

# **International Business**

**VI -Semester BBA  
Bangalore University**

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## 6.1 INTERNATIONAL BUSINESS

### OBJECTIVE

The objective of this subject is to facilitate the students in understanding International Business in a multi cultural world.

#### **Unit 1: INTRODUCTION TO INTERNATIONAL BUSINESS** **10Hrs**

Meaning and Definition of International Business – Theories of International Trade – Economic Theories – Forms of International Business - Nature of International Business

#### **Unit 2: MODES OF ENTRY INTO INTERNATIONAL BUSINESS** **12 Hrs**

Mode of Entry – Exporting – Licensing – Franchising – Contract Manufacturing – Turn Key Projects – Foreign Direct Investment – Mergers, Acquisitions and Joint Ventures – Comparison of different modes of Entry.

#### **Unit 3: GLOBALIZATION** **16Hrs**

Globalization: Meaning - Features – Stages –Production –Investment and Technology, Globalization – Advantages and Disadvantages – Methods and Essential Conditions for Globalization.

**MNC's and International Business:** Definitions – Distinction between Indian Companies – MNC – Global Companies and TNC – Organizational Transformations – Merits and Demerits of MNC's in India

#### **Unit 4: INTERNATIONAL MARKETING INTELLIGENCE** **8 Hrs**

Information required – Source of Information – International Marketing Information System and Marketing Research.

#### **Unit 5: EXIM TRADE** **10 Hrs**

Export Trade, Procedure, Steps & Documentation, Direction of India's Trade – Export Financing –Documents related to Export Trade – Export Marketing – Import Trade, Procedure, Steps, Documentations and Problems - EXIM Policy - Balance of Payment – Disequilibrium and Measures for Rectification - Institutions connected with EXIM Trade.

### SKILL DEVELOPMENT

- List any three MNC
- Prepare a chart showing currencies of different countries
- Tabulate the foreign exchange rate or at least 2 countries for 1 month
- Collect and Paste any 2 documents used in Import and Export trade.

"s operating in India also

### BOOKS FOR REFERENCE

1. Dr. Aswathappa International Business, Tata McGraw Hill.
2. P. SubbaRao – International Business – HPH
3. Shyam Shukla; International Business, Excel Books.
4. Francis Cherunilam; International Business, Prentice Hall of India
5. MahuaDutta, International Business, I.K. Intl
6. J. Maskeri- International Business
7. Rosy Joshi; International Business, Kalyani Publishers.
8. Venkataramana. K, International Business, SHBP.
9. Subhasre S – International Business, HPH.

## Unit - I

### INTRODUCTION TO INTERNATIONAL BUSINESS

Meaning and Definition of International Business – Theories of International Trade – Economic Theories – Forms of International Business - Nature of International Business

**International business** is defined as commercial transactions that occur across country borders. When a company sells products in the US, Japan and throughout Europe, this is an example of **international business**.

1. The exchange of goods and services among individuals and businesses in multiple countries.
2. A specific entity, such as a multinational corporation or international business company that engages in business among multiple countries. International Business conducts business transactions all over the world. These transactions include the transfer of goods, services, technology, managerial knowledge, and capital to other countries. International business involves exports and imports.

International Business is also known, called or referred as a *Global Business* or an *International Marketing*.

#### Features of International Business

1. **Large scale operations** : In international business, all the operations are conducted on a very huge scale. Production and marketing activities are conducted on a large scale. It first sells its goods in the local market. Then the surplus goods are exported.
2. **Integration of economies** : International business integrates (combines) the economies of many countries. This is because it uses finance from one country, labour from another country, and infrastructure from another country. It designs the product in one country, produces its parts in many different countries and assembles the product in another country. It sells the product in many countries, i.e. in the international market.
3. **Dominated by developed countries and MNCs** : International business is dominated by developed countries and their multinational corporations (MNCs). At present, MNCs from USA, Europe and Japan dominate (fully control) foreign trade. This is because they have large financial and other resources. They also have the best technology and research and development (R & D). They have highly skilled employees and managers because they give very high salaries and other benefits. Therefore, they produce good quality goods and services at low prices. This helps them to capture and dominate the world market.
4. **Benefits to participating countries** : International business gives benefits to all participating countries. However, the developed (rich) countries get the maximum benefits. The developing (poor) countries also get benefits. They get foreign capital and technology. They get rapid industrial development. They get more employment opportunities. All this results in economic development of the developing countries.

Therefore, developing countries open up their economies through liberal economic policies.

5. **Keen competition** : International business has to face keen (too much) competition in the world market. The competition is between unequal partners i.e. developed and developing countries. In this keen competition, developed countries and their MNCs are in a favourable position because they produce superior quality goods and services at very low prices. Developed countries also have many contacts in the world market. So, developing countries find it very difficult to face competition from developed countries.
6. **Special role of science and technology** : International business gives a lot of importance to science and technology. Science and Technology (S & T) help the business to have large-scale production. Developed countries use high technologies. Therefore, they dominate global business. International business helps them to transfer such top high-end technologies to the developing countries.
7. **International restrictions** : International business faces many restrictions on the inflow and outflow of capital, technology and goods. Many governments do not allow international businesses to enter their countries. They have many trade blocks, tariff barriers, foreign exchange restrictions, etc. All this is harmful to international business.
8. **Sensitive nature** : The international business is very sensitive in nature. Any changes in the economic policies, technology, political environment, etc. has a huge impact on it. Therefore, international business must conduct [marketing research](#) to find out and study these changes. They must adjust their business activities and adapt accordingly to survive changes.

### **Nature of International Business**

1. Accurate Information
2. Information not only accurate but should be timely
3. The size of the international business should be large
4. Market segmentation based on geographic segmentation
5. International markets have more potential than domestic markets

### **Scope of International Business**

1. International Marketing
2. International Finance and Investments
3. Global HR
4. Foreign Exchange

### **Need for International Business**

1. To achieve higher rate of profits
2. Expanding the production capacity beyond the demand of the domestic country
3. Severe competition in the home country
4. Limited home market
5. Political conditions

6. Availability of technology and managerial competence
7. Cost of manpower, transportation
8. Nearness to raw material
9. Liberalisation, Privatisation and Globalisation (LPG)
10. To increase market share
11. Increase in cross border business is due to falling trade barriers (WTO), decreasing costs in telecommunications and transportation; and freer capital markets

### **Reasons for Recent International Business Growth**

1. Expansion of technology
2. Business is becoming more global because
  - Transportation is quicker
  - Communications enable control from afar
  - Transportation and communications costs are more conducive for international operations
3. Liberalization of cross-border movements
4. Lower Governmental barriers to the movement of goods, services, and resources enable Companies to take better advantage of international opportunities

### **Problems in International Business**

1. Political factors
2. High foreign investments and high cost
3. Exchange instability
4. Entry requirements
5. Tariffs, quota etc.
6. Corruption and bureaucracy
7. Technological policy

### **Forms of international business**

1. **Exporting:** Exporting means producing/procuring in the home market and selling in the foreign market. Exporting is not an activity just for large multinational enterprises; small firms can also make money by exporting. In recent days, exporting has become easier though it remains a challenge for many firms.
2. **Licensing:** A licensing is an agreement whereby a licensor grants the rights to intangible property (patents, intentions, formulas, processes, designs, copyrights and trademarks) to another entity (licensee) for a specified period and in return the licensor receives a royalty/fee from the licensee.
3. **Franchising:** Franchising is basically a specialized form of licensing in which the franchiser not only sells intangible property to the franchisee but also insists that the franchisee agrees to abide by strict rules as to how it does business.

4. **Joint venture:** A joint venture entails establishing a firm that is jointly owned by two or more independent firms.



#### Forms of International Business

5. **Management Contracts:** A firm in one country agrees to operate facilities or provide other management services to a firm in another country for an agreed upon fees.
6. **Turnkey projects:** In a turnkey project, the contractor agrees to handle every details of the project for a foreign client, including the training of operating personnel. At completing of the contract the foreign client handles the 'key' of a plant that is ready for full operation
7. **Strategic international alliances:** A strategic international alliance is a business relationship established by two or more companies to cooperate out of mutual need and to share risk in achieving a common objective.
8. **Direct foreign investment:** Direct foreign investment is another important form of international business. Companies may manufacture locally to capitalize on low cost labor, to avoid high import taxes, to reduce the high cost of transportation to market, to gain access to raw materials or gaining market entry.

**Main Difference Between Domestic and international Business are as follows :**

<b>S.No</b>	<b>International Business</b>	<b>Domestic Business</b>
1.	It is extension of Domestic Business and Marketing Principles remain same.	The Domestic Business Follow the marketing Principles
2.	Difference is customs, cultural factors	No such difference. In a large countries languages like India, we have many languages.
3.	Conduct and selling procedure changes	Selling Procedures remain unaltered
4.	Working environment and management practices change to suit local conditions.	No such changes are necessary
5.	Will have to face restrictions in trade practices, licenses and government rules.	These have little or no impact on Domestic trade.
6.	Long Distances and hence more transaction time.	Short Distances, quick business is possible.
7.	Currency, interest rates, taxation, inflation and economy have impact on trade.	Currency, interest rates, taxation, inflation and economy have little or no impact on Domestic Trade.
8.	MNC's have perfected principles, procedures and practices at international level	No such experience or exposure.
9.	MNCs take advantage of location economies wherever cheaper resources available.	No such advantage once plant is built it cannot be easily shifted.
10.	Large companies enjoy benefits of experience curve	It is possible to get this benefit through collaborators.
11.	High Volume cost advantage.	Cost Advantage by automation, new methods etc.
12.	Global Standardization	No such advantage
13.	Global business seeks to create new values and global brand image.	No such advantage
14.	Can Shift production bases to different countries whenever there are problems in taxes or markets	No such advantage and get competition from some spurious or SSI Unit who get patronage of Government.

## Theories of International Business

### 1. Mercantilism

- 1630, Thomas Mun: "...to increase our wealth...sell more to strangers yearly than we consume of theirs in value"

### 2. Absolute Advantage

- 1776, Adam Smith. A country has an absolute advantage in the production of a product when it is more efficient than any other country in producing it
- If two countries specialize in production of different products (in which each has an absolute advantage) and trade with each other, both countries will have more of both products available to them for consumption

### 3. Comparative Advantage

- 1817, David Ricardo - Even if one country has an absolute advantage in producing two products over another country, trading with that other country will still yield more output for both countries than if the more efficient producer did everything for themselves.
- The country with the absolute advantage in producing both products would still produce both products, but less of the one they would trade for, allowing them to essentially allocate more resources to producing the product that they're *comparatively* most efficient at producing
- Assumes many things:
  - Only 2 countries and 2 goods
  - No transportation costs
  - No price differences for resources in both countries
  - Resources can move freely from producing one product to producing another product
  - Constant returns to scale
  - Fixed stock of resources
  - Free trade does not affect production efficiency
  - No effects of trade on income distribution within a country
- There are some descriptions of potential outcomes of relaxing some of these assumptions, but I'll leave this as a thought exercise for you, the reader

### 4. Heckscher-Ohlin Theory

- 1919, Eli Heckscher and 1933, Bertil Ohlin – Comparative advantage arises from differences in national *factor endowments*, such as land, labor, or capital, as opposed to Ricardo's theory which stresses productivity
- 1953, Wassily Leontief – The Leontief Paradox – theorized that since the U.S. has abundant capital compared to other nations, they would export capital-intensive goods and import labor-intensive goods. Data showed that was not the case.
- Therefore, Ricardo's theory seemed to be more predictive.
- However, controlling for technological differences (e.g. eliminating them) does yield a predictive model based on factor endowments

### 5. The Product Life-Cycle Theory

- 1960's, Raymond Vernon – attempts to explain global trade patterns. First, new products are introduced in the United States. Then, as demand grows in the U.S., it also appears in other developed nations, to which the U.S. exports. Then, other developed nations begin to produce the product as well, thus causing U.S. companies to set up production in those countries as well, and limiting exports from the U.S. Then, it all happens again, but this time production comes online in developed nations. Ultimately, the U.S. becomes an importer of the product that was initially introduced within its borders.
- Weakness – Not all new products are created in the United States. Many come from other countries first, such as video game consoles from Japan, new wireless phones from Europe, etc. Several new products are introduced in several developed countries simultaneously

## 6. New Trade Theory

- 1970's – Via the achievement of economies of scale, trade can increase the variety of goods available to consumers and decrease the average cost of those goods. Further, the ability to capture economies of scale before anyone else is an important first-mover advantage.
- Nations may benefit from trade even when they do not differ in resource endowments or technology
- Example – If two nations both want sports cars and minivans, but neither can produce them at a low enough price within their own national markets, trade can allow each to focus on one product, allowing for the achievement of economies of scale that will increase the variety of products in both countries at low enough prices
- Example – Airbus spent \$14 billion to develop a new super-jumbo jet. Demand is estimated at 400-600 units over the next 20 years, and Airbus will need to sell at least 250 of them to become profitable in this line of business. Boeing estimates the demand to be much lower, and has chosen not to compete. Airbus will have the first mover advantage in this market, and may never see competition in this market segment.
- New trade theory is not at odds with Comparative Advantage, since it identifies first mover advantage as an important source of comparative advantage
- Debate – should government provide subsidies that spawn industries such that companies can gain first mover advantages? Later chapter (and blog post) covers this.

## 7. National Competitive Advantage – Porter's Diamond

- 1990, Michael Porter – seeks to answer the question of why a nation achieves international success in a particular industry. Based on four attributes:
  - Factor endowments
    - Basic factors – natural resources, climate, location, demographics
    - Advanced factors – communication infrastructure, sophisticated and skilled labor, research facilities, and technological know-how
    - Advanced factors are a product of investment by individuals, companies, and governments
    - Porter argues that advanced factors are the most significant for competitive advantage
  - Demand conditions – if customers at home are sophisticated and demanding, companies will have to produce innovative, high quality products early, which leads to competitive advantage
  - Relating and supporting industries – If suppliers or related industries exist in the home country that are themselves internationally competitive, this can result in competitive advantage in the new industry.

- Firm strategy, structure, and rivalry
  - Different nations are characterized by different management ideologies, which can either help or hurt them in building competitive advantage
  - If there is a strong domestic rivalry, it helps to create improved efficiency, making those firms better international competitors

## Unit - II

### MODES OF ENTRY INTO INTERNATIONAL BUSINESS

Mode of Entry – Exporting – Licensing – Franchising – Contract Manufacturing – Turn Key Projects – Foreign Direct Investment – Mergers, Acquisitions and Joint Ventures – Comparison of different modes of Entry.

#### **Modes of entry into an International Business:-**

There are some basic decisions that the firm must take before foreign expansion like: which markets to enter, when to enter those markets, and on what scale.

#### **Which foreign markets?**

-The choice based on nation's long run profit potential.-Look in detail at economic and political factors which influence foreign markets.-Long run benefits of doing business in a country depends on following factors:- Size of market (in terms of demographics)- The present wealth of consumer markets (purchasing power)- Nature of competitionBy considering such factors firm can rank countries in terms of their attractiveness and long-run profit.

#### **Timing of entry:-**

It is important to consider the timing of entry. Entry is early when an international business enters a foreign market before other foreign firms. And late when it enters after other international businesses. The advantage is when firms enter early in the foreign market commonly known as first-mover advantages

#### **First mover advantage:-**

1. it's the ability to prevent rivals and capture demand by establishing a strong brand name. 2. Ability to build sales volume in that country so that they can drive them out of market. 3. Ability to create customer relationship

#### **Disadvantage:**

1. firm has to devote effort, time and expense to learning the rules of the country.

2. risk is high for business failure (probability increases if business enters a national market after several other firms they can learn from other early firms mistakes)

## **Modes of entry:--**

1. Exporting
2. Licensing
3. Franchising
4. Turnkey Project
5. Mergers & Acquisitions
6. Joint Venture
7. Acquisitions & Mergers
8. Wholly Owned Subsidiary

### **1.Exporting**

:It means the sale abroad of an item produced ,stored or processed in the supplying firm's home country. It is a convenient method to increase the sales. Passive exporting occurs when a firm receives canvassed them. Active exporting conversely results from a strategic decision to establish proper systems for organizing the export functions and for procuring foreign sales.

#### **Advantages of Exporting**

a. **Need for limited finance** ;If the company selects a company in the host country to distribute the company can enter international market with no or less financial resources but this amount would be quite less compared to that would be necessary under other modes.

**b.Less Risks** ;Exporting involves less risk as the company understand the culture ,customer and the market of the host country gradually. Later after understanding the host country the company can enter on a full scale.

**c.Motivation for exporting** :Motivation for exporting are proactive and reactive. Proactive motivations are opportunities available in the host country. Reactive motivators are those efforts taken by the company to export the product to a foreign country due to the decline in demand for its product in the home country.2.有

### **2.Licensing :**

In this mode of entry ,the domestic manufacturer leases the right to use its intellectual property (ie) technology , copy rights ,brand name etc to a manufacturer in a foreign country for a fee. Here the manufacturer in the domestic country is called licensor and the manufacturer in the foreign is called licensee. The cost of entering market through this mode is less costly. The domestic company can choose any international location and enjoy the advantages without incurring any obligations and responsibilities of ownership, managerial, investment etc.

#### **Advantages**

;1. Low investment on the part of licensor.2. Low financial risk to the licensor 3. Licensor can investigate the foreign market without much efforts on his part.4. Licensee gets the benefits with less investment on research anddevelopment5. Licensee escapes himself from the risk of product failure.

### **Disadvantages**

1. It reduces market opportunities for both
2. Both parties have to maintain the product quality and promote the product . Therefore one party can affect the other through their improper acts.
3. Chance for misunderstanding between the parties.
4. Chance for leakages of the trade secrets of the licensor.
5. Licensee may develop his reputation
6. Licensee may sell the product outside the agreed territory and after the expiry of the contract.

### **3. Franchising**

Under franchising an independent organization called the franchisee operates the business under the name of another company called the franchisor under this agreement the franchisee pays a fee to the franchisor. The franchisor provides the following services to the franchisee.

1. Trade marks
2. Operating System
3. Product reputation
4. Continuous support system like advertising , employee training , reservation services quality assurances program etc.

#### **Advantages:**

1. Low investment and low risk
2. Franchisor can get the information regarding the market culture, customs and environment of the host country.
3. Franchisor learns more from the experience of the franchisees.
4. Franchisee get the benefits of R& D with low cost.
5. Franchisee escapes from the risk of product failure.

**Disadvantages:** 1. It may be more complicating than domestic franchising.

2. It is difficult to control the international franchisee.
3. It reduce the market opportunities for both
4. Both the parties have the responsibilities to maintain product quality and product promotion.
5. There is a problem of leakage of trade secrets.

### **4. Turnkey Project**

:A turnkey project is a contract under which a firm agrees to fully design , construct and equip a manufacturing/ business/services facility and turn the project over to the purchaser when it is ready for operation for a remuneration like a fixed price , payment on cost plus basis. This form of pricing allows the company to shift the risk of inflation enhanced costs to the purchaser. Eg nuclear power plants , airports, oil refinery , national highways , railway line etc. Hence they are multiyear project.

### **5. Mergers & Acquisitions**

:A domestic company selects a foreign company and merger itself with foreign company in order to enter international business. Alternatively the domestic company may purchase the foreign

company and acquires its ownership and control. It provides immediate access to international manufacturing facilities and marketing network.

### **Advantages**

1. The company immediately gets the ownership and control over the acquired firm's factories, employee, technology, brand name and distribution networks.
2. The company can formulate international strategy and generate more revenues.
3. If the industry already reached the stage of optimum capacity level or overcapacity level in the host country. This strategy helps the host country.

### **Disadvantages:**

1. Acquiring a firm in a foreign country is a complex task involving bankers, lawyers, regulation, mergers and acquisition specialists from the two countries.
2. This strategy adds no capacity to the industry.
3. Sometimes host countries imposed restrictions on acquisition of local companies by the foreign companies.
4. Labour problem of the host country's companies are also transferred to the acquired company.

## **6. Joint Venture**

Two or more firms join together to create a new business entity that is legally separate and distinct from its parents. It involves shared ownership. Various environmental factors like social, technological, economic and political encourage the formation of joint ventures. It provides strength in terms of required capital. Latest technology, required human talent etc. and enable the companies to share the risk in the foreign markets. This act improves the local image in the host country and also satisfies the governmental joint venture.

### **Advantages**

1. Joint venture provide large capital funds suitable for major projects.
2. It spread the risk between or among partners.
3. It provide skills like technical skills, technology, human skills, expertise, marketing skills.
4. It make large projects and turn key projects feasible and possible.
5. It synergy due to combined efforts of varied parties.

### **Disadvantages:**

1. Conflict may arise
2. Partner delay the decision making once the dispute arises. Then the operations become unresponsive and inefficient.
3. Life cycle of a joint venture is hindered by many causes of collapse.
4. Scope for collapse of a joint venture is more due to entry of competitors changes in the partners strength.
5. The decision making is slowed down in joint ventures due to the involvement of a number of parties.

## **7. Acquisitions & Mergers**

A merger is a voluntary and permanent combination of business whereby one or more firms integrate their operations and identities with those of another and henceforth work under a common name and in the interests of the newly formed amalgamations.

### **Motives for acquisitions**

1. Removal of competitor
2. Reduction of the Co failure through spreading risk over a wider range of activities.
3. The desire to acquire business already trading in certain markets & possessing certain specialist employees & equipments.
4. Obtaining patents, license & intellectual property.
5. Economies of scale possibly made through more extensive operations.
6. Acquisition of land, building & other fixed asset that can be profitably sold off.
7. The ability to control supplies of raw materials.
8. Expert use of resources.
9. Tax consideration.
10. Desire to become involved with new technologies & management method particularly in high risk industries.

### **8. Wholly Owned Subsidiary**

Subsidiary means individual body under parent body. This Subsidiary or individual body as per their own generates revenue. They give their own rent, salary to employees, etc. But policies and trademark will be implemented from the Parent body. There are no branches here. Only the certain percentage of the profit will be given to the parent body.

A subsidiary, in business matters, is an entity that is controlled by a bigger and more powerful entity. The controlled entity is called a company, corporation, or limited liability company, and the controlling entity is called its parent (or the parent company). The reason for this distinction is that alone company cannot be a subsidiary of any organization; only an entity representing affections a separate entity can be a subsidiary.

While individuals have the capacity to act on their own initiative, a business entity can only act through its directors, officers and employees. The most common way that control of a subsidiary is achieved is through the ownership of shares in the subsidiary by the parent. These shares give the parent the necessary votes to determine the composition of the board of the subsidiary and so exercise control. This gives rise to the common presumption that 50% plus one share is enough to create a subsidiary. There are, however, other ways that control can come about and the exact rules both as to what control is needed and how it is achieved can be complex (see below).

A subsidiary may itself have subsidiaries, and these, in turn, may have subsidiaries of their own. A parent and all its subsidiaries together are called a group, although this term can also apply to cooperating companies and their subsidiaries with varying degrees of shared ownership. Subsidiaries are separate, distinct legal entities for the purposes of taxation and regulation. For this reason, they differ from divisions, which are businesses fully integrated within the main company, and not legally or otherwise distinct from it. Subsidiaries are a common feature of business life and most if not all major businesses organize their operations in this way. Examples include holding companies such as Berkshire Hathaway, Time Warner, or Citi group as well as more focused companies such as IBM, or Xerox Corporation. These, and others, organize their businesses into national or functional subsidiaries, sometimes with multiple levels of subsidiaries.

## Unit - III

### GLOBALIZATION

Globalization: Meaning - Features – Stages –Production –Investment and Technology, Globalization – Advantages and Disadvantages – Methods and Essential Conditions for Globalization.

**MNC's and International Business:** Definitions – Distinction between Indian Companies – MNC – Global Companies and TNC – Organizational Transformations – Merits and Demerits of MNC's in India

#### *Definition of Globalisation:*

The aim of globalisation is to secure socio- economic integration and development of all the people of the world through a free flow of goods, services, information, knowledge and people across all boundaries.

Globalisation is seen as a conscious and active process of expanding business and trade across the borders of all the states. It stands for expanding cross-border facilities and economic linkages. This is to be done with a view to secure an integration of economic interests and activities of the people living in all parts of the world. The objective of making the world a truly inter-related, inter-dependent, developed global village governs the on-going process of globalisation.

Globalisation is the concept of securing real social economic, political and cultural transformation of the world into a real global community. It is considered to be the essential means for securing sustainable development of all the people of the world.

“Globalisation represents the desire to move from national to a global sphere of economic and political activity”. It seeks to transform the existing international economic system into a unified system of global economics. In the existing system, national economies are the major players. In the new system, the globalized economic and political activity will ensure sustainable development for the whole world.

“Globalisation is both an active process of corporate expansion across borders and a structure of cross border facilities and economic linkages that has been steadily growing and changing.” — Edward S.Herman

“Globalisation is the process whereby social relations acquire relatively distance-less and borderless qualities.” —Baylis and Smith

### ***Difference between Globalisation and Internationalism:***

Till very recently, we have been frequently using the term internationalism to refer to the process of increasing connections and relations among nations. It denotes the concept of increasing social economic, cultural and political cooperation among nations.

Now instead of advocating internationalism, we have started advocating globalisation which refers to a broader and integrated process of transformation of the world into a global village characterised by free world trade, freedom of access to world markets and increased social, economic, and cultural linkages and relations among the people of the world.

Whereas internationalism stands for increasing scope and intensity of cooperation among nations, globalisation refers to a free and integrated world system. Globalisation is neither a purely economic process nor is related to communications only. It is a broad process of increasing socio-economic-industrial-trade-cultural relations among the people living in all parts of the globe.

It refers to the process which is considered essential for transforming the world into an inter-related and inter-dependent global village. It is aimed at securing the benefits of free trade, open access to markets and equal participation in securing sustainable development for all the people. It involves the attempts aimed at the development of rules and procedures for making and enforcing all decisions required for securing globalisation.

In simple words, the aim of globalisation is to secure socio- economic integration and development of all the people of the world through a free flow of goods, services, information, knowledge and people across all boundaries.

## **Nature of Globalisation:**

### **Salient Features of Globalisation:**

#### **1. Liberalisation:**

It stands for the freedom of the entrepreneurs to establish any industry or trade or business venture, within their own countries or abroad.

#### **2. Free trade:**

It stands for free flow of trade relations among all the nations. Each state grants MFN (most favored nation) status to other states and keeps its business and trade away from excessive and hard regulatory and protective regimes

#### **3. Globalisation of Economic Activity:**

Economic activities are be governed both by the domestic market and also the world market. It stands for the process of integrating the domestic economy with world economies.

#### **4. Liberalisation of Import-Export System:**

It stands for liberating the import- export activity and securing a free flow of goods and services across borders.

#### **5. Privatisation:**

Keeping the state away from ownership of means of production and distribution and letting the free flow of industrial, trade and economic activity across borders.

#### **6. Increased Collaborations:**

Encouraging the process of collaborations among the entrepreneurs with a view to secure rapid modernisation, development and technological advancement.

#### **7. Economic Reforms:**

Encouraging fiscal and financial reforms with a view to give strength to free world trade, free enterprise, and market forces.

Globalisation accepts and advocates the value of free world trade, freedom of access to world markets and a free flow of investments across borders. It stands for integration and democratization of the world's culture, economy and infrastructure through global investments.

### **Four stages of globalization**

#### **1.Domestic Stage–**

Market potential is limited to the home country–Production and marketing facilities located at home

#### **2. International Stage**

Exports increase, and the company usually adopts a multi-domestic approach.—Product design, marketing, and advertising are adapted to the specific needs of each country, requiring a high level of sensitivity to local values and interests.

### **3. Multinational Stage**

The company has marketing and production facilities located in many countries, with more than one third of its sales is outside the country of origin.— Product design, marketing and advertising strategies are standardized around the world.

### **4. Global (or stateless) Stage**

These corporations operate in true global fashion, making sales and acquiring resources in whatever country offers the best opportunities and lower cost.

#### ***Advantages of Globalisation:***

**The following are some of the important advantages of globalisation for a developing country like India:**

(i) Globalisation helps to boost the long run average growth rate of the economy of the country through:

(a) Improvement in the allocative efficiency of resources;

(b) Increase in labour productivity; and

(c) Reduction in capital-output ratio.

(ii) Globalisation paves the way for removing inefficiency in production system. Prolonged protective scenario in the absence of globalisation makes the production system careless about cost effectiveness which can be attained by following the policy of globalisation.

(iii) Globalisation attracts entry of foreign capital along with foreign updated technology which improves the quality of production.

(iv) Globalisation usually restructure production and trade pattern favouring labour-intensive goods and labour-intensive techniques as well as expansion of trade in services.

(v) In a globalized scenario, domestic industries of developing country become conscious about price reduction and quality improvement to their products so as to face foreign competition.

(vi) Globalisation discourages uneconomic import substitution and favour cheaper imports of capital goods which reduces capital-output ratio in manufacturing industries. Cost effectiveness and price reduction of manufactured commodities will improve the terms of trade in favour of agriculture.

(vii) Globalisation facilitates consumer goods industries to expand faster to meet growing demand for these consumer goods which would result faster expansion of employment opportunities over a period of time. This would result trickle down effect to reduce the proportion of population living below the poverty line

(viii) Globalisation enhances the efficiency of the banking insurance and financial sectors with the opening up to those areas to foreign capital, foreign banks and insurance companies.

***Disadvantages of Globalisation:***

Globalization has its disadvantages also.

**The following are some of these disadvantages:**

(i) Globalisation paves the way for redistribution of economic power at the world level leading to domination by economically powerful nations over the poor nations.

(ii) Globalisation usually results greater increase in imports than increase in exports leading to growing trade deficit and balance of payments problem.

(iii) Although globalisation promote the idea that technological change and increase in productivity would lead to more jobs and higher wages but during the last few years, such technological changes occurring in some developing countries have resulted more loss of jobs than they have created leading to fall in employment growth rates.

(iv) Globalisation has alerted the village and small scale industries and sounded death-knell to it as they cannot withstand the competition arising from well organized MNCs.

(v) Globalisation has been showing down the process to poverty reduction in some developing and underdeveloped countries of the world and thereby enhances the problem of inequality.

(vi) Globalisation is also posing as a threat to agriculture in developing and underdeveloped countries of the world. As with the WTO trading provisions, agricultural commodities market of poor and developing countries will be flooded farm goods from countries at a rate much lower than that indigenous farm products leading to a death-blow to many farmers.

(vii) Implementation of globalisation principle becoming harder in many industrially developed democratic countries to ask its people to bear the pains and uncertainties of structural adjustment with the hope of getting benefits in future.

**Investment Globalization within the World-system**

Investment globalization is defined, in principle, as the proportion of all invested capital in the world that is owned by non-nationals (Chase-Dunn, 2000). The growth of investment within the world economy is simply one facet of the modern world-system, part of the triumvirate of trade, economic, and investment globalization, which combine to contribute toward transnational economic integration. Thus, investment globalization is part of the growing trend toward globalization in all sectors. This trend is due to the constant striving on the part of capitalists to accumulate more capital. As the economy goes through periods of stagnation and/or decline (as it inevitably must), the incentive for exploitation becomes ever stronger. With every new period

of economic decline, capitalists find new ways of intensifying exploitation in order to retrieve their lost profits, leading to an overall increase in the amount of exploitation. According to Immanuel Wallerstein, this increase has manifested itself in two forms; "broadening," and "deepening."

### **Broadening**

Broadening refers to the encroachment of capitalist exploitative practices into new parts of the world. The world-system as it first existed started out occupying only a portion of the world's geography. By use of broadening, it gradually expanded to encompass the entire globe by the end of the nineteenth century. Broadening took place by means of incorporation, a three-step process. Firstly, a sector of a peripheral economy emerged which produced goods that were in demand elsewhere in the world-system. Secondly, workers in this peripheral sector lost control over their labor power, which passed into the hands of those who accumulated the surplus generated by the workers' labor. Thirdly, this surplus ended up in the possession of capitalists in core states. Political mechanisms such as colonization were used to further incorporation.

### **Deepening**

The second form of exploitation, deepening, refers to the increased application of capitalist economic relationships to more facets of life within societies already in the world-system. Five methods of this application can be identified (Hopkins, Wallerstein, et al., 1982:104-106). The first, commodification, is the process of making more goods available to be bought, sold, and owned as property. According to Wallerstein, the two most important forms of commodification have been the commodification of land and labor because both increase the economic factors of production available for capitalist exploitation. The second method of deepening, mechanization, is the practice of using machinery to maximize worker output, increasing the value of technological innovation. The third form of deepening, contractualization, refers to the increasingly legalistic nature of economic and social relations. The fourth form of deepening, interdependence, involves the growth of a highly specialized division of labor, which must exchange goods, leading to less and less self-sufficiency. The fifth form of deepening consists of the polarization of levels of wealth and political organization between core and periphery states; as the world-system expands, more and more core workers become full proletarians (whose wages are sufficient to reproduce their labor), and, conversely, more peripheral workers become super-exploited semi-proletarians. Wallerstein argues that this transition within the periphery has in fact resulted in lower living standards than existed previously.

### **Economic Cycles**

These exploitative processes of broadening and deepening have not developed at a constant rate; instead they have followed the pattern of economic cycles. Most world-systems theorists believe

that the world economy has gone (and is still going) through times of growth alternating with periods of stagnation. In addition to relatively brief cycles of prosperity followed by recession (business cycles), Wallerstein and his associates argue that there have been two main kinds of economic cycles in the history of the world-system: "Kondratieff (or long) waves," and "logistics" (Shannon, 1996:131).

## **Essential Conditions for Globalisation**

### **1. Business Freedom**

There should not be unnecessary government restrictions which come in the way globalization like import restriction, restrictions on sourcing finance or other factors from abroad, foreign investments etc.

### **2. Facilities**

The extent to which an enterprise can develop globally from home country base depends on the facilities available like the infrastructural facilities.

### **3. Government Support**

Unnecessary government interference is a hindrance to globalization, government support can encourage globalization.

### **4. Resources**

Resources is one of the important factors which often decide, the ability of a firm to globalize. Resourceful companies may find it easier to thrust ahead in the global market.

### **5. Competitiveness**

The competitive advantage of the company is a very important determinant of success in global business. A firm may derive competitive advantage from any one or more of the factors such as low costs and price, product quality, product differentiation, technological superiority, after-sales services, marketing strength etc.

### **6. Orientation**

A global orientation on the part of the business firms and suitable globalization strategies are essential for globalization.

## **Different forms of Globalization:**

### **Economic globalization**

Economic globalization is the integration with the world economy through removal of trade barriers, privatization and liberalization. Worldwide transactions of product, service and finance is the special trait of economic globalization.

Development of transportation and communication enhancing the economic globalization, and world trade organization, multinational companies and international monetary fund are playing vital role in boost up of the economic globalization.

#### **Cultural globalization**

Cultural globalization is worldwide assimilation of cultural value and norms through communication, tourism and television network. Cooperation, peace, coexistence, cultural exchange are its important aspects.

#### **Political globalization**

Political globalization is integration of world community in ideas, norms and values. It provides the forum for idea exchange on, human rights, child labor etc.

#### **Environmental globalization**

Environmental globalization is the world effort on protection of global ecology. It is specially concerns on global warming, depletion of ozone layer, growing pollution, flood, landslide, acid ran and loss of biodiversity.

#### **Methods of Globalization**

##### **Licensing**

Licensing is agreement with foreign companies to allow use of trade mark, brand and technology. Licensee should pay royalties to foreign companies. Franchising is the example of licensing.

##### **Strategic alliances**

Strategic alliances are contractual alliances of the two or more than two companies for certain period of time to pursue a common goal. Strategic alliance is done for strategic benefits. ownership is not clear and equity investment is not involved in strategic alliances.

##### **Exporting**

Exporting is another method of globalization. It is selling product overseas. Decreasing cost in transportation and communication enhancing the export. Agents, brokers banks, and insurance companies help in exporting.

##### **Joint venture**

Joint venture is another important and popular method of globalization. It is partnership with foreign companies. It involves equity, transfer of technology, management know how, production and marketing.

##### **Foreign direct investment**

It is another popular method of globalization. It is long term capital investment. It can be done through merger and acquisition. It is fully owned facility.

## MNC's and International Business:

Definitions – Distinction between Indian Companies – MNC – Global Companies and TNC – Organizational Transformations – Merits and Demerits of MNC's in India

### MULTINATIONAL CORPORATIONS.

#### Meaning of Multinational Companies (MNCs):

A multinational company is one which is incorporated in one country (called the home country); but whose operations extend beyond the home country and which carries on business in other countries (called the host countries) in addition to the home country.

It must be emphasized that the headquarters of a multinational company are located in the home country.

#### Neil H. Jacoby defines a multinational company as follows:

“A multinational corporation owns and manages business in two or more countries.”

Foreign Multinational	Indian Affiliate/Subsidiary
Bata Corporation	Bata India
Cadbury	Cadbury India
Coca-Cola Corporation	Coca Cola India
Unilever	Hindustan Lever
Timex	Timex Watches
Colgate Palmolive	Colgate India
Pepsi Corporation	Pepsi India
Philips	Philips India
Sony Corporation	Sony India
Suzuki	Maruti Suzuki
GEC	GEC Alsthom
ABB	ABB India

#### Features of MNCs – at a glance

1. Huge assets and turnover
2. International operations through a network of branches
3. Unity of control
4. Mighty economic power
5. Advanced and sophisticated technology
6. Professional management
7. Aggressive advertising and marketing
8. Better quality of products

**Advantages and Limitations of MNCs – at a glance  
(from the viewpoint of host country)**

<p><b>Advantages</b></p> <ol style="list-style-type: none"> <li>1. Employment generation</li> <li>2. Automatic inflow of foreign capital</li> <li>3. Proper use of idle resources</li> <li>4. Improvement in Balance of Payment position</li> <li>5. Technical development</li> <li>6. Managerial development</li> <li>7. End of local monopolies</li> <li>8. Improvement in standard of living</li> <li>9. Promotion of international brotherhood and culture</li> </ol> <p><b>Limitations</b></p> <ol style="list-style-type: none"> <li>1. Danger for domestic industries</li> <li>2. Repatriation of profits</li> <li>3. No benefit to poor people</li> <li>4. Danger to independence</li> <li>5. Disregard of the national interests of the host country</li> <li>6. Misuse of mighty status</li> <li>7. Careless exploitation of natural resources</li> <li>8. Selfish promotion of alien culture</li> <li>9. Exploitation of people, in a systematic manner</li> </ol>
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**Domestic company, Indian company and foreign company are three definitions in section 2(22A), 2(26) and 2(23A) respectively of the IT Act.**

2(26) - The gist is that - a company whose registered office is situated in India.

2(23A) - foreign company is a company which is not a domestic company.

Please note, that the definition of a domestic company U/s. 2(22A) is wider than the definition of Indian company U/s. 2(22A)

2(22A) has two components -

1. An Indian company as defined in 2(26) and
2. any other company, that has income that is liable to tax in India,

**COMPARISON DOMESTIC VS INTERNATIONAL BUSINESS:**

<b>BASIS FOR COMPARISON</b>	<b>DOMESTIC BUSINESS</b>	<b>INTERNATIONAL BUSINESS</b>
Meaning	A business is said to be domestic, when its economic transactions are conducted within the geographical boundaries of the country.	International business is one which is engaged in economic transaction with several countries in the world.

<b>BASIS FOR COMPARISON</b>	<b>DOMESTIC BUSINESS</b>	<b>INTERNATIONAL BUSINESS</b>
Area of operation	Within the country	Whole world
Quality standards	Quite low	Very high
Deals in	Single currency	Multiple currencies
Capital investment	Less	Huge
Restrictions	Few	Many
Nature of customers	Homogeneous	Heterogeneous
Business research	It can be conducted easily.	It is difficult to conduct research.
Mobility of factors of production	Free	Restricted

### **Key Differences Between Domestic and International Business:**

**The most important differences Between domestic and international business are classified as under:**

1. Domestic Business is defined as the business whose economic transaction is conducted within the geographical limits of the country. International Business refers to a business which is not restricted to a single country, i.e. a business which is engaged in the economic transaction with several countries in the world.
2. The area of operation of the domestic business is limited, which is the home country. On the other hand, the area of operation of an international business is vast, i.e. it serves many countries at the same time.
3. The quality standards of products and services provided by a domestic business is relatively low. Conversely, the quality standards of international business are very high which are set according to global standards.
4. Domestic business deals in the currency of the country in which it operates. On the contrary, the international business deals in the multiple currencies.
5. Domestic Business requires comparatively less capital investment as compared to international business.

6. Domestic Business has few restrictions, as it is subject to rules, law taxation of a single country. As against this, international business is subject to rules, law taxation, tariff and quotas of many countries and therefore, it has to face many restrictions which are barriers in the international business.
7. The nature of customers of a domestic business is more or less same. Unlike, international business wherein the nature of customers of every country it serves is different.
8. Business Research can be conducted easily, in domestic business. As against this, in the case of international research, it is difficult to conduct business research as it is expensive and research reliability varies from country to country.
9. In domestic business, factors of production are mobile whereas, in international business, the mobility of factors of production is restricted.

## **MNCs vs TNCs**

1) Multinational (MNC) and Transnational (TNC) companies are types of international corporations. Both maintain management headquarters in one country, known as the home country, and operate in several other countries, known as host countries.

2) Most TNC's and MNC's are massive in terms of budget and are highly influential to globalization. They are also considered as main drivers of the local economy, government policies, environmental and political lobbying

3) An MNC have investment in other countries, but do not have coordinated product offerings in each country. It is more focused on adapting their products and service to each individual local market. A TNC, on the other hand, have invested in foreign operations, have a central corporate facility but give decision-making, R&D and marketing powers to each individual foreign market.

## **Difference between a global, transnational, international and multinational company**

The following terms and think they refer to any company doing business in another country.

- Multinational
- International
- Transnational
- Global

Andrew Hines over at BNET has brief and clear definitions of each of these terms, Get your international business terms right.

Each term is distinct and has a specific meaning which defines the scope and degree of interaction with their operations outside of their "home" country.

- **International companies** are importers and exporters, they have no investment outside of their home country.
- **Multinational companies** have investment in other countries, but do not have coordinated product offerings in each country. More focused on adapting their products and service to each individual local market.
- **Global companies** have invested and are present in many countries. They market their products through the use of the same coordinated image/brand in all markets. Generally one corporate office that is responsible for global strategy. Emphasis on volume, cost management and efficiency.
- **Transnational companies** are much more complex organizations. They have invested in foreign operations, have a central corporate facility but give decision-making, R&D and marketing powers to each individual foreign market.

### **organizational change and organizational transformation**

- **Organization change:** Organizational change is about changing the way of doing business in some way. Organizational change does not go into the depth of what a person feels, or at least not intended to do so.
- **Organizational transformation:** Organizational transformation is about organizational change which the change goes to the depths of what an individual feels and will affect what people feel about the organization, what they do in the organization and maybe what they hold dear to life. Organizational transformation is more than just changing the way business is done. It is about changing the organizational culture in one or more ways.

Transforming the organization refers to any significant change made to an organization such as, restructuring an organization or reengineering an organization and/or there is a significant change in the way business is done. The question is, of course, what is significant relative to a given organization.

### **Advantages and Limitations of MNCs(Merits & Demerits)**

#### ***Advantages of MNCs from the Viewpoint of Host Country:***

We propose to examine the advantages and limitations of MNCs from the viewpoint of the host country. In fact, advantages of MNCs make for the case in favour of MNCs; while limitations of MNCs become the case against MNCs.

#### **(i) Employment Generation:**

MNCs create large scale employment opportunities in host countries. This is a big advantage of MNCs for countries; where there is a lot of unemployment.

**(ii) Automatic Inflow of Foreign Capital:**

MNCs bring in much needed capital for the rapid development of developing countries. In fact, with the entry of MNCs, inflow of foreign capital is automatic. As a result of the entry of MNCs, India e.g. has attracted foreign investment with several million dollars.

**(iii) Proper Use of Idle Resources:**

Because of their advanced technical knowledge, MNCs are in a position to properly utilise idle physical and human resources of the host country. This results in an increase in the National Income of the host country.

**(iv) Improvement in Balance of Payment Position:**

MNCs help the host countries to increase their exports. As such, they help the host country to improve upon its Balance of Payment position.

**(vi) Technical Development:**

MNCs carry the advantages of technical development to host countries. In fact, MNCs are a vehicle for transference of technical development from one country to another. Because of MNCs poor host countries also begin to develop technically.

**(vii) Managerial Development:**

MNCs employ latest management techniques. People employed by MNCs do a lot of research in management. In a way, they help to professionalize management along latest lines of management theory and practice. This leads to managerial development in host countries.

**(viii) End of Local Monopolies:**

The entry of MNCs leads to competition in the host countries. Local monopolies of host countries either start improving their products or reduce their prices. Thus MNCs put an end to exploitative practices of local monopolists. As a matter of fact, MNCs compel domestic companies to improve their efficiency and quality.

In India, many Indian companies acquired ISO-9000 quality certificates, due to fear of competition posed by MNCs.

**(ix) Improvement in Standard of Living:**

By providing super quality products and services, MNCs help to improve the standard of living of people of host countries.

**(x) Promotion of international brotherhood and culture:**

MNCs integrate economies of various nations with the world economy. Through their international dealings, MNCs promote international brotherhood and culture; and pave way for world peace and prosperity.

### ***Limitations of MNCs from the Viewpoint of Host Country:***

#### **(i) Danger for Domestic Industries:**

MNCs, because of their vast economic power, pose a danger to domestic industries; which are still in the process of development. Domestic industries cannot face challenges posed by MNCs. Many domestic industries have to wind up, as a result of threat from MNCs. Thus MNCs give a setback to the economic growth of host countries.

#### **(ii) Repatriation of Profits:**

(Repatriation of profits means sending profits to their country).

MNCs earn huge profits. Repatriation of profits by MNCs adversely affects the foreign exchange reserves of the host country; which means that a large amount of foreign exchange goes out of the host country.

#### **(iii) No Benefit to Poor People:**

MNCs produce only those things, which are used by the rich. Therefore, poor people of host countries do not get, generally, any benefit, out of MNCs.

#### **(iv) Danger to Independence:**

Initially MNCs help the Government of the host country, in a number of ways; and then gradually start interfering in the political affairs of the host country. There is, then, an implicit danger to the independence of the host country, in the long-run.

#### **(v) Disregard of the National Interests of the Host Country:**

MNCs invest in most profitable sectors; and disregard the national goals and priorities of the host country. They do not care for the development of backward regions; and never care to solve chronic problems of the host country like unemployment and poverty.

#### **(vi) Misuse of Mighty Status:**

MNCs are powerful economic entities. They can afford to bear losses for a long while, in the hope of earning huge profits-once they have ended local competition and achieved monopoly. This may be the dirties strategy of MNCs to wipe off local competitors from the host country.

#### **(vii) Careless Exploitation of Natural Resources:**

MNCs tend to use the natural resources of the host country carelessly. They cause rapid depletion of some of the non-renewable natural resources of the host country. In this way, MNCs cause a permanent damage to the economic development of the host country.

#### **(viii) Selfish Promotion of Alien Culture:**

MNCs tend to promote alien culture in host country to sell their products. They make people forget about their own cultural heritage. In India, e.g. MNCs have created a taste for synthetic food, soft drinks etc. This promotion of foreign culture by MNCs is injurious to the health of people also.

**(ix) Exploitation of People, in a Systematic Manner:**

MNCs join hands with big business houses of host country and emerge as powerful monopolies. This leads to concentration of economic power only in a few hands. Gradually these monopolies make it their birth right to exploit poor people and enrich themselves at the cost of the poor working class.



**UNIT – IV**

**INTERNATIONAL MARKETING INTELLIGENCE**

Information required – Source of Information – International Marketing Information System and Marketing Research.

**International Marketing intelligence**

**Definition of 'Marketing Intelligence'**

**Definition:** Marketing intelligence is the external data collected by a company about a specific market which it wishes to enter, to make decisions. It is the first set of data which the company analyses before making any investment decision.

**Description:** Marketing intelligence is usually the first data set analysed by a company about a specific market. It could be related to population age in that area, infrastructure facilities, spending habits of consumers, state or government regulations etc. Marketing intelligence is all about gathering information on various data sets, analysing the information, breaking down the data into small subsets and the distribution of information to the relevant department of the company.

**International Marketing intelligence**

Sufficient and reliable information is a pre-requisite for proper decision making, be it domestic business or international marketing.

Viewed in a broad sense, the general subject of international marketing intelligence includes the collection, processing, analysis and interpretation of all types of information, from all available sources, to aid business management in making international marketing decision.

Proper business intelligence is essential to make all the series of strategic decisions in international marketing viz., international marketing decision, market selection decision, entry and operating decision, marketing mix decision and organization decision.

Information Requirements:

The broad areas of information requirement for international marketing are the following.

Different types of information are needed to take the critical decision as to whether to go international or not. These include information about the prospects of the foreign markets, competition, other characteristics of the foreign market, domestic market prospects etc.

Information on a large number of factors is needed for evaluation and selection of the markets. There are many general factors like political and economic stability, currency stability, government policy and regulations, etc about which information is required. Market selection also requires specific information about the product or industry concerned like the demand trends, government policy and regulations, competitive situation etc.

This includes consumer tastes and preference about the product like unit size/ quantity, shape, color, product form, packaging etc; mode, time, frequencies and rates of consumption; purpose of use/uses etc; regulatory aspects and so on.

Price related information needed include prevailing price ranges, price trends, margins, pricing practices, government policies and regulations, price elasticity of demand, role of price as a strategic marketing variable etc.

For formulating the promotion strategy data on many aspects like media availability and effectiveness, Government regulations, customs/practices of promotion in the market concerned, competitive behavior etc are required.

This includes information on factors like channel alternatives and characteristics, relative effectiveness of different channels, customs and practices of the trade, power and influence of channel members etc.

A company will also need information about the competitive environment including the extent of competition, major competitors, relative strengths and weaknesses of competitors, strategies and behavior of competitors etc.

There are a number of export promotion organizations in India which are important sources of information pertaining to foreign markets. While some of these are general others are product specific. Most of them have periodic publications which disseminate useful information. Several of them have also brought out publications intended to provide general guidance and education to exporters. They also carry out market potential studies and other relevant studies.

These organizations include India Trade Promotion Organization (ITPO), State Trading Corporations, Chambers of Commerce, Confederation of Indian Industry (CII) , FIEO, and Export Promotion Councils/Commodity Boards / Export Development Authorities. Organizations like the Indian Institute of Packaging, Export Inspection Council are also important sources for certain types of information. The Exim Bank has carried out a number of market studies. Although the Exim Bank is primarily a financial institution, it is also an important source of guidance for exporters.

The offices of the consulates/embassies in India of foreign governments provide a lot of information about the respective countries. Educational and research organizations like Indian Institute of Foreign Trade, Management Schools/Departments of Universities etc, could be useful to exporters. Valuable information can sometimes be obtained from other exporters, export houses and trading houses, banks, ECGC etc. The international Trade Centre, Geneva is a very important source of information and assistance to exporters, particularly from developing countries

Offices of the Indian embassies abroad and concerned departments/organizations of the foreign governments may be approached for certain types of information.

Several governments, like that of Japan, give a lot of importance to import development and they are very much interested in providing the information relevant to importing to these countries. The Japan External Trade organization (JETRO) , for example , has brought out publications entitled Access to Japan's Import Market pertaining to every important item of Japan. These publications give a lot of information related to the import **trade of different products**.

There are also certain international organizations related to specific products. Organizations like the World Bank also make studies and reports regarding certain products. The World Trade Organization (WTO) is an important source for different types of information.

In many case a lot of information can be obtained from publications like journals and research publications "national, foreign and international. As mentioned earlier, the various export promotion organizations have periodical and other publications. Besides these, there are a number of general and specialized publications carrying useful information for the exporters. Similarly there are a number of foreign and international publications, general and product specific

## Marketing intelligence and Marketing Research

1. Marketing Intelligence and Introduction to Market Research

2. Where are the untapped market opportunities for my products? □ How can we differentiate households in terms of their financial behavior? □ How can we understand and target consumers

down to the block-group level? □ How can we increase customer satisfaction by offering products customers are most likely to buy? □ How can we find new prospects and turn them into profitable and loyal customers? □ How big is the total opportunity market? □ Some unanswered questions....

3. Uses of marketing research. 1. To identify and adequately describe markets and market segments. 2. To determine the marketing mix elements. 3. To gauge competition how it may affect a firm's strategy. 4. To determine customer expectations and how well they are being satisfied.

4. What is marketing research? 1. Marketing research—the development, interpretation, and communication of decision-oriented information to be used in all phases of the marketing process. 2. It influences planning, implementation, and evaluation. 3. It focuses not only on information gathering, but on analysis and implications as well.

5. Scope of marketing research activities—four sources of information. 1. Syndicated services. 2. Marketing information systems. 3. Decision-support systems. 4. Non-recurring proprietary research projects.

6. Characteristics of an ideal MkIS. 1. Includes real-time data. 2. Generates regular reports and recurring studies as needed. 3. Integrates old and new data to provide updates and identify trends. □ Marketing information systems (MkIS) ongoing, organized procedure to generate, analyze, disseminate, store, and retrieve information for use in making marketing decisions.

7. Decision support systems (DSS) a computer-based procedure allowing managers to interact directly with data using a variety of methods to integrate, analyze, and interpret information. Points to ponder: A. MkIS and DSS both rely on a wide variety of data. B. They are both able to analyze data. C. Unlike a MkIS, a manager using DSS can interact directly with data to produce customized reports. D. A DSS complements instead of replaces an MkIS by adding speed and flexibility to the research process. E. DSS has cost as a major drawback, which currently limits its use to large firms.

8. Data bases, data warehouses, and data mining A. Database—assembled data pertinent to a particular topic. 1. Researchers use data bases to probe specific questions and uncover useful relationships and developments. 2. Database analysis enables marketers to understand the marketplace better and meet its needs more specifically. B. Data warehouse—a huge collection of data, from a variety of internal and external sources, compiled by a firm for its own use or for the use of its clients. C. Data mining—the use of advanced and artificial-intelligence techniques applied to data warehouses to identify patterns and meaningful relationships in masses of data which would otherwise be overlooked or unrecognizable to researchers.

9. Major data sources. 1. Internal vs. external—sales force, sales records, manufacturing, etc. vs. research suppliers, in-house proprietary collection. 2. Continuous flow vs. occasional or periodic suppliers. 3. Retail scanners—electronic devices at retail checkouts that read bar codes and

provide relevant information with regard to individual and combined purchases. 4. Single-source data—data which can be traced to individual households or purchasing

10. Major research projects. A. Step one of the marketing research process: define the objective. B. Step two: conduct a situation analysis. C. Step three: conduct an informal investigation (Pilot). D. Step four: plan and conduct the formal investigation. a. Research Design- Types: Exploratory, Descriptive, Casual b. Sampling Frame- probability and non probability techniques, size , units and extent c. Data collection methods d. Instruments : For survey as well as analysis

11. E. Step five: analyze the data and present a report—done by the researcher to identify relationships, trends, and patterns in written and/or oral reports. F. Step six: conduct the follow-up to determine if recommendations are being used, the original problem was correctly defined, and the project itself was on target.

12. 1. Select sources of information. a. Primary data—new data gathered specifically for the purposes at hand. b. Secondary data—data already gathered for some other purpose and available for present use. Sources of secondary data: a. Records and reports from within the firm. b. Libraries. c. All three levels of government. d. Trade, professional, and business associations. e. Private research firms. f. Advertising media. g. University research programs

13. Primary data-gathering method: a. Observation method—collecting data by observing a person's actions or market events. b. Survey method—data gathered through face-to-face, telephone interviews, or mail surveys. c. Experimental method—using data gathered to determine the results of changing one variable in a situation while holding all others constant. These include laboratory experiments, field experiments, and test marketing. □ Sources of primary data. a. Firm's sales force. b. Firm's suppliers. c. Current or potential customers □ Sources of primary data and data collection methods

14. Preparation of data collection instruments a. Carefully choose question wording. b. Determine response format. c. Design questionnaire layout. d. Pre-test selected forms/questionnaires [https://qtrial2014.az1.qualtrics.com/jfe/preview/SV\\_3BInOFY6fKY0M2V?\\_=1](https://qtrial2014.az1.qualtrics.com/jfe/preview/SV_3BInOFY6fKY0M2V?_=1)

15. Elaborate security measure may be needed to protect confidential information □ Legal and ethical problems abound. □ Source of competitive intelligence. 1. Data bases created and sold by research firms. 2. Government reports. 3. Employees—your own (especially salespeople) or those of competitors. 4. Observation. 5. The Internet.

## **International marketing information system**

**International marketing information** system is a complex system, within the organizational structure, focused on **information** flow from a company towards the environment and vice versa. ... Collecting and processing data and **information**, and submission of processed **information** in decision-making must be timely.

## What do you mean by international marketing information system?

A **marketing information system** (MkIS) is a management **information system**(MIS) designed to support **marketing** decision making. Jobber (2007) defines it as a "**system** in which **marketing** data is formally gathered, stored, analysed and distributed to managers in accordance with their informational needs on a regular basis."

### Distinguish between **Marketing Information System Vs Marketing Research** *on the basis of following ten points...*

1. Meaning of MIS and MR.
2. Their main purpose.
3. Wide or narrow scope.
4. General or specific nature
5. Number of reports provided
6. Future or past orientation
7. Frequency of data collection
8. Number of problems to solve
9. Continuous or not in operational method.
10. Based on use of computers or not.

## **Unit – V**

### **EXIM TRADE**

Export Trade, Procedure, Steps & Documentation, Direction of India's Trade – Export Financing – Documents related to Export Trade – Export Marketing – Import Trade, Procedure, Steps, Documentations and Problems - EXIM Policy - Balance of Payment – Disequilibrium and Measures for Rectification - Institutions connected with EXIM Trade.

### **EXPORT TRADE**

#### **Introduction**

India's Foreign Trade i.e. Exports and Imports are regulated by Foreign Trade Policy notified by Central government in exercise of powers conferred by section 5 of foreign trade (Development and Regulation) Act 1992. Presently Foreign Trade Policy 2015-20 is effective from 1<sup>st</sup> April, 2015. As per FTD & R act, export is defined as an act of taking out of India any goods by land, sea or air and with proper transaction of money.

#### **STARTING EXPORTS**

Export in itself is a very wide concept and lot of preparations is required by an exporter before starting an export business. To start export business, the following steps may be followed:

##### **1) Establishing an Organisation**

To start the export business, first a sole Proprietary concern/ Partnership firm/Company has to be set up as per procedure with an attractive name and logo.

##### **2) Opening a Bank Account**

A current account with a Bank authorized to deal in Foreign Exchange should be opened.

##### **3) Obtaining Permanent Account Number (PAN)**

It is necessary for every exporter and importer to obtain a PAN from the Income Tax Department. (To apply PAN Card [Click Here](#))

##### **4) Obtaining Importer-Exporter Code (IEC) Number**

An IEC is a 10 digit number which is mandatory for undertaking export/ import. Application for obtaining IEC Number can be submitted to Regional authority of DGFT in form ANF 2A along with the documents listed therein.

Applicants can also apply for e-IEC on the DGFT website (<http://dgft.gov.in/>). Only one IEC can be obtained against a single PAN.

#### **5) Registration cum membership certificate (RCMC)**

For availing authorization to import/ export or any other benefit or concession under FTP 2015-20, as also to avail the services/ guidance, exporters are required to obtain RCMC granted by the concerned Export Promotion Councils/ FIEO/Commodity Boards/ Authorities.

#### **6) Selection of product**

All items are freely exportable except few items appearing in prohibited/ restricted list.

After studying the trends of export of different products from India proper selection of the product(s) to be exported may be made.

#### **7) Selection of Markets**

An overseas market should be selected after research covering market size, competition, quality requirements, payment terms etc. Exporters can also evaluate the markets based on the export benefits available for few countries under the FTP. Export promotion agencies, Indian Missions abroad, colleagues, friends, and relatives might be helpful in gathering information.

#### **8) Finding Buyers**

Participation in trade fairs, buyer seller meets, exhibitions, B2B portals, web browsing are an effective tool to find buyers. EPC's, Indian Missions abroad, overseas chambers of commerce can also be helpful. Creating multilingual Website with product catalogue, price, payment terms and other related information would also help.

#### **9) Sampling**

Providing customized samples as per the demands of Foreign buyers help in getting export orders. As per FTP 2015-2020, exports of bonafide trade and technical samples of freely exportable items shall be allowed without any limit.

#### **10) Pricing/Costing**

Product pricing is crucial in getting buyers' attention and promoting sales in view of international competition. The price should be worked out taking into consideration all expenses from sampling to realization of export proceeds on the basis of terms of sale i.e. Free on Board (FOB), Cost, Insurance & Freight (CIF), Cost & Freight(C&F), etc. Goal of establishing export costing should be to sell maximum quantity at competitive price

with maximum profit margin. Preparing an export costing sheet for every export product is advisable.

### **11) Negotiation with Buyers**

After determining the buyer's interest in the product, future prospects and continuity in business, demand for giving reasonable allowance/discount in price may be considered.

### **12) Covering Risks through ECGC**

International trade involves payment risks due to buyer/ Country insolvency. These risks can be covered by an appropriate Policy from Export Credit Guarantee Corporation Ltd (ECGC). Where the buyer is placing order without making advance payment or opening letter of Credit, it is advisable to procure credit limit on the foreign buyer from ECGC to protect against risk of non-payment.(To know more about ECGC [Click Here](#))

## **Processing an Export Order**

### **i. Confirmation of order**

On receiving an export order, it should be examined carefully in respect of items, specification, payment conditions, packaging, delivery schedule, etc. and then the order should be confirmed. Accordingly, the exporter may enter into a formal contract with the overseas buyer.

### **ii. Procurement of Goods**

After confirmation of the export order, immediate steps may be taken for procurement/manufacture of the goods meant for export. It should be remembered that the order has been obtained with much efforts and competition so the procurement should also be strictly as per buyer's requirement.

### **iii. Quality Control**

In today's competitive era, it is important to be strict quality conscious about the export goods. Some products like food and agriculture, fishery, certain chemicals, etc. are subject to compulsory pre-shipment inspection. Foreign buyers may also lay down their own standards/specifications and insist upon inspection by their own nominated agencies. Maintaining high quality is necessary to sustain in export business.

### **iv. Finance**

Exporters are eligible to obtain pre-shipment and post-shipment finance from Commercial Banks at concessional interest rates to complete the export transaction. Packing Credit advance in pre-shipment stage is granted to new exporters against lodgment of L/C or confirmed order for 180 days to meet working capital requirements

for purchase of raw material/finished goods, labour expenses, packing, transporting, etc. Normally Banks give 75% to 90% advances of the value of the order keeping the balance as margin. Banks adjust the packing credit advance from the proceeds of export bills negotiated, purchased or discounted.

Post Shipment finance is given to exporters normally upto 90% of the Invoice value for normal transit period and in cases of usance export bills upto notional due date. The maximum period for post-shipment advances is 180 days from the date of shipment. Advances granted by Banks are adjusted by realization of the sale proceeds of the export bills. In case export bill becomes overdue Banks will charge commercial lending rate of interest.

#### **v. Labeling, Packaging, Packing and Marking**

The export goods should be labeled, packaged and packed strictly as per the buyer's specific instructions. Good packaging delivers and presents the goods in top condition and in attractive way. Similarly, good packing helps easy handling, maximum loading, reducing shipping costs and to ensuring safety and standard of the cargo. Marking such as address, package number, port and place of destination, weight, handling instructions, etc. provides identification and information of cargo packed.

#### **vi. Insurance**

Marine insurance policy covers risks of loss or damage to the goods during the while the goods are in transit. Generally in CIF contract the exporters arrange the insurance whereas for C&F and FOB contract the buyers obtain insurance policy.

#### **vii. Delivery**

It is important feature of export and the exporter must adhere the delivery schedule. Planning should be there to let nothing stand in the way of fast and efficient delivery.

#### **viii. Customs Procedures**

It is necessary to obtain PAN based Business Identification Number (BIN) from the Customs prior to filing of shipping bill for clearance of export good and open a current account in the designated bank for crediting of any drawback amount and the same has to be registered on the system.

In case of Non-EDI, the shipping bills or bills of export are required to be filled in the format as prescribed in the Shipping Bill and Bill of Export (Form) regulations, 1991. An exporter need to apply different forms of shipping bill/ bill of export for export of duty free goods, export of dutiable goods and export under drawback etc.

Under EDI System, declarations in prescribed format are to be filed through the Service Centers of Customs. A checklist is generated for verification of data by the

exporter/CHA. After verification, the data is submitted to the System by the Service Center operator and the System generates a Shipping Bill Number, which is endorsed on the printed checklist and returned to the exporter/CHA. In most of the cases, a Shipping Bill is processed by the system on the basis of declarations made by the exporters without any human intervention. Where the Appraiser Dock (export) orders for samples to be drawn and tested, the Customs Officer may proceed to draw two samples from the consignment and enter the particulars thereof along with details of the testing agency in the ICES/E system.

Any correction/amendments in the check list generated after filing of declaration can be made at the service center, if the documents have not yet been submitted in the system and the shipping bill number has not been generated. In situations, where corrections are required to be made after the generation of the shipping bill number or after the goods have been brought into the Export Dock, amendments is carried out in the following manners.

1. The goods have not yet been allowed "let export" amendments may be permitted by the Assistant Commissioner (Exports).
2. Where the "Let Export" order has already been given, amendments may be permitted only by the Additional/Joint Commissioner, Custom House, in charge of export section.

In both the cases, after the permission for amendments has been granted, the Assistant Commissioner / Deputy Commissioner (Export) may approve the amendments on the system on behalf of the Additional /Joint Commissioner. Where the print out of the Shipping Bill has already been generated, the exporter may first surrender all copies of the shipping bill to the Dock Appraiser for cancellation before amendment is approved on the system.

#### **ix. Customs House Agents**

Exporters may avail services of Customs House Agents licensed by the Commissioner of Customs. They are professionals and facilitate work connected with clearance of cargo from Customs.

#### **x. Documentation**

FTP 2015-2020 describe the following mandatory documents for import and export.

- Bill of Lading/ Airway bill
- Commercial invoice cum packing list
- shipping bill/ bill of export/ bill of entry (for imports)

(Other documents like certificate of origin, inspection certificate etc may be required as per the case.)

#### **xi. Submission of documents to Bank**

After shipment, it is obligatory to present the documents to the Bank within 21 days for onward dispatch to the foreign Bank for arranging payment. Documents should be drawn under Collection/Purchase/Negotiation under L/C as the case may be, along with the following documents

- Bill of Exchange
- Letter of Credit (if shipment is under L/C)
- Invoice
- Packing List
- Airway Bill/Bill of Lading
- Declaration under Foreign Exchange
- Certificate of Origin/GSP
- Inspection Certificate, wherever necessary
- Any other document as required in the L/C or by the buyer or statutorily.

#### **xii. Realization of Export Proceeds**

As per FTP 2015-2020, all export contracts and invoices shall be denominated either in freely convertible currency of Indian rupees, but export proceeds should be realized in freely convertible currency except for export to Iran. Export proceeds should be realized in 9 months.

### **India - Import Requirements and Documentation**

Includes import documentation and other requirements for both the U.S. exporter and foreign importer.

#### **Import licensing requirements:**

In the last decade, India has steadily replaced licensing and discretionary controls over imports with deregulation and simpler import procedures. The majority of import items fall within the scope of India's EXIM Policy regulation of Open General License (OGL). This means that they are deemed to be freely importable without restrictions and without a license,

except to the extent that they are regulated by the provisions of the Policy or any other law.

Imports of items not covered by OGL are regulated, and fall into three categories: banned or prohibited items, restricted items requiring an import license, and "canalized" items importable only by government trading monopolies and subject to Cabinet approval regarding timing and quantity.

**The following are designated import certificate issuing authorities (ICIA):**

The Department of Electronics for import of computer and computer related systems

The Department of Industrial Policy and Promotion for organized sector firms except for import of computers and computer based systems

The Ministry of Defense for defense related items

The Director General of Foreign Trade for small-scale industries not covered in the foregoing.

Capital goods can be imported with a license under the Export Promotion Capital Goods plan (EPCG) at reduced rates of duty, subject to the fulfillment of a time-bound export obligation.

The EPGC plan now applies to all industry sectors. It is also applicable to all capital goods without any threshold limits, on payment of a 5% customs duty.

A duty exemption plan is also offered under which imports of raw materials, intermediates, components, consumables, parts, accessories and packing materials required for direct use in products to be exported may be permitted free of duty under various categories of licenses. For the actual user, a non-transferable advance license is one such license. For those who do not wish to go through the advance-licensing route, a post-export duty-free replenishment certificate is available.

**Advance License:** An advance license is issued to allow duty free import of inputs, which are physically incorporated in the export product (making normal allowance for wastage). In addition, fuel, oil, energy, catalysts etc. that are consumed in the course of their use to obtain the export product, may also be allowed under the plan.

Duty free import of mandatory spares up to 10% of the CIF value of the license, which are required to be exported/ supplied with the resultant product, may also be allowed under Advance License.

**Advance license can be issued for:**

**Physical exports:** An advance license may be issued for physical exports to a manufacturer exporter or merchant exporter tied to supporting manufacturer(s) for import of inputs required for the export product.

**Intermediate supplies:** An advance license may be issued for intermediate supply to a manufacturer- exporter for the import of inputs required in the manufacture of goods to be supplied to the ultimate exporter/deemed exporter holding another Advance License.

**Deemed exports:**

An advance license can be issued for deemed exports to the main contractor for import of inputs required in the manufacture of goods to be supplied to the categories mentioned in paragraph 8.2 (b), (c), (d), (e), (f), (g), (i), and (j) of the Policy. An advance license for deemed exports can also be availed by the sub-contractor of the main contractor to such project provided the name of the sub-contractor(s) appears in the main contract. Such license for deemed export can also be issued for supplies made to United Nations Organizations or under the Aid Program of the United Nations or other multilateral agencies and paid for in foreign exchange.

Import Declaration: Importers are required to furnish an import declaration in the prescribed bill of entry format, disclosing full details of the value of imported goods.

**Import Licenses :** All import documents must be accompanied by any import licenses. This will enable the customs to clear the documents and allow the import without delay.

**Ex-factory invoice, freight and insurance certificates:** These must be attached so that the customs can verify the price and decide on the classification under which the import tariff can be calculated.

**Letter of Credit (L/C):** All importers must accompany a copy of the L/C to ensure that payment for the import is made. Normally this document is counter-checked with the issuing bank so that outflow of foreign exchange is checked.

Not all consignments are inspected prior to clearance, and inspection may be dispensed with for reputable importers. In the current customs set-up, an appointment with the clearing agents for clearance purposes will avoid delays. In general, documentation requirements, including ex-factory bills of sale, are extensive and delays are frequent.

Clearance delays cost time and money, including additional detention and demurrage charges, making it more expensive to operate and invest in India. For delayed clearances, importers seek release of shipments against a performance bond; furnishing a bank guarantee for this purpose is a more expensive proposition. Customs have recently extended operations to 24 hours

a day to ensure timely clearance of export cargo.

## **Major problem faced by export sector in India:**

### **1. Poor Quality Image-**

“Made in India” does not enjoy good reputation in the markets abroad. Rather it is considered to be a sign of poor quality. The products manufactured in Japan, Korea and now even China are frequently quoted as examples of dependable quality. Carelessness, lack of commitment on part of exporters and non presence of a proper exporter’s culture in India are to blame.

### **2. High Costs-**

While technological factors and low productivity contribute to high costs of production, It is estimated that interest rate alone constitutes nearly 5% of the cost of production in India. Moreover bank charges in India work out to nearly 3% as compared to 1% in countries like Japan and Korea. Similarly, port charges in India are 3-4 times higher than those in Hong Kong, Singapore. The traditional export sectors of textiles and jute have already suffered a lot due to lack of modernisation, whereas many other competing countries have made rapid strides in this regard.

### **3. Unreliability-**

Besides quality, Indian exporters are regarded as unreliable on certain other factors such as going back on a contract and refusing to fulfil it on its original terms, inability to provide prompt aftersales services. While exporters from competing countries like South Korea, Japan and Taiwan normally replace a defective consignment free of cost and without taking much time.

### **4. Infrastructural Bottlenecks-**

In India, power shortages and breakdowns disrupt production schedules, inadequate and unreliable transport increase costs and adversely affect timely shipments and lack of communication facilities hinder growth of exports.

### **5. Inadequacy of Trade Information System-**

With the phenomenal expansion of the internet it has become very easy in the world today to obtain information. However in India, because of poor facilities of communication, when compared to developed countries, it is not possible to depend on internet for obtaining latest trade information. Developed countries mention that they won’t prefer trading with exporters who are not in a position to complete necessary formalities through the mode of Electronic Data Interchange.

### **6. Supply Problems-**

The problem is that much of the exporting is the result of residual approach rather than conscious effort of producing to export. It is a serious drawback of the Indian export sector in its inability to provide continuous and smooth supply of adequate quantities in respect of several products. The tendency to export what we produce instead of producing to export still characterise the export behaviour.

### **7. Faceless Presence-**

Indian exports are sold in foreign markets in the same condition as they are exported but under foreign brand names. Major items like leather manufactures, seafood and spices, etc, Although, may go further repacking or processing have a faceless presence in the foreign markets. It holds true that when a product carries a foreign brand name it fetches a higher price. than the same product with an Indian name.

### **8. Uncertainties-**

One of the defects of our trade policy regime has been the uncertainty about future policies, incentive schemes, etc. The import export policy have been given a five year span to bring about some stability, however, still a very large number of amendments are affected each year. There have been reports of loss of Crores worth exports due to inter departmental coordination.

### **9. Procedural Complexities-**

With regard to export documentation and formalities, it have been observed that most existing procedural and documentation formalities prescribed by different authorities have been developed to suit their own individual requirements without much regard to its repercussions on total export activity.

### **10. Institutional Rigidities-**

When the export of a country is being intensified, it is necessary that the formalities related to export activity are also streamlined and simplified so that they do not constitute impediments to growth of the country's export trade.

### **EXIM Policy:**

A new **export and import policy** were framed in 1992 which was effective till 1997. Since then new changes have been made in the policy to achieving the following objectives:

1. To enhance the level of exports;
2. To improve the balance of payment;
3. To improve the balance of trade;
4. To enhance the reverse of foreign exchange;
5. To allow import of technology and equipment's which may help in establishing new industrial enterprises, produce new products and adopt a new process for higher production levels.

6. To ensure the availability of goods for the domestic consumption and to allow exports so that the producers get a fair price;
7. To allow import of certain goods as listed in the Open General Licence;
8. To allow for hassle free exports and imports;
9. Reducing the interface between the exporters and Director General of Foreign Trade by reducing the number export documents;
10. Establishing Advance Licencing System for imports of goods needed for manufacturing various goods for export;
11. Removal of the provisions to proceed realization;
12. Establishing of Export oriented units and Export Processing Zones specifically for goods meant to be produced for exports only;
13. To accelerate the country's transition to a globally oriented vibrant economy to deriving maximum benefits from expanding global market opportunities;
14. To enhance the technological strength and efficiency of Indian agriculture, industry, and services there by improving their competitive strength while generating new employment opportunities. It encourages the attainment of internationally accepted standards of quality of Indian exports; and
15. To provide consumers with good quality products at reasonable prices through regulated imports of such products.

## **BALANCE OF PAYMENT**

The balance of payments (BOP) is the method countries use to monitor all international monetary transactions at a specific period. Usually, the BOP is calculated every quarter and every calendar year. All trades conducted by both the private and public sectors are accounted for in the BOP to determine how much money is going in and out of a country. If a country has received money, this is known as a credit, and if a country has paid or given money, the transaction is counted as a debit. Theoretically, the BOP should be zero, meaning that assets (credits) and liabilities (debits) should balance, but in practice, this is rarely the case. Thus, the BOP can tell the observer if a country has a deficit or a surplus and from which part of the economy the discrepancies are stemming.

The balance of payments is the record of all international financial transactions made by a country's residents. A country's balance of payments tells you whether it saves enough to pay for its imports. It also reveals whether the country produces enough economic output to pay for its growth. The BOP is reported for a quarter or a year.

A balance of payments deficit means the country imports more goods, services and capital than it exports. It must borrow from other countries to pay for its imports. In the short-term, that fuels the country's economic growth. It's like taking out a school loan to pay for education. Your expected higher future salary is worth the investment.

In the long-term, the country becomes a net consumer, not a producer, of the world's economic output. It will have to go into debt to pay for consumption instead of investing in future growth. If the deficit continues long enough, the country may have to sell off its assets to pay its creditors. These assets include natural resources, land and commodities,

A balance of payments surplus means the country exports more than it imports. Its government and residents are savers. They provide enough capital to pay for all domestic production. They might even lend outside the country.

A surplus boosts economic growth in the short term. That's because it's lending money to countries that buy its products. That boosts its factories, allowing them to hire more people.

In the long run, the country becomes too dependent on export-driven growth. It must encourage its residents to spend more. A larger domestic market will protect the country from exchange rate fluctuations. It also allows its companies to develop goods and services by using its own people as a test market.

### **What are the Methods of Correcting Disequilibrium in the Balance of Payments?**

Persistent disequilibrium in the balance of payments, particularly the deficit balance, is undesirable because it (a) weakens the country's economic position at the international level, and (b) affects the progress of the economy adversely.

It must be cured by taking appropriate measures. There are many methods to correct disequilibrium in the balance of payments. Important among them are discussed below:

#### **1. Deflation:**

Deflation is the classical medicine for correcting the deficit in the balance of payments. Deflation refers to the policy of reducing the quantity of money in order to reduce the prices and the money income of the people.

The central bank, by raising the bank rate, by selling the securities in the open market and by other methods can reduce the volume of credit in the economy which will lead to a fall in prices and money income of the people.

Fall in prices will stimulate exports and reduction in income checks imports. Thus, deflationary policy restores equilibrium to the balance (a) by encouraging exports through reduction in their prices and (b) by discouraging imports through the reduction in incomes at home.

Moreover, a higher interest rate in the domestic market will attract foreign funds which can be used for correcting disequilibrium.

However, deflation is not considered a suitable method to correct adverse balance of payments because of the following reasons: (a) Deflation means reduction in income or wages which is strongly opposed by the trade unions, (b) Deflation causes unemployment and suffering to the working class, (c) In a developing economy, expansionary monetary policy rather than contractionary (deflationary) monetary policy is required to meet the developmental needs.

#### **2. Depreciation:**

Another method of correcting disequilibrium in the balance of payments is depreciation. Depreciation means a fall in the rate of exchange of one currency (home currency) in terms of another (foreign currency).

A currency will depreciate when its supply in the foreign exchange market is large in relation to its demand. In other words, a currency is said to depreciate if its value falls in terms of foreign currencies, i.e., if more domestic currency is required to buy a unit of foreign currency.

The effect of depreciation of a currency is to make imports dearer and exports cheaper. Thus, depreciation helps a country to achieve a favourable balance of payments by checking imports and stimulating exports.

### **Exchange depreciation is automatic:**

It works in a flexible exchange rate system and can correct a mild adverse balance of payments if the country's demand for imports and the foreign demand for its exports are fairly elastic. But the method of exchange depreciation has the following defects:

- (i) It is not suitable for a country which follows a fixed exchange rate system.
- (ii) It makes international trade risky and thus reduces the volume of trade.
- (iii) The terms of trade go against the country whose currency depreciates because the foreign goods have become costlier than the local goods and the country has to export more to pay for the same volume of imports.
- (iv) Experience of certain countries has indicated that exchange depreciation may generate inflationary pressure by increasing the domestic price level and money income.
- (v) The success of the method of exchange depreciation depends upon the cooperation of other countries. If other countries also start depreciating their exchange rates, then these methods will not benefit any country.

### **3. Devaluation:**

Devaluation refers to the official reduction of the external values of a currency. The difference between devaluation and depreciation is that while devaluation means the lowering of external value of a currency by the government, depreciation means an automatic fall in the external value of the currency by the market forces; the former is arbitrary and the latter is the result of market mechanism.

Thus, devaluation serves only as an alternative method to depreciation. Both the methods imply the same thing, i.e., decrease in the value of a currency in terms of foreign currencies.

Both the methods can be used to produce the same effects; they discourage imports, encourage exports and thus lead to a reduction in the balance of payments deficit.

The success of the method of devaluation depends upon the following conditions :

- (i) The elasticity of demand for the country's exports should be greater than unity.
- (ii) The elasticity of demand for the country's imports should be greater than unity.
- (iii) The exports of the country should be non-traditional and the increasingly demanded from other countries.
- (iv) The domestic price should not rise and should remain stable after devaluation.

(v) Other countries should not retaliate by resorting to corresponding devaluation. Such a retaliatory measure will offset each other's gain.

**Devaluation also suffers from certain defects:**

(i) Devaluation is a clear revelation on the country's economic weakness.

(ii) It reduces the confidence of the people in country's currency and this may lead to speculative outflow of capital.

(iii) It encourages inflationary tendencies in the home country.

(iv) It increases the burden of foreign debt.

(v) It involves large time lag to produce effects.

(vi) It is a temporary device and does not provide a permanent remedy to correct adverse balance of payments.

**4. Exchange Control:**

Exchange control is the most widely used method for correcting disequilibrium in the balance of payments. Exchange control refers to the control over the use of foreign exchange by the central bank.

Under this method, all the exporters are directed by the central bank to surrender their foreign exchange earnings. Foreign exchange is rationed among the licensed importers. Only essential imports are permitted.

Exchange control is the most direct method of restricting a country's imports. The major drawback of this method is that it deals with the deficit only, and not its causes. Rather it may aggravate these causes and thus may create a more basic disequilibrium. In short, exchange control does not provide a permanent solution for a chronic disequilibrium.

**Different bodies involved in Exports and Imports in India**

The primary aim to set up machinery for consultation is to create the required forum and environment for consulting various quarters interested and engaged in foreign trade.

It facilitates to develop a dialogue between Government, industry and the entrepreneurs, at various levels, to discuss varied problems faced by the enterprises and suggest necessary measures to solve the problems.

Export is a dynamic industry and faces stiff international competition. It requires innovation, flexible approach and expeditious action to catch the swift changes that emerge as new opportunities. Further, orientation in attitude has to be developed to visualize and anticipate the changes that may overtake the scene. Equally, appropriate Government policies are important to support for rapid growth in international trade. To gear up with the changes, exporter needs guidance and assistance at different stages of export

effort. For this purpose, Government has set up several institutions whose function is to support exporter in his endeavors. Institutions that are engaged in expo falls in six distinct tiers. The set-up is:

### ***Six Tiers Consultative Set-up***

#### **Department of Commerce**

Primary Government agency responsible for formulating and directing Foreign Trade Policy and programs including establishing relations with other countries where needed

#### **Board of Trade**

Mechanism to maintain continuous dialogue with trade and industry for appropriate policy measures and corrective action by Government

#### **Commodity specific organisations**

Tackling problems connected with individual commodities and groups of commodities Service Institutions Assist exporters to expand their operations to reach world markets more effectively Government Trading organisations

Handling export/import of specified commodities & supplementing efforts of private enterprises in export promotion and import management

### **6. Agencies at State Level : Export Promotion**

#### **GOVERNMENT POLICY MAKING AND CONSULTATIONS**

The following bodies are involved in policy making and consultation process:

##### **1. Department of Commerce**

Ministry of Commerce is the apex ministry at the central level to formulate and execute India's foreign trade policy and to initiate various exports promotional measures. The main functions of the Ministry are formulation of international commercial policy, negotiation of trade agreements, formulation of export-import policy and their implementation. It has created a network of commercial sections in Indian embassies and high commissions various countries for export-import trade flows. It has set up an "Exporters' Grievances Redressal Cell" to assist exports in quick redressal of grievances. The department of Commerce, in the Ministry of Commerce, has been

made responsible for India's external trade and all matters connected with the same. This is the main organisation to formulate and guide India's foreign trade, formed with the responsibility of promoting India's interest in international market. The Department of Commerce has six divisions and their functions are as under:

### **Trade Policy Division**

To keep abreast of the developments in the International organisations like UNCTAD, WTO, the Economic Commissions for Europe, Africa, Latin America and Asia and Far East

### **Foreign Trade Territorial**

Development of trade with different countries and regions of the world

### **Export Products Division**

Problems connected with production, generation of surplus and development of markets for the various products under its jurisdiction

### **Export Industries Division**

Development and Regulation of tobacco, Rubber and cardamom.

### **Export Services Division**

Export promotion activities relating to handlooms, textiles, woolens, readymade garments, silks, jute and jute products, handicrafts, coir and coir products Problems of Export Assistance

### **Economic Division**

Formulation of exports strategies, Export planning, Periodic appraisal and Review of policies

## **2. Board of Trade**

It has been set up on May 5, 1989 with a view to provide an effective mechanism to maintain continuous dialogue with trade and industry in respect of major developments in the field of international trade. It provides regular consultation, monitoring and review of India's foreign trade policies and operations. The board has the representatives from commerce and other important Ministries, Trade and Industry Associations and Export Services Organisations. It is an important national platform for a regular dialogue between the Government and trade and

industry. The deliberations in the Board of Trade provide guidelines to the Government for appropriate policy measures for corrective action.

The Minister of Commerce is the chairman of the Board of Trade. The official membership includes Secretaries of the Ministries of Commerce and Industry, Finance (Revenue), External Affairs (ER), Textiles, Chairman of ITPO, Chairman/MD of ECGC, MD of Exim Bank and Deputy Governor of Reserve Bank of India. The non-official members are President of FICCI, ASSOCHAM, CH, FIEO, All India Handloom Weavers Marketing Co-operative Society, Representatives various Trade and industry sectors, media and other eminent personalities in the field of Export and Import Trade.

### **Cabinet Committee on Exports**

Cabinet Committee regular and effective monitoring of India's foreign trade performance and related policies

### **4. Empowered Committee of Secretaries**

For speedier and quicker decision making, an Empowered Committee of Secretaries has been set up to assist the Cabinet Committee on Exports.

### **5 Grievances Cell**

Grievances Cell has been established to entertain and monitor disposal of grievances and suggestions received. The purpose is to redress the genuine grievances, at the earliest. The grievance committee is headed by the Director General of Foreign Trade. At the State level, the head of the concerned Regional Licensing authority heads the grievances committee. The committee also includes representatives of FIEO, concerned Export Promotion Council/Commodity Board and other departments and organisations. The grievances may be addressed to the Grievances Cell, in the prescribed proforma.

### **6. Director General of Foreign Trade (DGFT)**

DGFT is an important office of the Ministry of Commerce to help formulation of India's Export and Import formulation policy and implementation thereof. It has set up regional offices in

almost all the states and Union territories. These offices are known as Regional Licensing Authorities. The Regional Licensing offices also act as Export facilitation centres.

## **7. Ministry of Textiles**

This is another ministry of Government of India which is responsible for policy formulation, development, regulation and export promotion of textile sector including sericulture, jute and handicrafts etc. It has a separate Export Promotion Division, advisory boards, development corporations, Export Promotion Councils and Commodity Boards. The advisory boards have been set up to advise the government in the formulation of the overall development programmes in the concerned sector. It also devises strategy for expanding markets in India and abroad. The four advisory boards are as under:

- (a) All India Hand loom Board
- (b) All India Handicrafts Board
- (c) All. India Power loom Board
- (d) Wool. Development Board.

There are Development Commissioners, Handicrafts and Handlooms who advise on matters relating to development and exports of these sectors. There are Textile Commissioner and Jute commissioner who advise on the matters relating to growth of exports of these sectors. Textile committee has also been set up for ensuring textile machinery indigenously, especially for exports.

## **8. Institutional Framework**

Export Promotion Councils and Commodity Boards have been established with the objective of promoting and strengthening commodity specialization. They are the key institutions in the institutional framework, established in India for export promotion.

**(A) Export Promotion Councils:** There are 19 Councils covering different products. These Councils advise the Government the measures necessary to facilitate future exports growth, assist manufacturers and exporters to overcome various constraints and extend them full range of

services for the development of overseas market. The councils also have certain regulatory functions such as the power to de-register errant and defaulting exporters. An idea of the functions of the Export Promotion Council can be had from understanding some of the functions of the Engineering Export Promotion Council. Some of their functions are:

- (a) to apprise the Government of exporters' problems;
- (b) to keep its members posted with regard to trade inquiries and opportunities;
- (c) to help in exploration of overseas markets and identification of items with export potential;
- (d) to render assistance on specific problems confronting individual exporters;
- (e) to help resolve amicably disputes between exporters and importers of Indian engineering goods and (f) to offer various facilities to engineering exporters in line with other exporting countries.

Over the years, the role of Export Promotion Councils has reduced to traditional liaison work and has lost their importance. Now, the procedures connected with the foreign trade are more simplified. So, they have to redefine their role to offer concrete market promotional and consolidation programmes and services to their members.

**Commodity Boards:** There are 9 statutory Boards. These Boards deal with the entire range of problems of production, development, marketing etc. In respect of these commodities concerned, they act themselves as if they are the Export Promotion Councils. These Boards take promotional measures by opening foreign offices abroad, participating in trade fairs and exhibitions, conducting market surveys, sponsoring trade delegations etc.

**9. States' Cell** This has been created under Ministry of Commerce. Its functions are to act as a nodal agency for interacting with state government or Union territories on matters concerning export or import from the state or Union territories. It provides guidance to state level export organisations. It assists them in the formulation of export plans for each state.

**10. Development Commissioner, Small Scale industries Organisation** The Directorate has the headquarter in New Delhi and Extension Centres are located in almost all the States and Union Territories. They provide export promotion services almost at the door steps of small-scale

industries and cottage units. The important functions are: (i) To help the small scale industries to develop their export capacities (ii) To organize export training programmes (iii) To collect and disseminate information (iv) To help such units in developing their export markets (v) To take up the problems and other issues related to small-scale industries. Besides, there are Directorates of Industries, National Small Scale Industries Corporation etc. exports from small-scale industries.

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