MODULE-I

Introduction to International Business

Business activities done across national borders is International Business. The International business is the purchasing and selling of the goods, commodities and services outside its national borders. Such trade modes might be owned by the state or privately owned organization.
In which, the organization explores trade opportunities outside its domestic national borders to extend their own particular business activities, for example, manufacturing, mining, construction, agriculture, banking, insurance, health, education, transportation, communication and so on.

Features, Internationalizing business

- Separates Producers From Buyers

In international business, producers and buyers are at distant places. This business involves the production of products in one country and is sold in another country. Buyers and producers are not in close contact with each other like in case of Domestic business. They belong to different nations which make it difficult to contact with each other.

- Immobility Of Factors

There is a large degree of immobility of factors in international business. Factors like labour and capital cannot move freely like in case of inland trade. There are certain laws and regulations like immigration laws, qualification, citizenship etc. which impose several restrictions on the movement of these factors. Government of different countries have different fiscal policies and therefore they accordingly prohibit the flow of capital in their countries.

- Heterogeneous Markets

International markets are homogeneous in nature and differ from each other. These markets lack homogeneity due to difference in culture, tradition, climate, habits, preferences, weigh and measures etc. These markets are different from those which are in a single country. Behaviour of buyers in international business differs from country to country due to difference in the socio-economic environment of different nations.

- Large Operations

International businesses are conducted at a very large scale. They perform their operations in different countries globally. Their business activities are very large in size ranging from production, marketing and selling of their products. These businesses along with the demands of local markets where they are present also serve the demands of different countries globally. That's why they produce a large amount of goods and services to cater to the large demands.

- Foreign Currency Payments

International Business involves different currencies of different countries as all payments are done in foreign currency. These businesses serve as an important source of earning foreign exchange for the country. Foreign currencies of many countries are involved for transactions in these businesses. This helps in maintaining adequate foreign exchange reserve for country.

- International Rules And Regulations

International businesses are bound to follow several international rules and regulations of different countries where they operate. They face large restrictions while carrying out there activities and are not allowed to inflow and outflow goods, technology and several resources in different countries. International businesses are also restricted by government of many countries to not enter into their countries. They face several foreign exchange barriers, trade barriers and trade blocks which are harmful for international business.

- Large Middlemen

There are large numbers of persons involved in International business for their proper functioning in different countries. These businesses are very large in size and their scale of operations is not limited to one country but performs in several countries globally. This requires a large no. of middlemen's for performing different activities. These all person renders their services properly for the efficiency of business. Their services help the business in easy expansion & growth.

- Multiplicity Of Documents

International business requires large no. of documents from importing and exporting goods among different countries. These documents are like commercial invoice, shipping bill, Certificate of origin, inspection and insurance certificate, mate receipt etc. There is a series of documentation followed right from the point when an order for goods is received by exporter till the time when they are finally delivered at their destination.

Advantages and Disadvantages of International Business

- Increased Revenues

The revenues of the companies which are trading internationally are much more than the companies which are trading in the domestic country. The customers of the MNC's are more because they have customers all over the world and their reach to customers is higher than the domestic companies. This leads to higher selling of goods in the global market and it leads to increased revenues of the company.

- Reaching New Customers

International business is all about reaching new customers in the market of different countries. The domestic companies are restricted to their home customers and MNC's are having a large customer base all over the world. MNC's reach customers at a global level because they expand their business in different countries. Products of MNC's are reached to the customers globally.

- Accessing New Talent

The success of a company depends on the employees and management who are working with the company. This plays an important role in decision making and actions of the company. Expanding to the international level could give you access to talented, valuable employees and business partners who helps you in taking the enterprise to new heights.

- Optimum Utilization Of Available Resources

International business reduces the wastage of resources as it works in the different countries and uses the resources of all the countries, they are working in. This leads to the optimum utilization of resources. Every country which is producing the goods are producing it at maximum advantage.

- Benefits To Consumers

In the international market, consumers can choose between domestic goods and international goods. Consumers can have a good quality of products at a low price compared to that of the quality and price of domestic products. Consumers have a large variety of goods to choose from according to their taste and preference.

- Product Flexibility

If there is a product whose demand is less in the domestic market then it can be sold in the international market if there is demand for it in the foreign markets. The companies have to find countries in which the demand for their product is higher and they can also sell it on the higher prices if there is high demand. It can also offer a wide range of products in the global market.

- Brand Image

If the company deals in the international market and target the customers of the different countries globally then the brand name is popularized among the country and it enhances your brand image in the foreign market. Image of the brand is enhanced by international growth and the rapid market boost leads to brand image development. It can also lead to expansion of property, copyrights, trademarks to new countries.

Disadvantage

- Language Barriers

Language barriers are one of the major disadvantages of international business. Different countries have their distinct local languages and culture, which makes it quite difficult to communicate efficiently with peoples. These differences create barriers in developing better trade relations among nations.

- Economic Dependence

International business leads to more dependence of under-developed countries on developed countries. They import large amounts of goods for their development from these developing nations. Too much reliance on other nations led to exploitation of the economy and industrial development of importing countries.

- Mis-Utilization Of Natural Resources

Another major disadvantage of international business is that it may exhaust the natural resources of nations due to the excessive exports. Several nations make over-utilization of their resources for the sake of earning more profits which will have adverse effects on their economy in the long run.

- Exploitation Of Home Industry

International business leads to exploitation of home industries of an importing country. Developed nations even adopt dumping policy and sell their products at prices below the cost of production. This excessive foreign competition and unrestricted imports create a threat for the survival of domestic industries.

- Servicing Customers

International business finds it difficult in providing after-sale services to its customers. Differences in cultures and languages create main problems in communicating to people for solving their issues. Companies are required to communicate as per different time zones, distinct languages, and should set up 24×7 customer service centers.

- Rivalry Among Nations

International business may also lead to tension among nations due to intense competition of exporting more and more products. This can hamper international peace and can often lead to war among nations.

Difference between Domestic Business and International Business :

S.No.	DOMESTIC BUSINESS	INTERNATIONAL BUSINESS
01.	Domestic business refers to the business where economic transactions are conducted within the geographical boundaries of the one country.	International business refers to the business where economic transactions are conducted across border with several countries in the world.
02.	In Domestic business buyer and seller belong to same country.	In International business buyer and seller belong to different countries.
03.	Domestic business is limited to territory.	International business is quite wide.
04.	In Domestic business selling procedure remain unaltered.	In International business selling procedure changes.
05.	Quality of product or standards may be lower.	Quality of product or standards are expected and enforced.
06.	In domestic business it is very easy to conduct business research.	In international business, business research is very expensive and hard to conduct.
07.	It deals with single currency.	It deals with multiple currencies.
08.	In domestic business capital investment is less.	In international business capital investment is huge.

09.	There are few restrictions on domestic business.	There are a lot restrictions on international business.
10.	The nature of customers in domestic business is homogeneous.	The nature of customers in international business is heterogeneous.
11.	In domestic business the degree of risks are low.	In international business the degree of risks are high.

Factors causing globalization of business

Containerisation

The costs of ocean shipping have come down, due to containerisation, bulk shipping, and other efficiencies. The lower unit cost of shipping products around the global economy helps to bring prices in the country of manufacture closer to those in export markets, and it makes markets more contestable globally

Technological change

Rapid and sustained technological change has reduced the cost of transmitting and communicating information – sometimes known as "the death of distance" – a key factor behind trade in knowledge products using web technology

Economies of scale

Many economists believe that there has been an increase in the minimum efficient scale (MES) associated with some industries. If the MES is rising, a domestic market may be regarded as too small to satisfy the selling needs of these industries. Many emerging countries have their own transnational corporations

Differences in tax systems

The desire of businesses to benefit from lower unit labour costs and other favourable production factors abroad has encouraged countries to adjust their tax systems to attract foreign direct investment (FDI). Many countries have become engaged in tax competition between each other in a bid to win lucrative foreign investment projects.

Less protectionism

Old forms of non-tariff protection such as import licensing and foreign exchange controls have gradually been dismantled. Borders have opened and average import tariff levels have fallen.

That said, it is worth knowing that, in the last few years, there has been a rise in non-tariff barriers such as import quotas as countries have struggled to achieve real economic growth and as a response to persistent trade and current account deficits.

Growth Strategies of Transnational and Multinational Companies

In their pursuit of revenue and profit growth, increasingly global businesses and brands have invested significantly in expanding internationally. This is particularly the case for businesses owning brands that have proved they have the potential to be successfully globally, particularly in faster-growing economies fuelled by growing numbers of middle class consumers.

Multinational companies operate in more than one country and have a centralized management system. Transnational companies have many companies around the world but do not have a centralized management system.

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International business environment

Political Environment in International Business

The political environment refers to the type of the government, the government relationship with a business, & the political risk in the country. Doing business internationally, therefore, implies dealing with a different type of government, relationships, & levels of risk.

There are many different types of political systems, for example, **multi-party democracies, one-party states, constitutional monarchies, dictatorships (military & non-military).** Therefore, in analyzing the political-legal environment, an organization may broadly consider the following aspects:

- The Political system of the business;
- Approaches to the Government towards business i.e. Restrictive or facilitating;
- Facilities & incentives offered by the Government;
- **Legal restrictions for instance licensing** requirement, reservation to a specific sector like the public sector, private or small-scale sector;
- The Restrictions on importing technical know-how, capital goods & raw materials;
- **The Restrictions on exporting products & services;**
- **Restrictions on pricing & distribution of goods;**
- Procedural formalities required in setting the business

Economic Environment in International Business

The economic environment relates to all the factors that contribute to a country's attractiveness for foreign businesses. The economic environment can be very different from one nation to another. Countries are often divided into three main categories: the more developed or

industrialized, the less developed or third world, & the newly industrializing or emerging economies.
Within each category, there are major variations, but overall the more developed countries are the rich countries, the less developed the poor ones, & the newly industrializing (those moving from poorer to richer). These distinctions are generally made on the basis of the gross domestic product per capita (GDP/capita). Better education, infrastructure, & technology, healthcare, & so on are also often associated with higher levels of economic development.
Clearly, the level of economic activity combined with education, infrastructure, & so on, as well as the degree of government control of the economy, affect virtually all facets of doing business, & a firm needs to recognize this environment if it is to operate successfully internationally. While analyzing the economic environment, the organization intending to enter a particular business sector may consider the following aspects:

- An Economic system to enter the business sector.
- Stage of economic growth & the pace of growth.
- Level of national & per capita income.
- Incidents of taxes, both direct & indirect tax
- Infrastructure facilities available & the difficulties thereof.
- Availability of raw materials & components & the cost thereof.
- Sources of financial resources & their costs.
- Availability of manpower-managerial, technical & workers available & their salary & wage structures.

Technological Environment in International Business

The technological environment comprises factors related to the materials & machines used in manufacturing goods & services. Receptivity of organizations to new technology & adoption of new technology by consumers influence decisions made in an organization.

As firms do not have any control over the external environment, their success depends on how well they adapt to the external environment. An important aspect of the international business environment is the level, & acceptance, of technological innovation in different countries.
The last decades of the twentieth century saw major advances in technology, & this is continuing in the twenty-first century. Technology often is seen as giving firms a competitive advantage; hence, firms compete for access to the newest in technology, & international firms transfer technology to be globally competitive.
It is easier than ever for even small business plan to have a global presence thanks to the internet, which greatly grows their exposure, their market, & their potential customer base. For the economic, political, & cultural reasons, some countries are more accepting of technological innovations, others less accepting. In analyzing the technological environment, the organization may consider the following aspects:

- Level of technological development in the country as a whole & specific business sector.
- The pace of technological changes & technological obsolescence.

- Sources of technology.
- Restrictions & facilities for technology transfer & time taken for the absorption of technology.

Cultural Environment in International Business

The cultural environment is one of the critical components of the international business environment & one of the most difficult to understand. This is because the cultural environment is essentially unseen; it has been described as a shared, commonly held body of general beliefs & values that determine what is right for one group, according to Kluckhohn & Strodtbeck.
National culture is described as the body of general beliefs & the values that are shared by the nation. Beliefs & the values are generally seen as formed by factors such as the history, language, religion, geographic location, government, & education; thus firms begin a cultural analysis by seeking to understand these factors. The most well-known is that developed by Hofstede in1980. His model proposes four dimensions of cultural values including individualism, uncertainty avoidance, power distance & masculinity. Lets look at each of these.

- Individualism is the degree to which a nation values & encourages individual action & decision making.
- Uncertainty avoidance is the degree to which a nation is willing to accept & deal with uncertainty.
- Power distance is the degree to which a national accepts & sanctions differences in power.
- This model of cultural values has been used extensively because it provides data for a wide array of countries. Many academics & the managers found that this model helpful in exploring management approaches that would be appropriate in different cultures.

For example, in a nation that is high on individualism one expects individual goals, individual tasks, & individual reward systems to be effective, whereas the reverse would be the case in a nation that is low on individualism. While analyzing social & cultural factors, the organization may consider the following aspects:

- Approaches to society towards business in general & in specific areas;
- Influence of social, cultural & religious factors on the acceptability of the product;
- The lifestyle of people & the products used for them;
- Level of acceptance of, or resistance to change;
- Values attached to a particular product i.e. the possessive value or the functional value of the product;
- Demand for the specific products for specific occasions;
- The propensity to consume & to save.

Competitive Environment

The competitive environment also changes from country to country. This is partly because of the economic, political, & cultural environments; these environmental factors help determine the type & degree of competition that exists in a given country. Competition can come from a variety of sources. It can be a public or a private sector, come from the large or the small organizations, be domestic or global, & stem from traditional or new competitors, GST registration. For a domestic firm, the most likely sources of competition might be well understood. The same isn't the case when a person moves to compete in the new environment

protection Vs liberalization of global business environment

Protection Vs Liberalization of Global Business Environment

Basis	Protection	Liberalization
Meaning	Protectionism is the economic policy of restraining trade between states through methods such as tariff, quotas and other measures	The removal of restrictions on the free trade of goods between countries
Techniques	Tariffs, quotas, subsidies, local content requirement, etc	Removal of trade barriers
Reasons / motive	Is to encourage domestic industry	Encourages the International business
Compliance to international rules and regulations	Domestic Rules and Regulations have to be complied with	Consider the rules and regulations of foreign country with which it is trading

Promotion of global business

- Extension

A straight product extension is presenting your product to a global marketplace without any changes. Some products **are globally known and need no additional product or promotion changes**. People want the product on a global basis, and once it is made available to them, it is purchased without having to create any additional marketing or promotion strategies.

- Adaptation

Production and promotion adaptation strategies are used in a global market for a **product that may be popular but needs to be adapted to meet local customs and** demand. For example, customers of less affluent countries may need a product of similar quality that has been downscaled to be more affordable to purchase. Technology products must be altered to meet the specific language of the country being marketed to.

- Invention

Another product and promotion **strategy is inventing a new product to meet the** needs of a particular country. For example, consumers in crowded commuting conditions might need a laptop product that better fits their travel situation, a more compact version of the typical laptop. This strategy also could take on the form of reinventing a popular product to meet the needs of a particular country or world region.

- Pricing considerations

Global product and promotion strategies must take into consideration the economic conditions of the country where products are introduced. For example, a price that might be discounted in the United States would be considered too high for poorer countries or perhaps not high enough in rich countries. To combat prices being too high in less affluent countries, a company could make a smaller or less complex version at a lower price.

Different forms of international business

1. Import and export

Imported goods: Goods or services brought from one country to another.
Export: Goods or services produced in one country are sold in another country.
This is often because imports and exports are the most basic and largest international business **activity and the easiest way for a company to enter the market with low capital expenditure when deciding to expand abroad. This is the first choice.**

2. License

Licensing is one of the other ways to grow your business internationally. A license is an agreement between one company, called a licensor, that allows another company to use intellectual property such as brand names, copyrights, patents, technologies, and trademarks for a period of time. Specific time Licensors make a profit in terms of loyalty. If the country's production costs are too high, strict government regulations or the company wants to sell and produce standardized products everywhere; the company can choose to sell the products under license.

3. Franchise

Franchises are closely tied to licensing. A franchise is a parent company (franchisers) that gives other companies (franchisees) the right to do business using the franchisor's name and products in a prescribed manner. Franchises differ from licenses in that franchisees must follow much stricter guidelines. Also, licenses are about manufacturers, and franchises are more popular in restaurants, hotels, and rental services.

4. Strategic partnerships and joint ventures

Strategic partnerships or alliances are a positive aspect of the cooperation of two or more companies from different countries that have mutual benefit. A joint venture is a special type of strategic alliance in which partners from around the world collectively form a company to produce goods and services. Collaboration between companies allows us to share the costs of production, technology, development, and sales networks. Resources are combined for mutual benefit, putting the company in a favourable position for both parties. For example, Motorola and Toshiba are participating in a strategic partnership to develop a microprocessor manufacturing process.

5. Foreign direct investment (fdi)

Companies are practicing FDI and benefiting from cheaper labour costs, tax exemptions and other privileges abroad. The host country will benefit from the introduction of new products, services, technologies and management skills. In addition, FDI helps promote progressive reforms of the host country's domestic politics and improve economic conditions. For example, the US-based company Intel has FDI in many countries in Southeast Asia.

Ethical issues in international business

Differences in Employment Laws

Wages and the working environment in overseas locations are often inferior to those in the United States, even when you fulfill all local legal requirements. If you hire workers there, you face the issue of what pay levels and working conditions are acceptable. Applying U.S. standards is usually not realistic and often simply disrupts the established market.

An effective approach is to develop company standards which protect workers while fitting into the local economy. Your standards have to guarantee a living wage, protect the safety of your workers and establish a reasonable number of hours for the work week.

The Challenges of Corruption

When your company makes such payments, it is encouraging a local system of corruption through unethical behavior. Smaller gifts, of a size that would not normally influence a major decision, are considered ethical in some societies and may be legal under local and U.S. laws.

If you find that large sums are routinely required to do any business in a country, you may want to reevaluate your decision to enter that market.

Human Rights Laws

The country into which you are expanding may not respect basic human rights. **The ethical issue facing your company is whether your presence supports the current abusive regime or whether your presence can serve as a catalyst for human rights improvements. If you find that you are supporting a regime that oppresses its citizens, engages in discrimination and does not recognize basic freedoms, the ethical action is to withdraw from the market**. If you find that the regime allows you to observe human rights within your organization and that your presence moderates human rights abuses, you may actively work to improve local conditions.

Pollution and Environmental Concerns

Not all foreign countries have environmental legislation that makes it illegal to pollute. Companies may discharge harmful materials into the environment and avoid costly anti-pollution measures. An ethical approach to your expansion into such markets is to limit your environmental footprint beyond what is required by local laws. An ethically operating company ensures its operations don't have harmful effects on the surrounding population.

GATT/WTO

The General Agreement on Tariffs and Trade (GATT) was an international trade agreement. It was signed by 23 nations, including Canada, in 1947 and came into effect on 1 January 1948. It was refined over eight rounds of negotiations, which led to the creation of the World Trade Organization (WTO). It replaced the GATT on 1 January 1995. The GATT was focused on trade in goods. It aimed to liberalize trade by reducing tariffs and removing quotas among member countries. Each member of the GATT was expected to open its markets equally to other member nations, removing trade discrimination. The agreements negotiated through GATT reduced average tariffs on industrial goods from 40 per cent (1947) to less than five per cent (1993). It was an early step towards economic globalization.

Why Was the GATT Created?

The GATT was established in 1948 to regulate world trade. It was created to boost economic recovery after the Second World War by reducing or eliminating trade tariffs, quotas and subsidies.

Role of GATT/WTO

- Orchestra conductor

International trade is governed by very precise rules developed by the WTO's members. **Countries must apply these rules when trading with one another. The WTO acts as the orchestra conductor, ensuring that rules are respected.** The WTO was founded in 1995, but its origins date back to 1947 and the creation of the GATT. Since then, **WTO members have adapted these rules to keep up with new developments**. For example, services have developed considerably since the 1980s, and have now become one of the most important economic sectors. As a result, WTO members established rules governing international trade in services. Adapting or changing the principles of international trade means reaching consensus among WTO members through a round of negotiations. The latest round - the ninth since 1947 - was launched in 2001 (see "How do trade negotiations work?" above).

- Tribunal

One of the main roles of the WTO is to settle disputes between its members. The WTO plays the role of trade tribunal, where members may file complaints against other members who fail to abide by the principles of international trade. There are three stages to dispute settlement. To begin with, the disputing countries try to settle their differences by themselves. If that fails, the case is decided by a panel made up of three experts, which issues a ruling. That ruling may be appealed. Once a definitive ruling has been issued, the losing party must comply. If it does not, it is liable to sanctions. Since 1995, over 400 complaints have been filed by WTO members.

- Monitor

The WTO regularly reviews the trade policies of its members. These reviews assess whether WTO members are abiding by WTO rules and measure the impact of their domestic policies on international trade. The purpose of these reviews is not so much to solve problems as to prevent them from occurring in the first place.

- Trainer

The WTO provides training programmes for government officials from developing countries - for example**, ministry staff or customs officials.** The WTO currently spends about 35 million Swiss francs annually on these programmes. Africa is the main beneficiary, followed by Asia and Latin America. In 2011, approximately 26 per cent of training activities took place in Africa.

Functions of the WTO

1. The WTO shall facilitate the **implementation, administration and operation, and further the objectives, of this Agreement and of the Multilateral Trade** Agreements, and shall also provide the framework for the implementation, administration and operation of the Plurilateral Trade Agreements.
2. The WTO shall **provide the forum for negotiations among its Members concerning their multilateral trade relations in matters dealt** with under the agreements in the Annexes to this Agreement.

The WTO may also provide a forum for further negotiations among its Members concerning their multilateral trade relations, and a framework for the implementation of the results of such negotiations, as may be decided by the Ministerial Conference.

3. The WTO shall **administer the Understanding on Rules and Procedures** Governing **the Settlement of Disputes** (hereinafter referred to as the "Dispute Settlement Understanding" or "DSU") in Annex 2 to this Agreement.
4. The WTO shall **administer the Trade Policy Review Mechanism** (hereinafter referred to as the "TPRM") provided for in Annex 3 to this Agreement.
5. With a view **to achieving greater coherence in global economic policy-making**, the WTO shall cooperate, as appropriate, with the International Monetary Fund and with the International Bank for Reconstruction and Development and its affiliated agencies.

Multilateral trade negotiation and agreements – VIII & IX,

Article VIII

Status of the WTO

1. The WTO shall have **legal personality**, and shall be accorded by each of its Members such legal capacity as may be necessary **for the exercise of its functions**.
2. The WTO shall be accorded by each of its **Members such privileges and immunities as are necessary for the exercise of its functions.**
3. **The officials of the WTO and the representatives of the Members shall similarly be accorded by each of its Members such privileges and** immunities as are necessary for the independent exercise of their functions in connection with the WTO.
4. The privileges and immunities to be accorded by a Member to the WTO, its officials, and the representatives of its Members shall be similar to the privileges and immunities stipulated in the Convention on the Privileges and Immunities of the Specialized Agencies, approved by the General Assembly of the United Nations on 21 November 1947.
5. The WTO may conclude a headquarters agreement.

Article IX

Decision-Making

1. The WTO shall continue the practice of decision-making by consensus followed under GATT 1947[(1)]. Except as otherwise provided, where a decision cannot be arrived at by consensus, the matter at issue shall be decided by voting. **At meetings of the Ministerial Conference and the General Council, each Member of the WTO shall have one vote. Where the European Communities exercise their right to vote, they shall have a number of votes equal to the number of their member States which are Members of the WTO**. Decisions of the Ministerial Conference and the General Council shall be taken by a majority of the votes cast, unless otherwise provided in this Agreement or in the relevant Multilateral Trade Agreement.

2. The Ministerial Conference and the General Council shall have the exclusive authority to adopt interpretations of this Agreement and of the Multilateral Trade Agreements. In the case of an interpretation of a Multilateral Trade Agreement in Annex 1, they shall exercise their authority on the basis of a recommendation by the Council overseeing the functioning of that Agreement. **The decision to adopt an interpretation shall be taken by a three-fourths majority of the Members**. This paragraph shall not be used in a manner that would undermine the amendment provisions in Article X.

3. In exceptional circumstances, the Ministerial Conference may decide to waive an obligation imposed on a Member by this Agreement or any of the Multilateral Trade Agreements, provided that any such decision shall be taken by three fourths[(4)] of the Members unless otherwise provided for in this paragraph.

(a) A request for a waiver concerning this Agreement shall be submitted to the Ministerial Conference for consideration pursuant to the practice of decision-making by consensus. The Ministerial Conference shall establish a time-period, which shall not exceed 90 days, to consider the request. If consensus is not reached during the time-period, any decision to grant a waiver shall be taken by three fourths(4) of the Members.

(b) A request for a waiver concerning the Multilateral Trade Agreements in Annexes 1A or 1B or 1C and their annexes shall be submitted initially to the Council for Trade in Goods, the Council for Trade in Services or the Council for TRIPS, respectively, for consideration during a time-period which shall not exceed 90 days. At the end of the time-period, the relevant Council shall submit a report to the Ministerial Conference.

4. A decision by the Ministerial Conference granting a waiver shall state the exceptional circumstances justifying the decision, the terms and conditions governing the application of the waiver, and the date on which the waiver shall terminate. **Any waiver granted for a period of more than one year shall be reviewed by the Ministerial Conference not later than one year after it is granted, and thereafter annually until the waiver terminates. In each review, the Ministerial Conference shall examine whether the exceptional circumstances justifying the waiver still exist and whether the terms and conditions attached to the waiver have been met. The Ministerial Conference, on the basis of the annual review, may extend, modify or terminate the waiver.**

5. Decisions under a Plurilateral Trade Agreement, including any decisions on interpretations and waivers, shall be governed by the provisions of that Agreement.

https://www.wto.org/english/docs_e/legal_e/04-wto_e.htm- multilateral trade negotiation and agreements – VIII & IX
https://www.fao.org/3/W0723E/w0723e07.htm- round discussions and agreements

THE URUGUAY ROUND AGREEMENT

Although the Uruguay Round officially commenced in 1986, the agreement was only provisionally concluded in December 1993 and formally signed in Marrakesh, Morocco in April 1994. A major stumbling block that delayed conclusion of the Round had been the dispute between the United States and European Union over agricultural subsidies. Another difficulty was the number of trade issues and products that were covered in the Uruguay Round negotiations.

The broad product coverage of the Uruguay Round negotiations included industrial products, agricultural products and services, with separate agreements concluded for each grouping and for specific products in each group. The treatment of trade in services and intellectual property had not in fact been covered by GATT prior to the Uruguay Round. An additional feature of the Round was the negotiation to establish the World Trade Organization (WTO), which is the successor to GATT.

The key features of the Uruguay Round Final Settlement are:

· An agreement **on agriculture to increase market access, reduce export** subsidies and tariffs and eliminate non-tariff barriers.

· An agreement **on textiles that emphasizes in particular the phased removal of quota restrictions.**

· **Agreements to reduce most import tariffs on industrial products by one third over the next five years; tariffs on some products, including pulp and paper, will be eliminated completely in major developed country markets over the next 8-10 years.**

· A **commitment to increase the proportion of import tariffs on industrial products** that are bound, with developed countries (including transition economies) agreeing to bind virtually all tariffs and developing countries binding 65% of tariffs; one of the largest increases in tariff bindings in developed country markets will be forest products.[8/]

· Agreements on **secured market access and trade rules for services, trade-related intellectual property rights and trade-related investment measures**.

· Improved trade rules controlling the use of subsidies, countervailing duties, anti-dumping measures and safeguards.

· Establishment of the WTO, which will oversee all Uruguay Round agreements, administer the GATT Trade Policy Review Mechanism and provide a permanent forum for discussion of new trade issues, such as trade impacts on the environment, international competition policy and trade in telecommunications.

Recent analyses by the GATT Secretariat, OECD and World Bank indicate that the overall impact of the Uruguay Round on world trade and incomes will be significant (GATT 1994). As a result of the agreement, the level of world merchandise trade is expected to be around 9-24% higher in the year 2005 than it would be otherwise, an increase of approximately US$ 244-668 billion (1992 prices). The largest increases in trade are estimated to occur in clothing (69-192%), textiles (18-73%), nongrain agricultural products (21-22%), and transport equipment (12-30%). The improvements in market access through the Uruguay Round could lead to gains in world income of between US$ 109-510 billion annually.

Implications for Forest Products - Tariffs[9/]

In the Uruguay Round negotiations, trade in forest products came under the category of industrial products trade. As the case with industrial products generally, the benefits of the Uruguay Round for forest products will be largely through improved market access, i.e. broadly based reductions in tariffs supplemented by increases in the proportion of bound tariffs.

There are broadly five implications of the Uruguay Round for the trade in forest products:

· Tariff reductions - tariffs on most forest products were reduced, with the recommendation of a general tariff reduction of 33% on a trade-weighted basis.

· Tariff elimination - the major developed countries committed themselves to phasing out tariffs on pulp and paper products over the next 8-10 years; many of these countries are also eliminating the tariffs on furniture imports.

· Reduction in tariff escalation - the extent of tariff escalation for forest products will be reduced in most importing markets, mainly as a result of overall rate cuts.

· Elimination of preferential tariff margins - the tariff distinction between MFN and GSP rates will be eliminated in developed country markets and replaced by a single bound rate.

· Tariff binding - the proportion of bound tariff rates was increased, with developed countries committing themselves to complete binding, largely at reduced tariff rates, and many developing countries opting for bound rates.

The latter commitment is particularly relevant to the forest products trade, as there will be a substantial increase in the number of tariffs bound at lower rates across forest product lines in developed country markets.

Tariff elimination on pulp and paper items was agreed by Canada, the European Union, Japan and the United States, and several other major importers, including Finland, Republic of Korea and New Zealand. Using the 1986 level of tariffs as the base rate, these countries will halve tariffs by the year 2000 and phase them out completely by 2004. Most other countries that have not agreed to complete tariff elimination on pulp and paper products will also be reducing their tariffs but to a lesser extent.

The major developed country importers are also committed to reducing tariffs by 50% on solid wood products on an average trade-weighted basis over a five-year period starting in 1995. In the case of furniture, some major importers such as the European Union, Japan and the United States have agreed to eliminate tariffs completely over the next 8-10 years. Most other countries have also agreed to reduce tariffs for solid wood products and furniture or at least to declare bound rates.

Although tariffs were not eliminated for all forest products, the average rate of Uruguay Round tariff reductions for these products in developed country import markets compares favourably with that of other industrial goods (Table 2). One reason for this favourable comparison is that pre-Uruguay Round tariff rates on forest products were the lowest of all major industrial products group - about 45% lower than the average rate across all products. Nevertheless, the absolute decrease in average trade-weighted tariff rates for forest products was the same as the decrease in rates for all industrial goods.

As a result of the Uruguay Round agreement, on a trade-weighted basis forest products have the highest percentage of all imports (85%) without duty in developed country import markets - almost double the proportion of imports of all industrial goods that have zero tariffs. This again reflects the fact that the agreement has meant that already low developed country tariff rates for forest products have been lowered further.

A major contribution of the Uruguay Round has been to reduce further the degree of tariff escalation faced by forest products in developed country markets (Table 3). For solid wood products, tariff escalation on wood-based panels has been reduced by 30%, semi-manufactures 50% and wood articles 67%. The phasing out of tariffs on pulp and paper products will also eliminate tariff escalation completely on paper and paper board and paper products and reduce escalation by 83% on printed matter. Of the forest products listed in Table 3, only wood-based panels have significantly higher tariff rates than their unprocessed equivalent (i.e. logs).

More detailed analysis of the average pre and post-Uruguay Round tariff rates in selected import developed country markets confirms the general changes discussed above: forest product tariff rates have been reduced substantially, as has the degree of tariff escalation. In addition, the Uruguay Round has led to the end of the tariff distinction between MFN and GSP rates, which have been replaced by a single bound rate. For most countries and products, it is the MFN rate that has been reduced to the new bound rate whereas the GSP rate has been left unchanged. However, where both the MFN and GSP rates have been reduced to the new rate, in all cases it is the MFN rate that has declined more. The trade implications of these tariff changes are significant and are estimated quantitatively in Section 4.

Although developing country tariff rates on forest products have also been reduced, post-Uruguay Round rates in developing country markets are still generally higher than those in developed country markets. In addition, although tariff escalation also appears to be reduced in the main developing country markets, a high degree of tariff escalation still persists in some markets. The exceptions are Chile and Indonesia, which have opted for a uniform (albeit high) bound rate across all forest product imports, and Republic of Korea, which has joined the major developed countries in complete tariff elimination for pulp and paper products.

A major contribution of the Uruguay Round that should not be overlooked is the increase in the number of bound tariff rates applied to forest products. Virtually all the pre-Uruguay Round rates were unbound. The agreement has committed all major developed countries to bind rates for forest products. A high proportion if not the majority of developing countries has also agreed to bind forest product rates. This group includes some of the major developing country importers.

The increased security of bound rates is extremely important for the forest products trade. When a bound rate is accepted and posted by an importing market, a ceiling limit is effectively set on tariffs, which means that they cannot be raised above the bound rate without violating GATT commitments and incurring sanctions. Tariffs on many forest products in major importing markets have now been both reduced to lower levels - in some cases eliminated - and also bound. The gains from these reductions are significant and will be analyzed further in Section 4. Other rates may not have been changed from their pre-Uruguay Round levels but they have been bound. In addition, some countries - often developing economies - have agreed final bound tariff rates for several or even all their forest products that are higher than actual pre-Uruguay Round rates. Although it may appear that an unchanged or a higher post-Uruguay Round rate offers no tangible gain for the forest products trade, the fact that these rates are now bound offers a very real and significant reduction in market risk.

Implications for Forest Products - Non-Tariff Measures

The implications of the Uruguay Round for the proliferation of non-tariff measures applied to the forest products trade in recent years are not easily discernable. As noted above, the main achievements of the Round in terms of improving market access and security were through changes in the import tariff structure faced by forest products. However, two special agreements - the Agreement on the Application of Sanitary and Phytosanitary Measures and the Agreement on Technical Barriers to Trade - do provide the basis for tackling certain non-tariff measures that have been used as trade barriers against forest products.

The **Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures** aims to eliminate the use of such measures as disguised restrictions on international trade rather than for the legitimate purpose of protecting the health of domestic human, animal and plant populations. In the case of forest products, SPS measures have been used generally for inspection, quarantine and treatment of imported goods that may contain pests or diseases. As noted by Bourke (1988) such measures are a valid means of protecting domestic forest resources from introduced pests and diseases. However, when phytosanitary import controls are overly strict or complex beyond what is necessary for protection of domestic resources or human health, then they constitute a trade barrier. Because the distinction between the legitimate and illegitimate uses of sanitary and phytosanitary measures has not been clarified in past GATT agreements, the scope for using such measures as a disguised restriction of forest product imports in some markets has been a persistent problem in the past.

The SPS Agreement encourages governments to establish measures that are both transparent and justified, mainly through conforming with international standards. The international guidelines relevant to forest products are likely to be the recommendations of the FAO International Plant Protection Convention. If no relevant international standards exist, or if countries choose not to base their measures on them, then countries may be required to demonstrate that their SPS measures are based on a scientific assessment of the risks to health involved. The Agreement also indicates which factors should be taken into account in the risk assessment. Moreover, countries developing their own SPS measures are urged to apply those which least restrict trade if they are technically and economically feasible.

The **Agreement on Technical Barriers to Trade (TBTs)** seeks to end the use of technical regulations as non-tariff restrictions on trade rather than for legitimate purposes of preventing deceptive or illegal practices, protecting human health and safety and preventing environmental degradation. TBTs have been used to limit forest products trade through a diverse range of regulations, including building codes, environmental standards, grading rules, product standards and packaging, labelling requirements and quality controls. Establishing international rules to control and regulate such diverse measures is extremely difficult, particularly as standards vary considerably from country to country.

The TBTs Agreement also encourages governments to improve justification and transparency of their measures by basing their regulations wherever possible on relevant international standards. The Agreement also seeks to establish greater control over the use of TBTs by i) tightening obligations to ensure that technical regulations and conformity assessment procedures do not create unnecessary TBTs; ii) extending those obligations more clearly to sub-national government authorities and non-governmental bodies; iii) encouraging Mutual Recognition Agreements between countries of their technical regulations and conformity assessment procedures; and iv) imposing new obligations on voluntary standard setting. In short, the main aim of the TBTs Agreement is to ensure that technical regulations are not being used to discriminate against imported products on technical or quality grounds but are instead employed to prevent imports that are of such a poor technical or quality standard they may endanger human health or the environment. For example, technical or labelling requirements imposed unilaterally by an importing country that discriminate against certain processing or harvesting technologies employed in the production of imported forest products might fall foul of the TBTs Agreement, but such requirements may be considered legitimate if it can be shown that the products once imported will have detrimental impacts - e.g. poor quality of furniture construction, chemical leaching, inadequate insulation material, and so on.

Other Uruguay Round agreements and commitments that may have some effect on forest products trade include:

· **Agreement on Dumping** - aims to tighten existing rules governing the initiation and conduct of anti-dumping investigations; the criteria for determining dumping and damage to the domestic industry; the imposition and collection of duties; and the duration of anti-dumping measures.

· **Agreement on Subsidies and Countervailing Measures** - seeks to clarify the "prohibited" and "actionable" categories of export subsidies liable to countervailing measures; the guidelines governing the initiation and conduct of countervailing duty investigations; the calculation of the amount of subsidy liable to a countervailing duty; the determination of damage to the domestic industry; the imposition and duration of countervailing duties; and the preferential treatment accorded developing countries on both export subsidies and countervailing duties.

· **Agreement on Import Licensing Procedures** - seeks to limit the administrative burden on traders applying for non-automatic licenses to only what is necessary and sets a 60-day deadline for consideration of their applications; it also aims to increase the transparency and predicability of import licensing procedures.

· **Agreement on Customs Valuation** - aims to establish detailed rules over international customs valuation methods, and to make valuation procedures more transparent and conform to international standards.

· **Minimum Access Commitment** - Where non-tariff barriers have restricted imports significantly, a commitment to minimum access in the form of tariff quotas at reduced tariff levels must be established so that imports rise to 5% of base year domestic consumption at the end of the implementation period; however, this problem is thought to be less prevalent for forest products than for agricultural commodities such as meat, cereal and dairy products.

In addition to these specific agreements and commitments negotiated, the Uruguay Round may have been at least indirectly responsible for the lessening of non-tariff barriers to the forest products trade in individual importing markets. For example, during the Uruguay Round the European Union came under pressure to modify its tariff-quota system for plywood. On 19 December 1994 the European Commission finally made a decision which abolished the GSP quota system for panel products including plywood. Under this decision panel products are given "sensitive " status and GSP countries will pay 70% of the full duty rate. Thus from 1 January 1995 the rate of duty for GSP plywood is 6.5-7% depending on the product (TTJ 1994).[13/] Under the new scheme all wood-based panels from GSP countries are subject to quotas, but will pay a slightly lower rate of duty than non-GSP suppliers.

Conclusion

Although complete elimination of tariffs on forest products was not achieved, the Uruguay Round has had a considerable effect on reducing overall tariff rates and escalation. In addition, the commitment by major developed country importers to phase out tariffs on pulp and paper products was an important achievement. Equally, the establishment of bound rates may prove significant in terms of reducing market risk.

The actual impacts of the Uruguay Round tariff reductions in terms of forest products trade creation and diversion will depend not only on the magnitude of the tariff change for each product but also on the relative adjustments of the pre-Uruguay Round MFN and GSP tariff levels to the new bound tariff. Until both the starting date and the phasing of these reductions are determined, it will be difficult to forecast accurately the likely benefits for the forest products trade or to suggest when such benefits are likely to occur. Despite these difficulties, preliminary "order of magnitude" estimates of the trade creation and diversion effects of tariff reductions can be made, and such estimates are provided and discussed for the forest products trade in the next Section.

The implications of the Uruguay Round for the non-tariff barriers increasingly faced by forest products is less clear. Additional security for the negotiated tariff reductions of the Uruguay Round were provided by a variety of additional Agreements and commitments that aimed to tackle a number of non-tariff barriers that may be used in place of tariffs to restrict imports. The SPS and TBTs Agreements may prove particularly important to safeguarding improvements in market access for forest products. Other provisions of the Uruguay Round that may also help to improve the forest products trade include limitations and clarifications on the use of anti-dumping and countervailing duties, customs valuation and licensing procedures, and market access restrictions. Finally, a possible indirect impact of the Uruguay Round is that it may have prompted reductions to other long-standing non-tariff barriers in individual markets to be lessened. For example, the European Union has recently modified its GSP plywood scheme.

Prospects and challenges of International trade.

- International company structure

If your aim is to be competitive globally, you must have a team in place that's up for the challenge. One fundamental consideration is the structure of your organization and the location of your teams.
For instance, will your company be run from one central headquarters? Or will you have offices and representatives "on the ground" in key markets abroad? If so, how will these teams be organized, what autonomy will they have, and how will they coordinate working across time zones? If not, will you consider hiring local market experts who understand the culture of your target markets, but will work centrally?
Coca-Cola offers one example of effective multinational business structure. The company is organized into continental groups, each overseen by a President. The central Presidents manage Presidents of smaller, country-based or regional subdivisions. Despite its diverse global presence, the Coca-Cola brand and product is controlled centrally and consistent around the world.
While Coca-Cola is a vast international brand, the structure of your business and the number, nationality, and level of expertise of your team will vary depending on your industry, product, and the size of your business.

- Foreign laws and regulations

Along with getting your company structure in place, gaining a comprehensive understanding of the **local laws and regulations** governing your target markets is key. From **tax implications** through to **trading laws**, navigating legal requirements is a central function for **any successful international business**. Eligibility to trade is a significant consideration, as are potential tariffs and the legal costs associated with entering new markets.
Airbnb ran into trouble in 2014, with a crackdown on advertised rental properties falling outside local housing and tourism regulations. The company was forced to pay a **€30,000 fine** for a breach of local tourism laws in Barcelona.
It's important to note that **employment and labor requirements** also differ by country. For instance, European countries stipulate that a minimum of 14-weeks maternity leave be offered to employees, while on the other hand, there is no such requirement for U.S. employers. With the complexity involved in foreign trade and employment laws, **investing in knowledgeable and experienced corporate counsel can prove invaluable**.
Beyond abiding by official laws, engaging in international business often requires following other unwritten cultural guidelines. This can prove especially challenging in emerging markets with ill-defined regulations or potential corruption. In response, companies doing business in the United States must abide by the Foreign Corrupt Practices Act, which aims at **eliminating bribery and unethical practices in international business**. A good rule of thumb is to beware of engaging in any questionable activities, which might be legal but could have future reputational repercussions.

- International accounting

Of the main legal areas to consider when it comes to doing international business, **tax compliance is perhaps the most crucial**. Accounting can present a challenge to multinational businesses who may be liable for corporation tax abroad. Different tax systems, rates, and compliance requirements can **make the accounting function of a multinational organization significantly challenging**.

Accounting strategy is key to maximizing revenue, and the location where your business is registered can impact your tax liability. Mitigating the risk of multiple layers of taxation makes good business sense for any organization trading abroad. Being aware of tax treaties between countries where your business is trading will help to ensure you're not paying double taxes unnecessarily.
A focus on **tax efficiency is often the aim of international accounting efforts**. In the European Union, companies may benefit from the Common Consolidated Corporate Tax Base proposal, whereby companies with operations around the EU can limit tax liability to one corporate center. Tax consolidation is a feature of several multinationals' decision to be headquartered in Dublin, as Ireland is known for its "business-friendly" corporate tax policy. Well-known companies with operational headquarters in the Republic of Ireland include Google, Facebook, and Intel.

- Cost calculation and global pricing strategy

Setting the price for your products and services can present challenges when doing business overseas and should be another major consideration of your strategy. You must consider costs to remain competitive, while still ensuring profit. Researching the prices of direct, local-market competitors can give you a benchmark, however, it remains essential to ensure the math still works in your favor. For instance, the cost of production and shipping, labor, marketing, and distribution, as well as your margin, must be a taken into account for your business to be viable.
Pricing can also come down to how you choose to position your brand — should the cost of your product reflect luxury status? Or will low prices help you to penetrate a new market? Swedish furniture giant Ikea, known in Europe for its low-cost value, struggled initially in China due to local competitor costs of labor and production being much cheaper. By relocating production for the Chinese market and using more locally sourced materials, the company was able to successfully cut prices to better reflect its brand and boost sales among target consumers.
Wherever you're looking to launch your product or service, here are four useful strategies to help you find the right price:

- Universal payment methods

The proliferation of international e-commerce websites has made selling goods overseas easier and more affordable for businesses and consumers. However, payment methods that are commonly accepted in your home market might be unavailable abroad. **Determining acceptable payment methods and ensuring secure processing must be a central consideration for businesses who seeks to trade internationally**.
Accepting well-known global payment methods through companies like Worldpay, as well as accepting local payment methods, such as JCB in Asia or Yandex Money in Russia, can be a good option for large international businesses. Accepting wire transfers, PayPal payments, and Bitcoin, are other possibilities, with Bitcoin users benefiting from no bank or credit card transaction fees. Despite the risk of fluctuating value, the lack of fees is one of the reasons a number of online companies, including WordPress, the Apple App Store, Expedia, and a number of Etsy sellers accept Bitcoin.

- Currency rates

While price setting and payment methods are major considerations, **currency rate fluctuation is one of the most challenging international business problems** to navigate. Monitoring exchange rates must therefore be a central part of the strategy for all international businesses. However, global economic volatility can make forecasting profit especially difficult, particularly when rates fluctuate at unpredictable levels.

Major fluctuations can seriously impact the balance of business expenses and profit. For instance, if your company is paying suppliers and production costs in U.S. dollars, but selling in markets with a weaker or more unpredictable currency, your company could end up with a much smaller margin — or even a loss. One way to protect yourself against large fluctuations in currency is to **pay suppliers and production costs in the same currency as the one you're selling in**. This may mean switching to more local production where possible in order to better balance your outgoings and sales revenue.

Another option for mitigating the risk of unpredictable currency rates can be setting up a forward contract and agreeing a price in advance for future sales. Of course, this potentially means missing out on greater profit should rates shift in your favor. However, it can protect your sales from the risk presented by unstable currency.

- Communication difficulties and cultural differences

Good communication is at the heart of effective international business strategy. However, communicating across cultures can be a very real challenge. At Hult, developing cross-cultural competency and communication skills are a core focus inside and outside of the classroom. Effective communication with colleagues, clients, and customers abroad is essential for success in international business. And it's often more than just a language barrier you need to think about — **nonverbal communication can make or break business deals** too. Do your research and know how different cultural values and norms — such as shaking hands — can and should influence the way you communicate in a professional context. Being aware of acceptable business etiquette abroad, and how things like religious and cultural traditions can influence this, will help you to better navigate potential **communication problems in international business**.

- Political risks

An obvious risk for international business is political uncertainty and instability. Countries and emerging markets that may offer considerable opportunities for expanding global businesses may also pose challenges, which more established markets do not. Before considering expansion into a new or unknown market, a risk assessment of the economic and political landscape is critical. Issues such as ill-defined or unstable policies and corrupt practices can be hugely problematic in emerging markets. Changes in governments can bring changes in policy, regulations, and interest rates that can prove damaging to foreign business and investment.

A growing trend towards economic nationalism also makes the current global political landscape potentially hostile towards international businesses. For instance, companies like Facebook are banned in China, partially in preference for national social networks and also due to government regulation over internet content. Monitoring political developments and planning accordingly can mitigate political risks of doing business abroad.

Supply chain complexity and risks of labor exploitation

When it comes to sourcing products and services from overseas, managing suppliers and supply chains can also be a tricky process. Unfortunately, the length and complexity of supply chains increases the chance of working with suppliers who have unethical — and even illegal — business practices. Of growing concern is the risk in international business of forced labor and worker exploitation.

In October 2015, the UK passed the Modern Slavery Act in response to this often-hidden human rights violation. Recent research led by a partnership between Hult International Business School and the Ethical Trading Initiative revealed that an astonishing 77% of businesses believe that modern slavery exists at some point in their supply chains.

To raise awareness and help local and international businesses respond more effectively to this issue, their published research report presents case studies of businesses who have implemented practices at the leading edge of the fight against modern slavery. As the research team continues to bring their findings to light, developing and supporting ethical and sustainable business practices remains a focus in the Hult classroom.

- Worldwide environmental issues

As the environmental risks and effects of climate change are becoming better understood, sustainability is high on the agenda of many major global corporations. Recent international legislations and proposals, such as the UN's Sustainable Development Goals, have put environmental issues at the forefront of international business development. The Ashridge Centre for Business and Sustainability at Hult researches innovative ways that organizations can develop and implement more environmentally sustainable business models.

On a practical level, if you're considering expanding your business overseas, it's important to be aware of the country-specific environmental regulations and issues associated with your industry. Some key considerations include how your production methods might impact the local environment through waste and pollution.

Beyond a legal or ethical incentive to be more eco-friendly, establishing environmentally conscious business practices can attract new, forward-thinking consumers to your company. With a number of brands such as Dell, Renault, and MUD Jeans leading a shift towards the circular economy, there is an opportunity and demand for changing production methods and consumer behavior to establish a more sustainable future for the environment and society as a whole.

<u>Prospects and challenges of International trade.</u>

- Economic Warfare

Globalization has a tough challenge against polarization and conflicting issues. The world is experiencing increased conflicts, major economic powers are seizing influence, financial sanctions are being used as a weapon, and the Internet is breaking into pieces. Therefore, the international flow of money, information, products and services may slow down.

- Geo-politicization

Globalization is a kind of Americanization. The United States is still a dominating economy and the hallmark of the international financial system. Moreover, information age is promoting the democratization of information. It is paving the way for demanding more information and the autocrats now need to care more about public opinion. The developments of developing countries are making them more or less like America.

- State Capitalism

The United States was a strong nation in the last quarter of the century. But now, state capitalism in a modern form is gripping many nations. This is creating new segments in the markets and destroying the uniformity expected from globalization. Now, there is nothing predominantly American or about globalization itself.

- Lack of Leadership

Globalization will continue rapidly, but the U.S led world order is getting diminished. An inconsistent, war-ridden United States lacks the will and ability to provide global leadership. Moreover, no other country is interested in taking its place. The West is having its own problems, and allies are only interested in hedging their bets. Therefore, there is no clear and definite way for globalization to progress and it is getting distorted.

- Power Distribution

China, Russia, Turkey, India, and some other emerging nations are getting powerful enough to dismantle the US led theory of globalization. But they lack synchronization and influence. Their values and interests are not compatible. So, a regionalized world is emerging. Americanization and globalization are neither believed to be one and the same now nor is it preached by these power-seeking nations.

- Weaker Underdogs

The regional economic powerhouses are getting more room to operate in today’s world. Russia is intruding in its backyard, Germany is experiencing firm control over Euro zone, and China is rapidly rising in the Asia-Pacific. These major countries are trying to consolidate power without caring for the smaller countries near them. It is a kind of ‘hollowing of the peripherals’ that is accelerating.

- Price Fluctuations of Natural Resources

The oil monopoly is deteriorating and many clashes and terrorist incidents are tearing the world apart. In such turmoil, the very essence of globalization is somehow getting blurred. These time-sensitive challenges are being faced by all international and huge global companies. While the problems don’t seem to end soon, the global companies now have the choice to exercise their power in a global scale. They may or may not adapt to the new trend, but their superiority and powers have definitely got a boost due to the predominantly geopolitical crises.

<u>**MODULE-II**</u>

<u>**Theories of international trade (Classical and Modern Theory).**</u>

Mercantilism

This was one of the earliest theory of international trade, and it came around the sixteenth century. As per this theory, a country should grow its reserves of gold and silver by encouraging exports and discouraging imports. **The theory implies that a country should have a trade surplus with exports more than imports**.

Many nations made progress using this approach between the 1500s to the late 1800s. These nations put restrictions on imports, which we now refer to as protectionism. Even though it is one of the earliest theories, it still is relevant in the modern era.

Countries such as Germany, Japan, Taiwan, China, and more, still encourage exports and discourage imports. These countries follow protectionist policies, as well as provide subsidies to the domestic industry so that domestic industries remain competitive.

Absolute Advantage

This is among the best theories of <u>international business</u>. Adam Smith, in his book The Wealth of Nations in 1776, challenged the validity of the mercantile theory and raised serious objections. Smith's theory talks about the country focusing on **producing an item that it can manufacture more proficiently than other countries. With each country focusing on producing what they do best, the result is a boost in the efficiencies.**

Unlike Mercantilism, Smith's theory says that the government shouldn't regulate or restrict trade between the two countries. Instead, the trade should depend on the market factors. Smith argues that gold and silver shouldn't determine a country's wealth; instead, the deciding factor should be the standard of living of citizens.

Comparative Advantage

Smith's theory was better, but it was not very practical. The argument against it was a country may be efficient in producing both the items or the other country doesn't have an absolute advantage in either item. In order to provide a resolution to this issue or shortcoming, David Ricardo introduced the theory of comparative advantage in 1817.

Ricardo says business can still take place even if one nation has an advantage in making both items. In such a case, the comparative advantage comes into play. Comparative advantage focuses on relative productivity differences, while absolute advantage focuses on absolute productivity.

For example, a person can repair both AC's and washing machines. But repairing AC's gives him $100 while repairing washing machines give him $50. Given he has continuous work on both items, every time he repairs a washing machine, he loses $50 (by not repairing AC). Thus, he will earn more if he repairs only AC's.

Heckscher-Ohlin Theory

We also call this theory **Factor Proportions Theory. Both Comparative and Absolute advantage theory doesn't tell which item a country should produce.** Instead, the two theories assume that open markets would help nations realize the item they have an advantage in producing.

Eli Heckscher and Bertil Ohlin, in the early 1900s, came up with a solution. They **maintain that a company should focus on producing the item that uses factors (land, labor, and capital) that are in abundance in that country. If a country uses the factor that it has in abundance, then it would also help bring down the cost of production.**

For example, India and China have an abundance of labor. Thus, these countries take up the production of items that are labor-intensive.

Leontief Paradox

Wassily W. Leontief, in the early 1950s, found that Factor Proportions Theory has some exceptions. Leontief found that the US, which has an abundance of capital, should export capital goods and import labor-intensive goods. But, what was actually happening was the exact opposite.

Leontief found that the US was importing more of capital-intensive goods and was exporting more of labor-intensive items. Such findings of Leontief got popular as Leontief Paradox. Later, the economists found that labor in the US was more productive and in steady supply. And this was why the US exported more of labor-intensive goods.

Modern Firm-Based Theories

These theories came up after World War II and were largely developed by business school professors and not economists. Such theories came up after the rise in the popularity of the MNCs (multinational companies).

The above (country-based theories) theories address the concern of countries and not companies. Thus, to address the need of the companies, the professors came up with Modern Firm-Based Theories. Following are more international trade theories or the Modern Firm-Based Theories:

Country Similarity Theory

Steffan Linder, a Swedish economist, came up with this theory in 1961. It explains the concept of intra-industry trade. As per this theory, the people in countries that are in the same level of development have similar preferences. Linder suggests that the companies first produce for the domestic market. Later, the same company can find a foreign country in which it can export the same product.

Product Life Cycle Theory

One can find this theory in almost every college textbook. The credit for this theory goes to Raymond Vernon, a Harvard Business School professor. This theory, which came in the 1960s, says there are three stages in every product's life cycle. These stages are – new product, maturing product, and standardized product.
The theory assumes that a country that came up with a new product should produce that product. This theory also explains why the US was a manufacturing success after World War II. PC's are a good illustration of the Product Life Cycle theory.

Global Strategic Rivalry Theory
Economists Paul Krugman and Kelvin Lancaster came up with this theory in the 1980s. This theory focuses on how companies can get a competitive advantage when competing against global firms in the same industry. The theory says a company can get a sustainable competitive advantage by developing barriers to entry. Such barriers may be research and development, economies of scale, intellectual property rights ownership, and more.

Porter's National Competitive Advantage Theory
Porter, in 1990, came up with a theory to explain national competitive advantage 1990. The theory says that the competitiveness of a country's business segment depends on the ability of that segment to come up with innovative items, processes, and more. Porter explains why some nations have a competitive advantage in some segments.
To identify this, Porter lists four determinants. These are local market resources and capabilities, local market demand conditions, local suppliers and complementary industries, and local firm characteristics. Along with these four factors, Porter says that government also plays a crucial role in shaping the competitive advantage of the industry.

https://byjus.com/free-ias-prep/fdi/
https://aliceblueonline.com/antiq/beginner/difference-between-fdi-and-fii

Foreign direct investment (FDI)
FDI stands for Foreign Direct Investment, which means investing in a country other than your home country. It involves direct capital inflows from one country to another. FDI is generally seen as an accelerator for economic growth..

- Generally, FDI is when a foreign entity acquires ownership or controlling stake in the shares of a company in one country, or establishes businesses there.
- It is different from foreign portfolio investment where the foreign entity merely buys equity shares of a company.
- In FDI, the foreign entity has a say in the day-to-day operations of the company.
- FDI is not just the inflow of money, but also the inflow of technology, knowledge, skills and expertise/know-how.

- It is a major source of non-debt financial resources for the economic development of a country.
- FDI generally takes place in an economy which has the prospect of growth and also a skilled workforce.
- FDI has developed radically as a major form of international capital transfer since the last many years.
- The advantages of FDI are not evenly distributed. It depends on the host country's systems and infrastructure.
- The determinants of FDI in host countries are:

Policy framework
Rules with respect to entry and operations/functioning (mergers/acquisitions and competition)
Political, economic and social stability
Treatment standards of foreign affiliates
International agreements
Trade policy (tariff and non-tariff barriers)
Privatisation policy

Foreign Direct Investment (FDI) in India – Latest update

- From April to August 2020, total Foreign Direct Investment inflow of USD 35.73 billion was received. It is the highest ever for the first 5 months of a financial year. FDI inflow has increased despite Gross Domestic Product (GDP) growth contracted 23.9% in the first quarter (April-June 2020).
- FDI received in the first 5 months of 2020-21 (USD 35.73 billion) is 13% higher as compared to the first five months of 2019-20 (USD 31.60 billion).

FDI in India

- The improvement in this regard is commonly attributed to the easing of FDI norms.
- Many sectors have opened up for foreign investment partially or wholly since the economic liberalization of the country.
- Currently, India ranks in the list of the top 100 countries in ease of doing business.
- In 2019, India was among the top ten receivers of FDI, totalling **$49 billion inflows**, as per a UN report. This is a 16% increase from 2018.
- In February 2020, the DPIIT notifies policy to allow 100% FDI in insurance intermediaries.
- In April 2020, the DPIIT came out with a new rule, which stated that the entity of nay company that shares a land border with India or where the beneficial owner of investment into India is situated in or is a citizen of such a country can invest only under the Government route. In other words, such entities can only invest following the approval of the Government of India
- In early 2020, the government decided to sell a 100% stake in the national airline's Air India.

FDI Routes in India
There are three routes through which FDI flows into India. They are described in the following table:

Category 1	Category 2	Category 3
100% FDI permitted through **Automatic Route**	Up to 100% FDI permitted through **Government Route**	Up to 100% FDI permitted through **Automatic + Government Route**

Automatic Route FDI
In the **automatic route**, the foreign entity does not require the prior approval of the government or the RBI.
Examples:
Medical devices: up to 100%
Thermal power: up to 100%
Services under Civil Aviation Services such as Maintenance & Repair Organizations
Insurance: up to 49%
Infrastructure company in the securities market: up to 49%
Ports and shipping
Railway infrastructure
Pension: up to 49%
Power exchanges: up to 49%
Petroleum Refining (By PSUs): up to 49%

Government Route FDI
Under the **government route**, the foreign entity should compulsorily take the approval of the government. It should file an application through the Foreign Investment Facilitation Portal, which facilitates single-window clearance. This application is then forwarded to the respective ministry or department, which then approves or rejects the application after consultation with the DPIIT.
Examples:
Broadcasting Content Services: 49%
Banking & Public sector: 20%
Food Products Retail Trading: 100%
Core Investment Company: 100%
Multi-Brand Retail Trading: 51%
Mining & Minerals separations of titanium bearing minerals and ores: 100%
Print Media (publications/printing of scientific and technical magazines/speciality journals/periodicals and a facsimile edition of foreign newspapers): 100%
Satellite (Establishment and operations): 100%
Print Media (publishing of newspaper, periodicals and Indian editions of foreign magazines dealing with news & current affairs): 26%

Sectors where FDI is prohibited

There are some sectors where any FDI is completely prohibited. They are:
Agricultural or Plantation Activities (although there are many exceptions like horticulture, fisheries, tea plantations, Pisciculture, animal husbandry, etc.)
Atomic Energy Generation
Nidhi Company
Lotteries (online, private, government, etc.)
Investment in Chit Funds
Trading in TDR's
Any Gambling or Betting businesses
Cigars, Cigarettes, or any related tobacco industry
Housing and Real Estate (except townships, commercial projects, etc.)

New FDI Policy

According to the new FDI policy, an entity of a country, which shares a land border with India or where the beneficial owner of investment into India is situated in or is a citizen of any such country, can invest only under the Government route.

A transfer of ownership in an FDI deal that benefits any country that shares a border with India will also need government approval.

Investors from countries not covered by the new policy only have to inform the RBI after a transaction rather than asking for prior permission from the relevant government department.

The earlier FDI policy was limited to allowing only Bangladesh and Pakistan via the government route in all sectors. The revised rule has now brought companies from China under the government route filter.

Benefits of FDI

- FDI brings in many advantages to the country. Some of them are discussed below.
- Brings in financial resources for economic development.
- Brings in new technologies, skills, knowledge, etc.
- Generates more employment opportunities for the people.
- Brings in a more competitive business environment in the country.
- Improves the quality of products and services in sectors.

Disadvantages of FDI

- It can affect domestic investment, and domestic companies adversely.
- Small companies in a country may not be able to withstand the onslaught of MNCs in their sector. There is the risk of many domestic firms shutting shop as a result of increased FDI.

- FDI may also adversely affect the exchange rates of a country.

Government Measures to increase FDI in India

- Government schemes like production-linked incentive (PLI) scheme in 2020 for electronics manufacturing, have been notified to attract foreign investments.
- In 2019, the amendment of FDI Policy 2017 by the government, to permit 100% FDI under automatic route in coal mining activities enhanced FDI inflow.
- FDI in manufacturing was already under the 100% automatic route, however, in 2019, the government clarified that investments in Indian entities engaged in contract manufacturing is also permitted under the 100% automatic route provided it is undertaken through a legitimate contract.
- Further, the government permitted 26% FDI in digital sectors. The sector has particularly high return capabilities in India as favourable demographics, substantial mobile and internet penetration, massive consumption along technology uptake provides great market opportunity for a foreign investor.
- Foreign Investment Facilitation Portal (FIFP) is the online single point interface of the Government of India with investors to facilitate FDI. It is administered by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry.
- FDI inflow is further expected to increase –

as foreign investors have shown interest in the government's moves to allow private train operations and bid out airports.

Valuable sectors such as defence manufacturing where the government enhanced the FDI limit under the automatic route from 49% to 74% in May 2020, is also expected to attract large investments going forward.

What is FII?

FII stands for Foreign Institutional Investors, these are large companies and institutions that invest in overseas countries' financial markets. It refers to foreign entities investing in the nation's financial markets.

FII examples are hedge funds, insurance companies, investment banks, and mutual funds. FII is an essential source of capital in developing economies.

Factors	FII	FDI
Meaning	When an investment is made by foreign companies in a non-native country's stock market, then it is known as FII.	When a company situated in one country invests in a company located abroad, it is known as FDI.

Investment's Entry and Exit	Easy.	Difficult.
What does it bring?	Long/Short term capital.	Long term capital.
Transfer of	Funds only.	Funds, resources, technology, strategies, know-how, etc.
Economic Growth	Yes.	Yes.
Outcomes	Increase in the capital of the country.	Increase in the country's Gross Domestic Product (GDP).
Target	No such target, investment flows into the financial market.	Investment is made in a specific company.
Control over a company	In FII, the investors can invest in foreign countries' financial markets without any managerial hold over a company.	Investors have higher control over the company and are involved in the management.

Global competitiveness

Refers to an ability of nations to supply high - quality goods and services at reasonable costs, resulting in satisfactory returns.

Why is competitive advantage important?

Having a competitive advantage over your competition is essential to business success because:

It can contribute to higher profit margins.

It may help attract more customers more frequently.

It helps maintain brand loyalty.

It can add predictability and constancy to your company's revenue streams.

It may help attract more brand alliances, talent and potential investors.

What are Regional Trading Blocs?

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

Preferential Trade Area − Preferential Trade Areas (PTAs), the first step towards making a full-fledged RTB, exist when countries of a particular geographical region agree to decrease or eliminate tariffs on selected goods and services imported from other members of the area.

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

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

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

What is standardization and differentiation?

A fully standardised approach consists of standardisation across all marketing components. On the other hand, a fully differentiated approach implies the adaptation of all marketing mix elements to local requirements.

https://www.tutorialspoint.com/international_business_management/global_portfolio_management.htm

Global Portfolio Management

Also known as **International Portfolio Management** or **Foreign Portfolio Management,** refers to grouping of investment assets from international or foreign markets rather than from the domestic ones. The asset grouping in GPM mainly focuses on securities. The most common examples of Global Portfolio Management are −

Share purchase of a foreign company

Buying bonds that are issued by a foreign government

Acquiring assets in a foreign firm

Factors Affecting Global Portfolio Investment

Global Portfolio Management (GPM) requires an acute understanding of the market in which investment is to be made. The major financial factors of the foreign country are the factors affecting GPM. The following are the most important factors that influence GPM decisions.

Tax Rates

Tax rates on dividends and interest earned is a major influencer of GPM. Investors **usually choose to invest in a country where the applied taxes on the interest earned or dividend acquired is low**. Investors normally calculate the potential after-tax earnings they will secure from an investment made in foreign securities.

Interest Rates

High interest rates are always a big attraction for investors. Money usually flows **to countries that have high interest rates**. However, the local currencies must not weaken for long-term as well.

Modes of Global Portfolio Management

Foreign securities or depository receipts can be bought directly from a particular country's stock exchange. Two concepts are important here which can be categorized as **Portfolio Equity** and **Portfolio Bonds**. These are supposed to be the best modes of GPM. A brief explanation is provided hereunder.

Portfolio Equity

Portfolio equity includes net inflows from equity securities other than those recorded as direct investment and including shares, stocks, depository receipts (American or global), and direct purchases of shares in local stock markets by foreign investors.

Portfolio Bonds

Bonds are normally medium to long-term investments. Investment in Portfolio Bond might be appropriate for you if −

You have additional funds to invest.

You seek income, growth potential, or a combination of the two.

You don't mind locking your investment for five years, ideally longer.

You are ready to take some risk with your money.
You are a taxpayer of basic, higher, or additional-rate category.

Drawbacks of Global Portfolio Management
Global Portfolio Management has its share of drawbacks too. The most important ones are listed below.
Unfavorable Exchange Rate Movement − Investors are unable to ignore the probability of exchange rate changes in a foreign country. This is beyond the control of the investors. These changes greatly influence the total value of foreign portfolio and the earnings from the investment. The weakening of currency reduces the value of securities as well.
Frictions in International Financial Market − There may be various kinds of market frictions in a foreign economy. These frictions may result from **Governmental control, changing tax laws, and explicit or implicit transaction costs**. The fact is governments actively seek to administer international financial flows. To do this, they use different forms of control mechanisms such as taxes on international flows of FDI and applied restrictions on the outflow of funds.
Manipulation of Security Prices − Government and powerful brokers can influence the security prices**. Governments can heavily influence the prices by modifying their monetary and fiscal policies**. Moreover, public sector institutions and banks swallow a big share of securities traded on stock exchanges.
Unequal Access to Information − **Wide cross-cultural differences may be a barrier** to GPM. It is difficult to disseminate and acquire the information by the international investors beforehand. If information is tough to obtain, it is difficult to act rationally and in a prudent manner.

<u>GLOBAL ENTRY STRATEGIES</u>

FORMS OF INTERNATIONAL BUSINESS:
I) Exporting as an entry strategy:
Exporting is the most traditional mode of entering the foreign market. Exporting is that which allows manufacturing operations to be concentrated in a single location, which may lead to scale economics.

- **Indirect exporting & Direct exporting: When the export activity is directly carried out by the manufacturer of the goods, it is called as direct exporting. In indirect exporting the manufacturer hires the services of an export intermediary agency to export his goods through the intermediaries**

II) Manufacturing strategies without foreign direct investment:
1) Licensing:
Under a licensing agreement, a company (the licensor) grants rights to intangible property to another company (the licensee) for a specified period; in exchange, the licensee ordinarily pays a royalty to the licensor.

2) Franchising:
It means of marketing goods and services in which the **franchiser grants the legal right to use branding, trademarks and products** and the method of operation is transferred to third party – the franchise – in return for a franchise fee.

3) Contract manufacture:
A firm which markets and sells products into international markets might arrange **for a local manufacturer to produce the product for them under contract.**

4) Turnkey projects:
It is a contract under which a firm agrees to fully design, construct and equip a manufacturing/business/service facility and turn the project over to the purchaser when it is ready for operation for remuneration
.
5) Managements contracts:
It is an agreement between two companies, whereby one company provides managerial assistance, technical expertise and specialized services to the second company of the argument for a certain agreed period in return for monetary compensation

III) Manufacturing strategies with FDI:
1) Joint ventures:
It occurs when a company decides that shared ownership of a specially set up new company for marketing and/or manufacturing is the most appropriate method of exploiting a business opportunity.

2) Strategic alliances:
SIA is a business relationship established by two or companies to co-operate out of mutual need and to share risk in achieving a common objective.

3) Merger:
It is a combination (other terms are amalgamation, consolidation or integration) of two or more **organizations in which one acquires the assets and liabilities of the other in exchange for shares or cash.**

4) Acquisition:
It is process of acquiring and purchasing an existing venture. It is one of the easy means of expanding a business by entering new markets or new product areas.

5) wholly-owned subsidiary:
The common reason for operating wholly-owned subsidiary separately from the owner company could be name value.
Often, a well-known and respected corporation is acquired by another entity that has no name recognition in that particular market.

6) Assembly operations:
A foreign owned operation might be set up simply to assemble components which have been manufactured in the domestic market. It has the advantage of reducing the effect of tariff barriers which are normally lower on components than on finished goods.

http://ctrc.sice.oas.org/trc/CommonPages/TradePolicy_e.asp

Trade policy

Trade policy encompasses all the tools that governments may use to encourage or restrict imports and exports. These can take the form of tariffs (taxes collected on imported goods), quotas (limitations on the quantity of goods allowed to be imported), and voluntary export restraints (restrictions set by the exporting government on the quantity to be sold to a foreign country). Domestic regulations, such as mandatory health and safety standards, can also serve as trade policy tools, if they are utilised to prevent or encourage goods or services to be brought into the domestic economy. Subsidies, payments by the government to encourage the production of certain products, can be considered trade policy tools, particularly if directed at encouraging exports.

Classic instruments of trade policy include tariffs and quantitative restrictions. Trade negotiations, both at the multilateral level and through regional and bilateral trade agreements, have traditionally focused on eliminating tariffs and non-tariff barriers to trade. This section will explain some of these basic instruments of trade policy and their impact.

Classic trade policy instruments include:
Tariffs
Quotas
Voluntary Export Restraints
Export Taxes
Export Subsidies

- Tariffs: **A tariff is a tax on imported goods**. Three main types of tariffs are:

ad valorem tariff: this is the simplest and most frequently used tariff type, under which the rate is expressed as a percentage of the value of the goods. For example, a tariff of 6% of the value of milk is an ad valorem tariff of 6 per cent of milk imports.

specific tariff: a tariff that has a fixed per-unit value—for example, $OECS 2.00 per pound. **This type of tariff is often used for agricultural goods**.

variable tariff: a duty typically fixed to bring the price of an imported commodity up to a domestic support price for the commodity.
The effect of a tariff is to raise the price of imported goods, thus making them generally less competitive within the market of the importing country.

Tariffs also have the effect of raising the price of domestically produced goods. This is due to the fact that when a tariff is imposed, the foreign-produced good is more expensive, so consumers will buy the domestically-produced good (assuming that the goods are the same, or homogeneous). The extra demand for the domestically-produced good will allow domestic producers to raise their output and prices to the market-clearing price (the price at which consumers are willing to buy and producers are willing to sell).

Tariffs can be used to accomplish various trade policy goals. The main goals are
to raise revenue for the government.
to protect a domestic import-competing industry.
If the goal is the latter, a tariff can be set so high that no imports will enter. This is called a "prohibitive tariff". Tariffs can also be set much higher than needed to protect the import-competing industry. If imports would be eliminated with a 100% tariff, but the applied tariff is set at 150%, it is said that there is "water in the tariff" -- that is, that the tariff is set at a level higher than is needed to inhibit trade.

The imposition or removal of a tariff has an impact on consumers, producers, the government and the country as a whole. For a simplified analysis of the impact of a tariff, we will look only at the importing country and assume that it is a small country (that is, that it cannot affect the price of a good by buying or selling that good on the world market). The supply and demand curves for the importing country are shown in the diagram below. The diagram illustrates the impact of imposing a tariff.

- **Quotas:** Another trade policy tool that can be used to manage the level of imports is an import quota. **Import quotas are limits on the quantity of goods that can be imported into a country during a given time.** In order to restrict imports, import quotas are typically set below the free trade level of imports. This is referred to as a binding quota; a non-binding quota is a quota that is set at or above the free trade level of imports, thus having little effect on trade. There are two main types of quotas: absolute quotas and tariff-rate quotas.

Absolute quotas limit the quantity of imports to a specified level during a specified period of time. Sometimes these quotas are set globally and thus affect all imports while sometimes they are set only against specified countries. Absolute quotas are generally administered on a first-come first-served basis.

Tariff-rate quotas (TRQs) allow a specific quantity of a good to be imported at a reduced tariff rate during the specified quota period. Any quantity higher than that amount is subject to a higher tariff rate.

The impact of a quota:
The welfare effects of quotas are similar to that of tariffs: if a quota is set below free trade level, the amount of imports will be reduced. A reduction in imports will lower the supply of the good on the domestic market and raise the domestic price. Domestic price will rise to the level where import demand meets the value of the quota.

Consumers - Consumers of the product in the importing country will be worse-off as a result of the quota, as they were with the tariff. The increase in the domestic price of both imported goods and the domestic substitutes reduces consumer surplus in the market.

Producers - Producers in the importing country are better-off as a result of the quota. The increase in the price of their product increases producer surplus in the industry. The price increase also induces an increase in output of existing firms (and perhaps the addition of new firms), an increase in employment, and an increase in profit and/or payments to fixed costs.

The quota case differs from the tariff case, in that box C does not automatically go to the government. It goes to the holder of the quota. The distribution of the quota rents depends on how the quota is administered.

There are several possibilities:
If the government auctions the quota rights for their full price, then the government receives the quota rents.
If the government gives away the quota rights then the quota rents accrue to whomever receives these rights. Typically they would be given to someone in the importing economy which means that the benefits would remain in the domestic economy.
If the government gives the quota rights away to foreigners then people in the foreign country receive the quota rents. In this case the rents would not be a part of the importing country effects.
The country as a whole- The aggregate welfare effect for the country is found by summing the gains and losses to consumers, producers and the domestic recipients of the quota rents. The net effect consists of two components: a negative production efficiency loss (b), and a negative consumption efficiency loss (d). The two losses together are referred to as "deadweight losses."
The difference in the overall welfare impact of the quota and the tariff will depend on the manner of quota administration.

Voluntary Export Restraints (VERs):

A voluntary export restraint is an agreement among two governments to set a limit on the quantity of goods that can be exported out of a country during a specified period of time. VERs establish a type of informal quota on exports that is enforced by the country that is voluntarily restraining their exports. VERs may arise when the import-competing industries seek protection from a surge of imports from particular exporting countries. VERs are then offered by the exporter to appease the importing country and to avoid the effects of possible trade restraints imposed by the importer.

VERs cause, as do tariffs and quotas, domestic prices to rise and cause a loss of domestic consumer surplus.

The WTO Agreement on Safeguards made new arrangements illegal and all those in existence on January 1, 1995 when the WTO was established, had to be phased out within five years.

- **Export Taxes:** An export tax is a tax collected on exported goods As with tariffs, export taxes can be set on a specific or an ad valorem basis. A tax on exports will serve to reduce the flow of goods across the border, raising the price of exporting a good.

- **Export Subsidies** are payments made by the government to encourage the export of specified products or services. As with taxes, subsidies can be levied on a specific or ad valorem basis. The most common product groups where export subsidies are applied are agricultural and dairy products. Export subsidies on agricultural products are often motivated by national security or self-sufficiency considerations. A common method for applying export subsidies is the imposition of price floors on specified commodities.

MODULE-III

Organizational structures

1. Hierarchical org structure

The pyramid-shaped organizational chart we referred to earlier is known as a hierarchical org chart. It's the most common type of organizational structure—the chain of command goes from the top (e.g., the CEO or manager) down (e.g., entry-level and low-level employees), and each employee has a supervisor.

Pros

Better defines levels of authority and responsibility
Shows who each person reports to or who to talk to about specific projects
Motivates employees with clear career paths and chances for promotion
Gives each employee a specialty
Creates camaraderie between employees within the same department

Cons

Can slow down innovation or important changes due to increased bureaucracy
Can cause employees to act in interest of the department instead of the company as a whole
Can make lower-level employees feel like they have less ownership and can't express their ideas for the company

2. Functional org structure

Similar to a hierarchical organizational structure, a functional org structure starts with positions with the highest levels of responsibility at the top and goes down from there. Primarily, though, employees are organized according to their specific skills and their corresponding function in the company. Each separate department is managed independently.

Pros

Allows employees to focus on their role
Encourages specialization
Help teams and departments feel self-determined
Is easily scalable in any sized company

Cons

Can create silos within an organization
Hampers interdepartmental communication
Obscures processes and strategies for different markets or products in a company

3. Horizontal or flat org structure

A horizontal or flat organizational structure fits companies with few levels between upper management and staff-level employees. Many start-up businesses use a horizontal org structure before they grow large enough to build out different departments, but some organizations maintain this structure since it encourages less supervision and more involvement from all employees.

Pros
Gives employees more responsibility
Fosters more open communication
Improves coordination and speed of implementing new ideas
Cons
Can create confusion since employees do not have a clear supervisor to report to
Can produce employees with more generalized skills and knowledge
Can be difficult to maintain once the company grows beyond start-up status

4. Divisional org structure
In divisional organizational structures, a company's divisions have control over their own resources, essentially operating like their own company within the larger organization. Each division can have its own marketing team, sales team, IT team, etc. This structure works well for large companies as it empowers the various divisions to make decisions without everyone having to report to just a few executives.
Depending on your organization's focus, there are a few variations to consider.

- Market-based divisional org structure

Divisions are separated by market, industry, or customer type. A large consumer goods company, like Target or Walmart, might separate its durable goods (clothing, electronics, furniture, etc.) from its food or logistics divisions.

- Product-based divisional org structure

Divisions are separated by product line. For example, a tech company might have a division dedicated to its cloud offerings, while the rest of the divisions focus on the different software offerings—e.g., Adobe and its creative suite of Illustrator, Photoshop, InDesign, etc.

- Geographic divisional org structure

Divisions are separated by region, territories, or districts, offering more effective localization and logistics. Companies might establish satellite offices across the country or the globe in order to stay close to their customers.
Pros
Helps large companies stay flexible
Allows for a quicker response to industry changes or customer needs
Promotes independence, autonomy, and a customized approach
Cons
Can easily lead to duplicate resources
Can mean muddled or insufficient communication between the headquarters and its divisions
Can result in a company competing with itself

5. Matrix org structure
A matrix organizational chart looks like a grid, and it shows cross-functional teams that form for special projects. For example, an engineer may regularly belong to the engineering department (led

by an engineering director) but work on a temporary project (led by a project manager). The matrix org chart accounts for both of these roles and reporting relationships.

Pros

Allows supervisors to easily choose individuals by the needs of a project

Gives a more dynamic view of the organization

Encourages employees to use their skills in various capacities aside from their original roles

Cons

Presents a conflict between department managers and project managers

Can change more frequently than other organizational chart types

6. Team-based org structure

It'll come as no surprise that a team-based organizational structure groups employees according to (what else?) teams—think Scrum teams or tiger teams. A team organizational structure is meant to disrupt the traditional hierarchy, focusing more on problem-solving, cooperation, and giving employees more control.

Pros

Increases productivity, performance, and transparency by breaking down silo mentality

Promotes a growth mindset

Changes the traditional career models by getting people to move laterally

Values experience rather than seniority

Requires minimal management

Fits well with agile companies with Scrum or tiger teams

Cons

Goes against many companies' natural inclination of a purely hierarchical structure

Might make promotional paths less clear for employees

7. Network org structure

These days, few businesses have all their services under one roof, and juggling the multitudes of vendors, subcontractors, freelancers, offsite locations, and satellite offices can get confusing. A network organizational structure makes sense of the spread of resources. It can also describe an internal structure that focuses more on open communication and relationships rather than hierarchy.

Pros

Visualizes the complex web of onsite and offsite relationships in companies

Allows companies to be more flexible and agile

Give more power to all employees to collaborate, take initiative, and make decisions

Helps employees and stakeholders understand workflows and processes

Cons

Can quickly become overly complex when dealing with lots of offsite processes

Can make it more difficult for employees to know who has final say https://www.brainkart.com/article/Controlling-of-international-business_7364/

Controlling of international business

There are three main levels at which control can be implemented and managed in an international business. These three key levels of control are as follows:

Strategic
Organizational
Operational

Strategic Control:

Strategic control in intended both how well an international business formulates strategy and how well it goes about implementing it. Thus strategic control focuses on how well the firm defines and maintains its desired strategic alignment with its environment and how effectively it is setting and achieving its strategic goals.

Strategic control also play a major role in the decisions firms make about foreign-market entry and expansion and most critical aspect of strategic control is control of an international firm's financial resources.

Organizational Control:

Organizational control focuses on the design of the organization itself. There are many different forms of organizational design an international firm can use. But selecting and implementing a particular design does not necessarily end the organization design process.

International firm generally use one or more of three types of organizational control systems:

- **Responsibility Centre Control:**

The most common type of organizational control system is a decentralized one called responsibility centre control. Using this system, a firm first identifies fundamentals responsibility centers within the organization. Strategic business units are frequently defined as responsibility centers, as are geographical regions or product groups.

- **Generic Organizational Control:**

A firm may prefer to use generic organizational across its entire organization; that is, **the control systems used are the same for each unit or operation, and the locus** of authority generally resides at the firm's headquarters.

- **Planning Process Control:**

A third type of organizational control, which could be used in combination with **either responsibility center control or generic organizational control, focuses on the strategic planning process itself rather than on outcomes**. Planning process control calls for a firm to concentrate its organizational control system on the actual mechanics and processes its uses to develop strategic plans.

Operations Control:

The third level of control in an international firm is operations control. Operations **control focuses specifically on operating processes and systems within both the firm and its subsidiaries and operating units.** Thus a firm needs an operation control system within each business unit and within each country or market in which it operates.

Establishing International Control Systems
Control systems in international business are established through four basic steps:

Set Control standards for performance
Measure actual performance
Compare performance against standards
Respond to deviations

Set Control Standards for Performance
The first step in establishing an international control system is to define relevant control standards. A control standards in this context is a target, a desired level of **performance component the firm is attempting control.**

Measure Actual Performance
The second step in creating an international control system is to develop a valid **measure of the performance component being controlled. For the firm introducing a new product in a foreign market, performance is based on the actual number of units sold**. For the new plant in Thailand used as an example earlier, performance would be assessed in terms of productivity, quality, and hiring and purchasing practices.

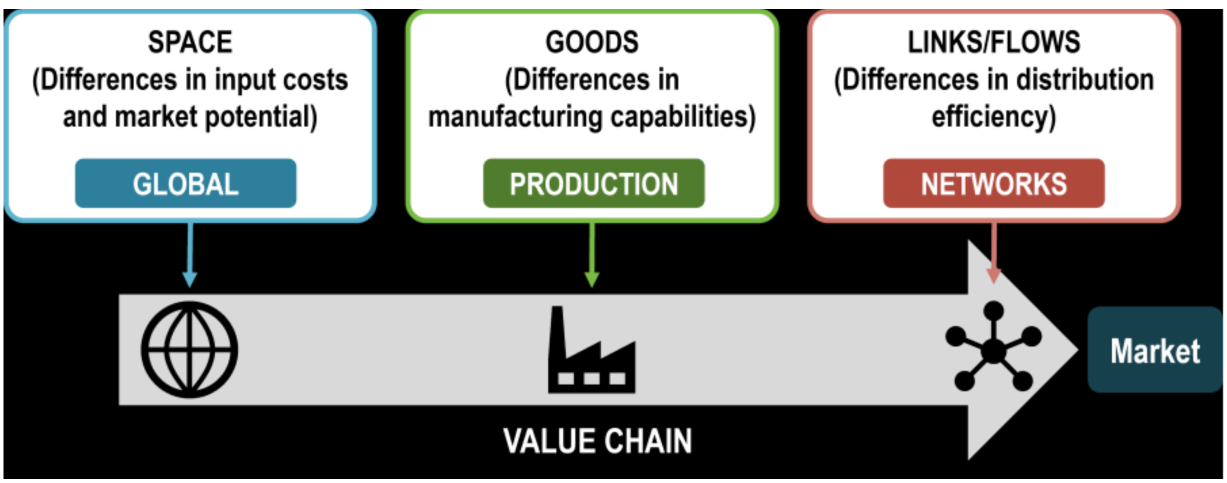
Compare Performance Against Standards
The next step in establishing an international control system is to compare measured performance against the original control standards. Again, when control standards are straightforward and objective and performance is relatively easy to asses, this comparison is easy. But when control standards and performance measures are less concrete, comparing one against the other is considerably more complicated.

Responding to Deviations
The final step in establishing an international control system is responding to deviations observed in step 3. Three different outcomes can result when comparing a control standard and actual performance:

The control standard has been met.
It has not been met.
It has been exceeded.

Depending on the circumstances, managers have many alternative responses to these outcomes. If a standard has not been met and the manager believes it is because of performance deficiencies on the part of employees accountable for the performance, the manger may mandate higher performance, increase incentives to perform at a higher level, or discipline or even terminate those employees.

https://transportgeography.org/contents/chapter7/freight-transportation-value-chains/global-production-networks/
<u>**Global production**</u>



global production networks (GPNs) account for an emerging and active branch of investigation of the various paradigms of globalization. While the term globalization implies many issues depending on the perspective considered, economic interdependencies in trade, production, and consumption – core elements of GPNs – are a major factor accounting for their dynamics. Global production networks have various configurations depending on the nature of their production and the markets they service. The term GPN itself is semantically very revealing:

- Global. **Relate to the underlying geography of the global economy. It considers space as a facilitator of economic efficiency, notably in terms of comparative advantages,** but also as a constraint in terms of distance and market fragmentation. It expresses the **locational reality** of the global economy with differences in input costs and market potential.

- Production. **Relate to the variety of activities involved in the creation and transformation of resources, parts, and final goods**. It expresses the value generation reality, both for goods and services, of the global economy with differences in manufacturing capabilities.
- Networks. **Relate to the complex web of interactions, both physical and immaterial (information), of production and its underlying logistics.** It expresses the transactional and distribution reality of the global economy with differences in the efficiency of freight distribution.

https://pmstudycircle.com/make-or-buy-decision/

Make or Buy decisions

Definition: Make-or-buy decision analysis analyzes and compares the cost of manufacturing a product in-house with the cost of it buying from a supplier.

Service-based businesses analyze the cost of providing a service versus the cost of outsourcing.

A make-or-buy analysis aims to save costs and handle setbacks from suppliers.

Make-or-Buy Decision Analysis

Many factors affect the make-or-buy decision analysis.

For a "make" decision, manufacturing factors such as storage, waste product disposal, and monitoring costs are considered.

Costs for a "buy" decision can include the cost of the product, sales tax, and delivery fees.

Factors Favoring a "Make" Decision

These factors include:

- Costs Concerns

When buying from **outside sources is expensive, organizations opt for in-house** production.

- A Desire to Focus on Manufacturing

Organizations **intending to venture into manufacturing will select the "buy" decision.**

- Untrustworthy Suppliers

This is common in manufacturing industries. Here, businesses have doubts about **the reliability of outsourcing partners**. These doubts lead to in-house production.

- Quality Control Requirements

When an organization carries out production activities, they have control over product quality. But when they outsource a part of the production, they don't have control over the product quality. For the best quality control, in-house production is the best option.

- Emotional Motives

This reason is usually overlooked when analyzing make-or-buy decisions. A **company can decide to manufacture a product or offer a service based on emotional responses such as pride or contempt instead of logical reasoning.**

- Transportation Costs

Sometimes, transportation costs play a key role in the make-or-buy analysis. **Unstable and high transportation costs can lead businesses to in-house production.**

Other factors leading to a "make" decision include:

- Concerns about intellectual property
- Concerns about quality
- Inadequate supply of qualified suppliers
- To preserve a backup source
- Environmental considerations
- Political considerations

Factors Favoring a "Buy" Decision

- Lack of Skills

When a business lacks skills for manufacturing a product, outsourcing is the best choice. Suppliers with expertise can offer the product cheaper; therefore, the "buy" option is best for a business.

- Financial Considerations

When manufacturing a product or providing a service is expensive, businesses turn to outsource.

- Lack of Facilities

Outsourcing is a better option when the business lacks facilities or capacity, equipment, resources, etc.

- Low Demand Quantity

Depending on the product quantity, a company can outsource or decide to produce. For smaller quantities, businesses can go for a "buy" decision.

A product or service that isn't essential to the core business is usually outsourced.

Other factors leading to a "buy" decision can include:

1-Procurement and inventory considerations

2-Preferences for certain brands

https://www.neatcommerce.com/global-supply-chain-management-challenges/

Global supply chain issues

What is global supply chain management?

Global supply-chain management (also known as global SCM) is the process of **administering and directing a network of entities to produce and distribute goods and services internationally. The core aims of global supply chain management are to maximise profit, reduce inefficiencies, and deliver goods and services timely.**

10 global supply chain challenges and how to approach them

1. Lead times

Buyers increasingly expect faster deliveries.

"The effect of Amazon is heightened expectations," says C. John Langley, a clinical professor of supply chain management. "Next week is no longer good enough. It's got to be on its way now and arrive at its destination within a day or two."

However, global supply chains often measure shipping times in weeks and months. These long lead times make it challenging to balance supply and demand effectively.
Effective planning is the solution.
Although air freight is more expensive than ocean freight, it’s a lot faster. Consider using land or ocean freight day-to-day, but having air freight agreements in place that you can use quickly to capitalise on sudden increases in demand.
You could also follow Amazon’s lead and set up a small network of warehouses close to your target market’s locations to store inventory so you can deliver to buyers faster.
2. Delays
Unfortunately, long lead times can expose your shipments to even longer delays. With so many steps in the global supply chain and such large distances for goods to travel, there’s many opportunities for things to go wrong.
As a result, it’s crucial to have firm completion dates and shipping times. It’s also vital to have agreements in place with your partners that outline what happens when things don’t go according to plan.
3. Cash flow
Cash flow management is a serious issue in every business, but it’s a particularly complicated task in global logistics and supply chain management.
Businesses must keep track and plan for a complex web of expenses. But with so many entities operating simultaneously, it’s hard to know where and when to allocate your resources.
For example, if you spend £10,000 on materials, you need to know how much it will cost to turn them into products and get them into customers’ hands. This process might include shipping, storage, manufacturing, packaging, freight forwarding, distribution, marketing, sales, and more.
Again, plan ahead. Create a detailed calendar of future expenses and take measures to ensure you’ll be able to for them when the time comes.
4. Data management
By now, you may have realised that there are so many data points to take into account, data management itself is an issue.
“Organisations can quickly become overwhelmed by the vast amount of data today’s enterprise systems, connected devices and social networks create,” said Allan Dow, president of the leading AI-based supply chain planning solution Logicality.
This is why a survey by Logility and APICS, the association for supply chain management, found that:
36% of respondents see the opportunity to balance supply and demand as a top driver for their analytics initiative.
19% of companies want to leverage machine learning to improve their business’s forecast accuracy.
In short, to manage the global supply chain effectively, businesses must use and customise a suitable data management solution.
5. Exposure to risk

Many countries providing relatively inexpensive labour and manufacturing costs also typically have less stable governments and currencies. Local changes in leadership and policy can often affect the global supply chain.
What's more, global supply chains are exposed to risks that local supply chains aren't, such as international policy changes, for example, Brexit.
Companies have very little control over these factors, so it's best to 'hope for the best and prepare for the worst.'
Set up prospective agreements with suppliers, manufacturers, and freight forwarders in another region or country to fall back on. You may also want to secure appropriate insurance policies to cushion potential blows.
6. Accountability and compliance
Companies have to consider **social compliance when** doing business internationally.
Unfortunately, modern slavery, child labour practices, unacceptable working conditions and unfair compensation are just some of the unethical practices present in global supply chains.
As time goes on, there are more and more ways to verify supply chain partners to ensure ethical standards are followed. However, there's often no way to be certain that everything is above board.
Companies must manage the risks associated with these issues: potential brand damage, legal action, and most importantly, the irreparable harm caused to individuals in exchange for profit.
Signing up to schemes such as the Certified B Corporation and Amfori's Business Social Compliance Initiative (BSCI) is a great way to handle these risks.
7. Quality control and defects
Quality issues can also be challenging to manage. For example, businesses must consider the differences in acceptable defect levels in different countries.
It's essential to clarify the quality level expected and the percentage of acceptable defects ahead of time. It's also best to define who is responsible and what happens should there be a disagreement in the future.
8. Language barriers
Another drawback to consider is that many countries will conduct day-to-day operations in a different language.
You can manage these types of issues by employing professional interpreters with specialist industry knowledge. Plus, it's always worth clarifying expectations and responsibilities in writing.
9. Time zones
Times zones can also make communication difficult. For example, the time difference between the centre of America and central China is a whopping 15 hours.
When there's no overlap in working hours, you can't just pick up the phone.
Instead, communication often happens via email and messaging platforms. In this situation, you'll usually have to wait until the next day to receive an answer. This can make it very challenging to oversee technical aspects of the production process.
For this reason, many companies set up small outposts of company representatives to manage things locally in each region of the global supply chain.

10. Exchange rate and foreign transaction costs

Exchange rate fluctuations matter little when taking a holiday abroad. However, even the smallest changes in foreign exchange rates can increase costs significantly when managing a global supply chain.

Developing countries may offer the cheapest labour rates globally, but they often have relatively unstable currencies that are susceptible to regional influences.

Another consideration is the high cost of international transactions when using a bank. These fees can quickly add up and hurt your margins.

Try to make large purchases when your domestic currency is strong and avoid hefty international banking fees with an innovative global payment provider.

For example, a Neat Account lets you make and receive payments in multiple currencies online. Plus, you can make cost-effective local and international transfers to over 35 countries.

https://www.brainkart.com/article/Quality-Considerations-in-International-Business_7371/

Quality considerations

1. Engagement Models

Selecting an engagement model is a crucial aspect of developing the outsourcing plan. The process involves several factors, including aspects of international **business strategy, selecting the geographical location, understanding the** landscape and deciding on the outsourcing strategy. Some of the engagement models are:

2. Service Level Agreements (SLAs)

The SLAs should detail the minimum level of service to be provided by the outsourcing vendor. They should be objective and measurable and have no ambiguity. This helps both parties in the long term. Some good examples of the type of SLAs that should be considered are:

On time delivery - dates must be agreed from the outset on all major deliverables with all efforts to ensure they are met. Use change control processes if these dates need to be moved.

Client Satisfaction - periodic surveys should be conducted to make sure that the service provided by the outsourcing company is satisfactory to customers.

Effectiveness - effectiveness metrics focus on lowering costs, improving profit, and adjusting business transactions

Volume of Work - the volume of work sometimes is difficult to define. For example, projects that are billed on a time-and-material basis may discuss volume in terms of number of resources, while a fixed-price project usually specifies number of deliverables. This metric is an important part of the SLA.

Sensitivity - sensitivity metrics measure the amount of time required for an outsource company to handle a request.

System Downtime and Availability - in outsourcing, guaranteeing 100% availability of services costs significantly more than guaranteeing 99% or 98%, and not every company or every application needs 100% reliability. The SLA should request service availability to meet specific business needs.

It is also good to ensure that SLAs are tied into the contract, sometimes on a risk/reward basis to ensure that there is mutual interest in meeting them.

3. Mobilization

Once the contract is signed there will be a period of mobilization for both parties. This phase generally includes setting up communication protocol with the client, defining work breakdown structure, sharing standard templates (used for authoring test cases, reporting project status, presenting the key metrics etc.) with the client, building test strategy etc. Some of the key elements of this can be seen below:

People

The outsourcing providers maintain a pool of highly qualified and dedicated professionals including QA engineers, QA leads, project managers and technical specialists. Many outsourcing providers have unique centers of excellence to train their interns and employees on various testing methodologies and tools that are required for seamless execution of the engagement. Ensuring the most appropriate resources for your requirements are in place is critical for the success of the engagement.

Knowledge Acquisition

Outsourcing providers follow various approaches to obtain adequate knowledge for the test engineers to understand the core business requirements and also the critical functionality to be tested. Test leads or managers will be sent onsite long/short term to meet various stakeholders in the client organization to understand the product/system and its features. They will assume the responsibility of training the offshore team on the product/system to be tested and all the features of it that the client and the outsourcing vendor have agreed to be tested.

Infrastructure

Some applications require extensive compatibility testing in different environments and back-end database systems. Other applications need to be tested in production-sized environments that closely resemble the final production environment. Outsourcing providers, with their extensive test labs, should stimulate the production environment for performing such complex levels of testing. The cost for setting up this environment offshore would be negotiated with customers with a cost effective solution being drawn in favor of both parties.

Processes

Outsourcing providers in this competitive industry are continuously working on raising their standards with respect to adhering to CMMi Level 5 and other standard ISO processes to ensure tangible benefits for their customers. These include low project risk, on time/on budget deliveries, minimal error rate, high process visibility and enhanced customer satisfaction. Process implementation not only suggests complying to standard guidelines and procedures but also gives greater visibility to customers by delivering metrics (such as schedule/effort variance, productivity etc.) that measure the quality of the product/system which is the ultimate aim for any outsourcing provider.

4. Integration with other third party service providers

Independent QA and testing is becoming more and more common. One of the reasons for this is that it provides objective rigor and thoroughness that might not be provided by a single vendor. However, in this scenario, it is important that all **the parties (client, testing vendor and development vendor) work harmoniously to achieve the right result.**

The testing provider should have a good understanding of the challenges involved in working with multiple vendors spread across geographies and develop appropriate interfaces and best practices in communication to ensure successful completion of engagements. Understanding other SDLC methods is also imperative.

A clearly defined defect management and resolution process should be established as a high priority and ensuring consistent reporting styles on progress will make it easier on all parties to assess the readiness of any application throughout its lifecycle.

5. Communication:

Outsourcing providers facilitate seamless communication between the client and their stakeholders. As communication is considered a key obstacle in outsourcing, providers maintain effective channels and points of contact (POC) open to clients.

Escalation and Issue Resolution

There needs to be a clear and objective escalation and issue resolution process agreed from the outset. Early identification should be built into the standard project risks and issues logs as well as action plans for mitigation. Successful processes work best when there is a trusting relationship between the vendor and the client.

Reporting

It is important that formal reporting is put in place and communicated by a regular set of reports and deliverables updating the client on the engagement (at project/IT organization level). These reports will be sent to the client on a daily, weekly, bi-weekly or on a monthly basis based on the nature of the reports and the agreed plan. This should be in addition to the less formal reporting that will become apparent through the personal relationships formed.

6. Flexibility and Scalability

QA and testing outsourcing agreements demand a degree of flexibility and scalability to help ensure fluctuations in scope and timescales can be met. Some of the scenarios where flexibility is required are:

Increased levels of system or data integration require wider scope and coverage in testing
Regression test demands will grow as systems are developed
Performance and load test and other special tests may place demands on the service
The outsourcing provider must have an organization with infrastructure and resources

sufficiently sized so that the client demands are met. The correct scope and planning helps prevent this but some eventualities are unavoidable. It is therefore important that clients have an expectation that should the nature of the requirements change, there will be provision made within the contract or through good change management processes.

7. Quality Improvement

The key objective of the client is often to gain a significant improvement in quality and this can be achieved through outsourcing. In order to do this, there are some fundamental steps that need to be taken.

The outsourcing provider needs to assess and map the client.s testing capability to understand how the engagement is going to work. Identifying the "major gaps" in test processes from the outset and implementing positive changes to address these will result in quality improvements. As the relationship matures between the two parties, there should be a willingness to continually improve process and working methods etc. This should not necessarily be restricted to just testing, but the whole lifecycle if it improves the end product.

8. Configuration and Change Management

Many businesses have frequently changing requirements which if handled badly can have a significant impact on time, quality and cost. To help clients overcome this, QA and testing outsourcing organizations maintain a comprehensive change and configuration management system.

A typical scenario would be that a Change Request is raised by a client and sent to the vendor. The team then consolidates all Change Requests and performs an impact analysis on the Project Schedule, resources, costs and assesses the technical feasibility of the changes. These are all taken into account before the assessment is discussed with the client. Upon approval, an updated Project Schedule will be laid out to execute that change request.

9. Intellectual Property Protection

Intellectual Property (IP) protection is one of the important considerations for customers when outsourcing services. QA and testing outsourcing providers have to protect all Personally

Identifiable Information (PII) given by clients or otherwise obtained in the course of outsourcing engagements and treat it as proprietary and/or trade secrets. Unauthorized use or disclosure by the QA and testing services provider of any PII will be detrimental to the client.s competitive position and on-going business operations. The QA and outsourcing provider.s staff should not duplicate, distribute, disclose, convey or in any other manner make available to third parties any PII.

Most of the outsourcing providers have well established security standards and measures in place to prevent unauthorized access to and misuse of PII. The IP protection policies of most of the outsourcing service providers have the following:
Non-disclosure agreements signed with the client Project related IP protection

Employee Confidentiality contract

10. Security
All the major outsourcing providers have Information Security Policies, Information Security Standards and Business Continuity Management policies in place, primarily to protect data.

The facilities of the outsourcing providers will have the controls and capability to prevent loss or accidental release of data or proprietary functionality. In the event of a disaster they should have the capacity to subsequently restore a service relevant to this.

The testing facilities of most of the outsourcing providers are assessed for BS7799 security management standards. Security measures are implemented at various levels at the facilities of the outsourcing provider that include physical security, infrastructure, network security and other ad hoc security measures based on specific case/project.

Some of the physical security measures provided by outsourcing vendors include measures to restrict the entry and exit of personnel, equipment and media from a designated area. These controls address not only the area containing system hardware but also the locations of wiring, supporting services, backup media and other elements required for the system’s operation.

https://productschool.com/blog/product-management-2/product-development-challenges/

Challenges in product development-(PM-Product Manager)
1. Ideation
The first checkpoint in product development is idea generation. As easy as it sounds, some companies often hit idea roadblocks when making decisions. Sometimes, these obstacles result from a lack of actionable intel on the potential product and the consumer. Other times, ideation can stall due to bureaucracy and disjointed workflows.

However, PMs can avoid this staleness in ideation by creating suggestion bins during brainstorming sessions. Use this repository to gather interesting opinions from team members and other product specialists.

If possible, establish a bonus system to reward team members with the most lucrative ideas. This reward system will motivate the staff to participate in the brainstorming initiatives actively.

Upper management should also allow their underlings to participate in brainstorming sessions before the development process commences. Overall, PMs should take responsibility for research to discover what others are doing and identify gaps to exploit.

2. Market viability

An idea might sound good on paper, but the practical application in the marketplace just lacks any financial promise. As a PM, always analyze a product's market viability before development starts. **Market research will give you information about the competition and the audience. Don't create a product because all your competitors are doing the same thing. Even if you want to go down the same route, focus on novelties to attract users.**

Apart from analyzing the competition, PMs need to gather information from the target audience. Since these people are the product's potential consumers, you need to collect their opinions and interests.

Use the information from the market research to create a minimum viable product (MVP). Highlight the product's core features and the benefits to consumers. Don't create a simple prototype with only one feature: this is one of the common MVP misconceptions. Add as many functionalities to give the investor or consumer a clear portrait of the product.

3. Product roadmap problems

Creating a product is a head-scratcher for PMs who lack extensive development experience. **Some PMs often lack the proper tools to curate a product strategy efficiently. And this slows down the entire process.**

Besides, experienced PMs can struggle to manage the product roadmap even with a clear vision and plan. They often grapple with roadmap prioritization to get the best out of the initiative.

In these tough cases, you can prioritize by the KPIs or OKRs. You can also use the MoSCoW model for your product based on the following:

Must-haves

Should haves

Could haves

Will not haves

This model will save you a lot of time spent on brain-racking to choose the best strategy. You can also use management tools like Gantt Charts to create an optimized product roadmap.

Figuring out how to build the perfect roadmap? Here's your template for that!

4. Workflow management

The synergy between collaborating teams affects the development speed and quality of the final product. As a product manager, getting every contributor on the same page is your responsibility.

This process **often involves communication with every member** of the organization at the same time. You also have to resolve conflicts between independent teams in the absence of a team lead. So, use workflow management tools like Jira and Trello to organize the operations surrounding the product. Create a centralized dashboard to track product contributors and task completion progress. And with most teams working remotely at the moment, you need a more data-intensive monitoring system to track staff performance.

Also, make sure that everyone in the company (with relevant clearance) has access to information. You can also establish a fast-paced feedback loop. And most importantly, deliver regular updates to C-level executives for their input.

5. Product engineering issues

Engineering dependencies also hinder the progress of product initiatives. For instance, if you want to create an app, and the design team misses the deadline, the entire development team has to wait until a prototype is ready for review.

Product managers can solve these problems by establishing a clear review cycle that features members of interdepartmental teams. Besides, they can also try to identify other non-dependent initiatives and work on them while the gridlock is resolved.

By implementing this tactic, PMs can rescue timelines and keep the product development on track.

6. Pricing policy

Turning an idea into a product is one thing, but putting a price on it is a whole different ball game, especially if developing an agile methodology.

If you charge too much for the product, nobody will buy it. If you charge a low price, you risk incurring massive losses. So, it is all about finding that sweet balance in pricing for your consumers. Part of your job as the product manager is to identify the maximum amount that your potential audience is ready to pay for the product.

From the company's side, here are the crucial considerations when setting the pricing policy for a product:

Hiring expenses

Marketing expenses

Product realization costs

Apart from the factors above, you also need to consider market volatility when fixing an initial price. You can also establish a cost estimate by analyzing the competitors' pricing policies.

That's why you need to master skills and understanding of lean product development.

7. The pace of innovation
The exponential pace of innovation is also driving the speed of change in the marketplace. This problem is prevalent in companies that have slow-paced review and feedback cycles.
While your ideas are stuck in the bureaucracy, new trends appear to render these suggestion silos redundant. To avoid these worries, refresh your idea dumps regularly to eliminate defunct ones.
Instead of maintaining rigid development cycles, allow some flexibility to make room for innovations like artificial intelligence and augmented reality. But you should avoid making wholesale changes mid-way into the development initiative.

8. Time-to-market
Your company's ability to meet deadlines and launch timelines will determine the product's market positioning. PMs should fine-tune operations to ensure that everything goes according to the established timeline.
Although all the issues mentioned earlier affect the overall time-to-market, some roadblocks can stall the development process significantly. While PMs have no control over some of these obstacles, others result from gross incompetence within a company.
Here are common issues that can affect time to market:

- Unforeseen circumstances

The great elephant in the room is the COVID-19 pandemic. Most companies had to overhaul their entire workforce management to address the changes. Some businesses like Hotels.com had to abandon products to accommodate the financial impacts of the pandemic.

- Legacy systems

Legacy systems are often cheap to maintain, but their unpredictability makes them a liability in the product development cycle. If your legacy software malfunctions, it can set back the company by a few months.

- Hiring delays

Poor recruitment policies can slow down a product's launch timeline significantly. For instance, onboarding new designers to work on a prototype can slow down the design process. And since most companies are not ready for teleworking, they will struggle to train new hires and meet deadlines.
To stay ahead of these headaches, always have a contingency plan for when things go awry. This strategy will help your company survive massive scares and meet its quarterly targets.
Here, the question of product promotion may appear as well. A product manager in collaboration with the marketing team should think of promo options. There might be single strategies like starting a blog and SEO in favor or combined efforts, e.g., content + email marketing + PR tactics, and so on.
However, your company should never sacrifice ultimate quality to decrease the time to market. Bringing a poor quality product to the market will damage your company's reputation and estrange you from your consumers.

So, set objectives for every development stage and ensure that every member can visualize these goals in real-time.

- Compliance issues

With the influx of new products into the marketplace, regulatory bodies are now more strict on compliance and standards of quality.
For example, Google banned the Parler app for promoting illegal activity on its platform. This ban highlights the strictness and ever-changing industry standards and regulations.
But your company can avoid compliance issues by following the updated guidelines for every product before it enters the development stage. PMs should also encourage teams to download industry-regulated templates for every product initiative.

- Post-launch improvement

The product's life cycle does not end after the product launch. You still need to plan updates and provide customer support.
Organize outreach campaigns to expand your audience to a global audience. Use bulk email services to inform your users about new product features and sales promo. Dedicate a virtual phone system to address customer service issues. And ultimately, create user manuals for your products.
https://accountlearning.com/factors-affecting-investment-decision/

Investment decisions

- Availability of funding

According to some experts opinion, the availability of financing would be an important factor influencing the level of investment regardless of cost of capital. Loans in the banking system would probably be the most important determinant of investment in developing countries due to the shallow depth of the capital markets. Therefore, there would be a great dependence on non-financial firms for credit from banks to finance both working capital and long-term investments. This view emphasizes the importance of including the bank credit as a determinant of gross private capital formation.

- Public investment

In developing countries there is evidence of a relationship between private investment and public investment. However, this relationship could be positive or negative depending on the nature of the investment. When the public sector investment focuses primarily on infrastructure, public and private investment are complementary and the relationship between them is positive, ie, that public investment could stimulate and complement private investment to generate positive externalities, stimulating aggregate demand and opening new markets for goods and services and thus increasing the productivity of private investment. Also, when public investment takes the high-risk investments, with credit tightening and underdeveloped securities markets that prevent the private sector to make investments that require large volumes of financial resources and long periods of maturation, positive effects are generated to the private sector. In general, governments

in developing countries have considerable involvement in economic activities, which can be justified by the absence of private sector investment in large projects.
Moreover, in periods of economic stagnation and in accordance with Keynesian assumptions, an increase in public investment may encourage the expansion of domestic aggregate demand, including private investment. However, the theory also raises the possibility of a negative relationship which is called shift effect or crowding out. This effect implies that public investment competes with private by physical and financial resources which are scarce. Also cover areas of economic activity that are of interest to the private sector.

- Gross Development Progress (GDP):

According to the neoclassical theory of investment, which originated in the work of Jorgeson, the value of a competitive firm's desired capital stock is a positive function of the quality of their product, which may be treated as an approximation of the level of demand. If this result extends to more aggregate levels, the product of a country is considered as a measure of the level of demand for the entire private sector.

- Real exchange rate

This variable can influence the desired level of investment; however, its effect could be positive or negative. A depreciation would reduce real income and wealth of the private sector by lowering the aggregate and postponing plans for future investment demand. Moreover, Depreciation affects the profitability of capital by varying the relative price in the price of capital in the economy, especially capital goods imported contains an important component and therefore acts analogously to an adverse supply shock in the production of investment goods. It is important to consider the distinction between the effects of an anticipated and unanticipated depreciation. In the first case, if the expectations of depreciation are taken care off, investment could be increased since the required return on capital tend to fall reflecting the reduction in the rate of early depreciation. However, the depreciation of the real exchange rate increases the relative price of tradables over non-tradables, which would help to stimulate investment in the tradable sector since it increases the competitiveness and the volume of exports and whether this effect is greater than the negative effect on the non-tradable sector, the total investment could be increased.
In short, the depreciation of the exchange rate can have a negative effect on investment, increasing the cost of imported capital goods. On the other hand, a devaluation or depreciation of the exchange rate can increase investment in tradable sectors of an economy, improving the competitiveness of their goods in terms of prices in the world.
Despite this theoretical ambiguity, empirical evidence supports the notion that a real depreciation has an adverse impact on investment in the short term, through the effect of cost of capital goods.

- Cost of Capital

Another variable that neoclassical theory considers relevant in investment decisions **is the real interest rate, which in this case would be the cost of capital or the cost of credit to the company. Since an increase in the interest rates helps to discourage investment, we should expect a negative relationship between the** two variables.

Terms of trade:

Usually this variable is used as a proxy for external shocks in developing economies. Adverse terms of trade imply that require more exported units per unit of import, which affects the current account deficit with a negative effect on private investment.

Uncertainty

Uncertainty can be a factor influencing the level of desired investment. The investment complies with the principle of irreversibility, ie activity involves costs of input and output that are not negligible. Installation costs of plant and equipment can be considered as sunk costs if capital once installed, this may not be employed in other activities (industry specific capital) or if the secondary market are not efficient. High levels of uncertainty may raise the opportunity costs of a particular enterprise – the cost of delay or wait for further information before making investment decisions, resulting in reduction in the desired level of investment. Though it is possible to measure the uncertainty in developing countries if you consider the volatility of output, inflation, real exchange rate and terms of trade.

Investment Decisions:

Investment Decision relates to the determination of total amount of assets to be held in the firm, the composition of these assets and the business risk complexions of the firm as perceived by its investors. It is the most important financial decision. Since funds involve cost and are available in a limited quantity, its proper utilisation is very necessary to achieve the goal of wealth maximisation.

<u>Factors Affecting Investment/Capital Budgeting Decisions</u>

1. Cash Flow of the Project:

Whenever a company is investing huge funds in an investment proposal it expects some regular amount of cash flow to meet day to day requirement. The amount of cash flow an investment proposal will be able to generate must be assessed properly before investing in the proposal.

2. Return on Investment:

The most important criteria to decide the investment proposal is rate of return it will be able to bring back for the company in the form of income for, e.g., if project A is bringing 10% return and project B is bringing 15% return then we should prefer project B.

3. Risk Involved:
With every investment proposal, there is some degree of risk is also involved. The company must try to calculate the risk involved in every proposal and should prefer the investment proposal with moderate degree of risk only.

https://www.geektonight.com/process-of-selecting-expatriates/

selection of expatriate managers- to leave one's native country to live elsewhere

- Technical Ability

A person's ability to perform the required tasks is an important consideration and so technical and managerial skills are therefore an essential criterion in selecting expatriates. Indeed, research findings consistently indicate that multinationals place heavy reliance on relevant technical skills during the expatriate selection process.
For example, the Price Waterhouse survey (International Assignments: European Policy and Practice) of 184 European firms(nearly a quarter of which had their worldwide headquarters in the US) reports that the most important selection criterion were job-related skills (99 per cent) and leadership skills (76 per cent).
Reinforcing the emphasis on technical skills is the relative ease with which the multinational may assess the candidate's potential, as technical and managerial competence can be determined on the basis of past performance.
Since expatriates are predominantly internal recruits, personnel evaluation records can be examined and checked with the candidate's past and present superiors. The dilemma though is that past performance may have little or no bearing on one's ability to achieve a task in a foreign cultural environment.

- Cross-cultural Suitability

The cultural environment in which expatriates operate is an important factor in determining successful performance. Apart from the obvious technical ability and managerial skills, expatriates require cross-cultural abilities that enable the person to operate in a new environment.
An American manager who is considered an excellent communicator by his US colleagues because of his face-to-face and to-the-point style may be a disaster when required to communicate with say, Chinese or Japanese subordinates who value subtle, indirect forms of communication. Hence, the country where the posting is to be and its culture are likely influences in the selection of the candidates.
According to experience and research, there appears to be a consensus that desirable attributes should include cultural empathy, adaptability, diplomacy, language ability, positive attitude, emotional stability and maturity The managerial and technical competence is regarded as primary for an expatriate's success, but, effectiveness and coping skills are also necessary.
Effectiveness skills is defines as the ability to successfully translate managerial or technical skills in to the foreign environment, whereas coping skills enable a person to become reasonably

comfortable or at least survive in the foreign environment. It is not easy to define inter-cultural competence and even more difficult to measure it. What is needed is to measure relational ability of a person, i.e his/her ability to relate with another cultural group, which is also a personality related trait.

- Family Requirements

The contribution that the family, particularly the spouse, makes to the success of the overseas assignment is now well documented. For example, Black and Stephens (1989) examined the influence of the spouse on an American expatriate's adjustment. They found that the adjustment of the spouse was highly correlated to the adjustment of the expatriate manager.
Hence, firms interview the spouse as an essential part of the selection process. Answers are sought to questions like, Will you be interrupting a career to accompany your spouse on an international assignment? If a formal interview evokes resistance, then the spouse is contacted informally and attitudes ascertained indirectly thorough friends.
Apart from the accompanying partner's career, there are family considerations that can cause a potential expatriate to decline the international assignment. Disruption to children's education is an important consideration, and the selected candidate may reject the offered assignment on the grounds that a move at this particular stage in his or her child's life is inappropriate. The care of aging or invalid parents is another consideration.

- MNCs Requirements

Apart from expatriate related factors, there are contextual factors, such as management philosophy and approach of the MNC- whether it is ethnocentric, polycentric, region-centric or geocentric. The status of the MNC-whether it is an international, multi-domestic, transnational or global company-also influences this decision to a great extent. Other situational factors include:
The mode of operation involved: Selecting staff to work in an international joint venture may involve major input from the local partner and constraints imposed by the JV agreement terms.

The duration of the assignment: Family members tend not to accompany an expatriate when the assignment is for a short duration, so family may not be a strong factor in the selection.

The amount of knowledge transfer inherent in the expatriate's job in foreign operation: If the nature of the job is to train local staff, then the MNC many include training skills as one of the selection criterions.

- Language

Language skills are be considered as of critical importance for some expatriate positions, but lesser in others, though some would argue that knowledge of the **host country's language is an important aspect of expatriate performance, regardless of the level of position.**

Differences in language are recognised as a major barrier to effective cross-cultural communication. Yet, in terms of the other selection criteria we have examined above, from the multinational's perspective, language is placed lower down the list of desirable attributes.
In the past, US multinationals have tended to place relatively low importance on foreign language skills. For example, in a 1990 study of US multinationals, Fixman found that foreign language skills were rarely considered an important part of international business success. She comments: 'Language problems were largely viewed as mechanical and manageable problems that could be solved individually'.
This view is also conûrmed by the consistent and relatively poor performance of young Americans on polls of geographic literacy sponsored by the National Geographic Education Foundation. In the most recent 2006 poll of young American adults between the ages of 18 and 24 the following results were reported:
50 per cent of the sample thought it was 'important but not absolutely necessary' to know where countries in the news are located.

75 per cent did not know that a majority of Indonesia's population of 245 million is Muslim (making it the largest Muslim country in the world).

74 per cent of the sample thought that English was the most commonly spoken language in the world, rather than Mandarin Chinese.