pizza hut etc. are the other examples. In footwear take the case of Nike, Bata, Reebok, Woodland etc.

Element # 3 *Investment in Overseas Business Operations*

The business related activities done in the overseas markets involve higher level of risk us compared to domestic markets, but such risks do have rewards and the lure of such rewards propels the forward movement of the international trade.

Investment is one such activity, perhaps one of the most crucial of the international business expansion decision, and organizations taking this take longer time in understanding the markets concerned and the profile of the demand and supply position in those markets. The business risk factor in this case is highest as compared to commodity trade or even the technology trade.

Element # 4 *Patents, Copyrights Trademarks*

"Patent" refers to the exclusive rights of one person or an organization for certain performances that result into tangible products and services that may or may not have money values. The products and associated processes are covered under patents. Each country has legally constituted body, which grants patent rights. The grant of patent right in one country does not mean it is applicable to all other countries. It is up to the patent holder to decide the list of the countries where he needs the protection.

“Copyright” refers to a text in print. The books and articles are covered under this legal protection. The news on TV and radio is also covered under similar protection.

“Trademark” refers to the specific name, logo, style, and anything else which identifies a product/ service to a particular product and manufacturer. Trademark and brand name are interchangeable identities.

BENEFITS OF INTERNATIONAL BUSINESS

Benefits to Nation

- It encourages a nation to obtain foreign exchange that can be utilized to import merchandise from the global market.
- It prompts specialization of a country in the production of merchandise which it creates in the best and affordable way.
- Also, it helps a country in enhancing its development prospects and furthermore make opportunity for employment.
- International business makes it comfortable for individuals to utilise commodities and services produced in other nations which help in improving their standard of life.

Benefits to Firms

- It helps in improving profits of the organizations by selling products in the nations where costs are high.
- It helps the organization in utilizing their surplus resources and increasing profitability of their activities.
- Also, it helps firms in enhancing their development prospects.
- International business also goes as one of the methods for accomplishing development in the firms confronting extreme market conditions in the local market.
- And it enhances business vision as it makes firms more aggressive, and diversified.

INTERNATIONALIZATION OF BUSINESS

There are five major reasons why a business may want to go global −

- **First-mover Advantage** − It refers to getting into a new market and enjoy the advantages of being first. It is easy to quickly start doing business and get early adopters by being first.
- **Opportunity for Growth** − Potential for growth is a very common reason of internationalization. Your market may saturate in your home country and therefore you may set out on exploring new markets.
- **Small Local Markets** − Start-ups in Finland and Nordics have always looked at internationalization as a major strategy from the very beginning because their local market is small.
- **Increase of Customers** − If customers are in short supply, it may hit a company's potential for growth. In such a case, companies may look for internationalization.
- **Discourage Local Competitors** − Acquiring a new market may mean discouraging other players from getting into the same business-space as one company is in.

GLOBALIZATION

When a businessman crosses the geographical boundary (can be in terms of political, geographical, cultural etc.) of a country. A businessman basically, collects and converts the inputs (using, Land, Labor, Raw material, Capital, Entrepreneurship, technology, etc.) into outputs (production of goods and services) and finally sells that output to the customers.

Globalization in business, means, businessman now can take the inputs from the globe at low cost and high quality. In similar manner he can sell this output not only to his domestic customers but to his global customers.

FACTORS CAUSING GLOBALIZATION OF BUSINESSES

There are many factors related to the change of technology, international policies, and cultural assimilation that initiated the process of globalization. The following are the most important factors that helped globalization take shape and spread it drastically.

- **The Reduction and Removal of Trade Barriers**

After World War II, the General Agreement on Tariffs and Trade (GATT) and the WTO have reduced tariffs and various non-tariff barriers to trade. It enabled more countries to explore their comparative advantage. It has a direct impact on globalization.

- **Trade Negotiations**

The Uruguay Round of negotiations (1986–94) can be considered as the real boon for globalization. It is considerably a large set of measures which was agreed upon exclusively for liberalized trade. As a result, the world trade volume increased by 50% in the following 6 years of the Uruguay Round, paving the way for businesses to span their offerings at an international level.

- **Transport Costs**

Over the last 25 years, sea transport costs have plunged 70%, and the airfreight costs have nosedived 3–4% annually. The result is a boost in international and multi-continental trade flows that led to Globalization.

- **Growth of the Internet**

Expansion of e-commerce due to the growth of the Internet has enabled businesses to compete globally. Essentially, due to the availability of the Internet, consumers are interested to buy products online at a low price after reviewing best deals from multiple vendors. At the same time, online suppliers are saving a lot of marketing costs.

- **Growth of Multinational Corporations**

Multinational Corporations (MNCs) have characterized the global interdependence. They encompass a number of countries. Their sales, profits, and the flow of production is reliant on several countries at once.

- **The Development of Trading Blocs**

The 'regional trade agreement' (RTA) abolished internal barriers to trade and replaced them with a common external tariff against non-members. Trading blocs actually promote globalization and interdependence of economies via trade creation.

GLOBALIZATION VS INTERNATIONALIZATION

Although globalization and internationalization are used in the same context, there are some major differences.

- Globalization is a much larger process and often includes the assimilation of the markets as a whole. Moreover, when we talk about globalization, we take up the cultural context as well.
- Globalization is an intensified process of internationalizing a business. In general terms, global companies are larger and more widespread than the low-lying international business organizations.
- Globalization means the intensification of cross-country political, cultural, social, economic, and technological interactions that result in the formation of transnational business organization. It also refers to the assimilation of economic, political, and social initiatives on a global scale.
- Globalization also refers to the costless cross-border transition of goods and services, capital, knowledge, and labor.