

International Business
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Lecture – 01
Introduction to International Business

Welcome everyone to the course of International Business. The purpose of starting this course is to equip the students of various fields such as management, commerce and students in the international business and trade. And also those students who are appearing exam such as in India for example, the UGC-NET and others where, this is an integral part of their curricula.

So, I have made this course title International Business for their benefit. So, what exactly is this course? and what we are going to do? In a nutshell if I tell you we will be covering the different aspects of international business. So, I have broken this entire syllabus into 12 chapters or 12 units and today we will be starting with the first one, with the 'Introduction'.

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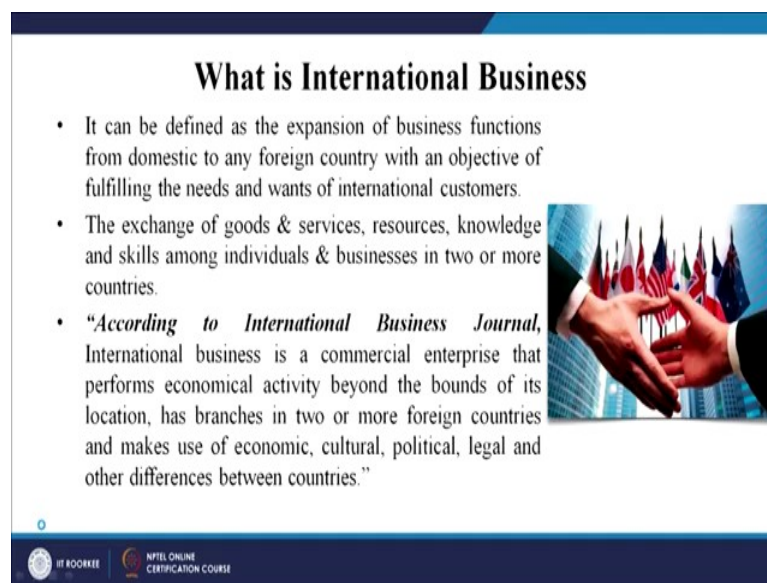
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So, I will be covering things like international trade, the institutions, and the different rules and regulations. So, and many other things, like for example, the international financial environment, foreign trade promotion measures and organizations in India, regional economic cooperation, European Union etc., FDI and the policies, related

policies, multinationals in international business and their role. Then contemporary development issues in international business right! and; obviously, the theoretical foundations in the international trade. So, these are some of the units which we will be covering. Let us begin this course and I hope you have a nice time and a learning time right!


So, what is international business all about? So, international business how do you understand? So, business we understand as a simple commercial activity which is done for a with a profitable or profit motive right! So, the same thing when it is done in the domestic we say domestic trade or domestic business and when it goes across boundaries, across nations we say it is international business right! So, let us take a definition, one or two definitions.

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What is International Business

- It can be defined as the expansion of business functions from domestic to any foreign country with an objective of fulfilling the needs and wants of international customers.
- The exchange of goods & services, resources, knowledge and skills among individuals & businesses in two or more countries.
- *“According to International Business Journal, International business is a commercial enterprise that performs economical activity beyond the bounds of its location, has branches in two or more foreign countries and makes use of economic, cultural, political, legal and other differences between countries.”*



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So, what international business says is that it can be defined as the expansion of business functions from domestic to any foreign country with an objective of fulfilling the needs and wants of international customers.

So, with time what has happened, the boundaries the world boundaries have become very thin right! and as G.E's (General Electric) Jack Welch had said it is a boundary less organization and the (you know) the world has today hardly any boundaries. So, the boundaries are getting thinner and thinner with time with the opening up. (you know)

rules with new rules and regulations and more liberalization so, higher liberalization so it is happening.

And on the other side the customers, the international customers, their needs and wants are also increasing day by day. So, to fulfill such needs the expansion of business functions has become an integral part. So, it says the exchange of goods and services, resources, knowledge and skills among individuals and businesses in two or more countries is what defines the international business as right!

There is one more definition by the International Business Journal and it says that international business is a commercial enterprise that performs economical activity beyond the bounds of its location and has branches in two or more foreign countries and makes use of economic, cultural, political, legal and other differences between the countries.

So, it is very clear and (you know) it is very easy to understand, but the complications of conducting the international business are very very high, although the definition is very simple that when economic activity happens between two or more countries right! we say it is an international business, but the complications are large, why the complications are large? Because you see the culture of the countries might be different. The political situations of the countries might be different right! and the relationships bilateral relationships might not be good or may be very good. So, it depends right! And the knowhow and the infrastructural developments in across the countries might also be very different.

So, all these things makes international business slightly complicated and it is not that easy it is bound by numerous rules and regulations, laws and which and (you know) as I said cultural aspects which might be extremely different from one place to the other. And there are several cases which I can sight and I will be sighting during the course (you know) entire course where I will be explaining that how there have been (you know) successful cases where two companies in different countries have worked together and done well. And there also have been cases where there have been huge mismanagement and failure of two companies and the reason might have been very very small which looks innocuous and harmless that becomes a major factor for the disturbance and the failure of the (you know) entire business activity.

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So, how evolution happened, how international business started? The first thing that comes to my mind is the East India Company when they came to India they came with some business (you know) activity they came up with some business mindset. And that was the first time when somebody international was actually doing business in India they started business doing business in India, otherwise we used to do trade with Sumatra, Ceylon (Sri Lanka) and all, but that was a different kind, but here somebody first came to India and started wanted to establish their foothold in India.

Then there was after that we found there were two major wars right! the World War 1 and the World War 2. So, it was a time when (you know) things were things got slowed down very seriously right! because the world was not very keen on doing trade and business at that time because of its own difficulties that every country was suffering from some or the other problems right!

In between there were large number of changes that happened also, there was industrial revolution (you know), there was (you know) new technologies that were emerging. And the world was finding that things were becoming smoother to do a trade with a place which was quite far of and it seemed difficult to do trade with them earlier right!

Then the third point which I have thought I thought would be important to discuss is the famous Noble laureate Milton Friedman's contribution very first time he talked about the neoliberalization, neoliberal globalization and he is talked about opening (of markets).

He was one of the few economists who was slightly against the thoughts (views) of Keynes's philosophies right! So, Milton Friedman spoke about how globalization could impact the entire (you know) business cycle right!

Another important point which I have mentioned as **glocal** you can see. So, glocal what is glocal I mean globalization and localization. So, when international business is done in a localized manner right! so that is what we say glocal right!

That means, what for example, when let's say a simple understanding when McDonalds came to India they became they started behaving in a local manner right! they wanted to cater to the local taste and demand right! And thus they did quite well right! whereas, some companies they could not understand this local effect and because of they failed in their initial days for example, Siemens, for example, Kellogg's right! there are certain many more examples.

So, international business grew because of some of these reasons that company's understood that it was very very important to be more local and try to address the local problems right! Although they were global in nature they were globalized in nature, but still they were addressing the local problems, if this would not have been possible then it would have been very very difficult for these companies to be successful in a particular country right! and especially country with a huge diversity of culture and tradition like India.

Then the rise of emerging markets like BRICS for example, Brazil, Russia, India, China and South Africa right! So, this emerging markets why these are called emerging markets, because these markets today have the potential to cater to the world right! and they have immense potential in terms of consumer population size and resources and everything.

So, all these things all these factors together helped in the development of the international business. So, as we understood that international business is nothing, but a business which happens between two or more countries and what happens in between that is what we will learn in this entire course.

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So, what are the factors, why there was a rapid growth of international business right! what happened, how, what led to the growth of international business. So, the first thing that I have sighted is increase in an expansion of technology.

So, as I said the first time we talked about technology was the steam engine, then there was industrial revolution (you know) all these things came up, but with computers, internet and (you know) networking and all facilities technology became one of the major factors which helped the smooth flow of business.

So, suppose giving an order has become very simple today because of the internet right! or shipping a particular product has become simpler because of the container facilities right!

So, the container looks very simple thing to you may be as a student, but container was one of the most important discoveries or the developments which revolutionized the entire (you know) international business right! So, container has always been taken as a very important breakthrough in international business, because that helped carrying things very smoothly and very easily.

And today we are talking about (you know) large database techniques for example, we are using data (you know) artificial intelligence(AI), machine learning(ML) and these things are helping us to understand the customer trends, their mindset, their behavior

very in a much effective manner in comparison to the earlier days when we had no iota of knowledge how to tackle or how to conduct ourselves in a particular country and in particular place right!

The second important thing that I have mentioned is **liberalization** of cross - border trade and resource movements. So, liberalization earlier days what was happening every country was like a small (you know) kingdom right! So, they were behaving like small kingdoms and there was hardly very less movement across them right! but when the world trade things like (you know) organizations like WTO and all came up. So, the pressure for liberalization and opening of the boundaries became severe and all countries who are members of such unions or such committees or such (you know) bodies they were supposed to open up their boundaries and allow free trade right! and free or open trade right!

So, what happens is that as a result one country finds a market in another country right! and today if I want some raw material I can take it from some other place which I do not have at the moment.

So, all these things were possible only because of the concept of liberalization, liberalization it says you become more liberal right! you open up you open up your boundaries you open up and have your free policies. So, that everybody can come and you can also go there and the trade becomes more faster and simpler right! and resource movements are much easier right!

The third thing that I have said is the development of services that support international business. So, now, countries have realized nations have realized that today if you do not provide good support in terms of services like (you know) infrastructure, logistics and other things then no international business partner would like to come to your country and set up their infrastructure or their plant or production.

So, in order to invite people, you need to have to have a good amount of infrastructure and other services right! which are very critical for the smooth functioning of the business right! So, nations have realized and they have taken care of it. For example, you see what happened in China. China took great advantage of there by leveraging these infrastructural facilities.

They provided the world class facilities, infrastructural facilities and they opened up their policies and as a result what has happened today is that today China has become one of the largest and the most powerful economic nations right! in terms of economy they are moving toward becoming even a superpower right!

Growing consumer pressures so, today the consumer is no more somebody that you can make them whom you can satisfy with very little. So, today a consumer wants to get address of particular brand which is maybe not available in India.

So, at earlier it was not available, but today he can get it, if he wants it that it is made in suppose Spain or it is made in Germany he can get it if you want a tool and (you know) and any tool, industrial tool or something you can get it right! the consumer can demand he can get it.

If a particular (you know) any particular thing you want it in terms of cosmetic, in terms of daily goods, in terms of industrial goods you talk about anything that you want right! today you can get it because the consumer has this facility, because today the world is more connected right! it is more we are more (you know) the boundaries are very thin as I said right!

And because of all this there has been a growing consumer pressure. So, the consumer feels I can get anything that I want. So, if he has the purchasing power he can demand any product that he likes and he can get it may be suppose for example, you see today Amazon for example, and ecommerce site helps you to get anything that you want and they can collect it even they can (you know) give you grasses and even (you know) what not so everything.

So, you can get a particular kind of product which is not available in India or any other country. So, people it is actually making them connected right! across the globe. Fifth point which I have mentioned is the increased global competition, why international business? Is it only consumer pressure is it only the facilities? No there has been a global competition.

Now, companies are finding the heat feeling the heat, they are finding it very tough to stay in their own home market and then grow, because if you do not grow then there is a time maybe after sometime even the companies might not exist.

And if you can look at the last Fortune-500 (list of companies) story the top 20 - 30 companies have been rapidly changing. So, the companies which were there in the 1930s and 40s were not existing in the 1960s and 70s and the ones which were the top 20 companies in the 60 - 70s today are may be are not there and many of them are not there.

So, as a (you know) increased global competition has happened it has led to marketers to look into and companies to look into new pastures, to new places where they can (you know) go and set up their business right! So, this increased global competition and saturation in the home market is one of the very important reasons is the key reason why companies want to go abroad and that has helped in the flourishing of the international business ok.

Another thing which I have mentioned is the change in **political situations**. So, political situations are always very dynamic very very dynamic. So, what was once for example, there was a time when I remember for the first time IBM came to India and Coca Cola came to India, they were not given a very welcome ceremony and they had to in fact, leave India right! they had to leave India it was a George Fernandez time and they Coko Cola had to go back, IBM had to back.

So, the problem is they in fact go back means in the sense they did not find it suitable they it was very hard for them very difficult for them to exist in the within the Indian laws and regulations right! So, but political situations are changing right! The companies are finding it the countries are more welcoming they are encouraging the foreign firms to invest in their country.

So, the political (you know) harmony is also existing today. So, the companies the countries are willing to invite the foreign companies and let them set up their plants and locations. So, that their people would get engaged get more employment and their country's economy would grow right!

Expanded cross-national cooperation, this is a very connecting situation connecting point right! So, cross national cooperation, but there are still some issues like for example, (you know) there is a difficulty in relations in between some countries which we are; which we are aware of.

So, those relationships can be very difficult to handle, but still if we these are quite rare now a days because otherwise it is slowly in terms of economy, the political situation is also getting easier because of the economic requirement right!

Had there been no economic requirement the urgency of the economy requirement may be the political situations would have been much worse because countries today have realized that just holding their political tensions and because of that hurting their economy can be disastrous for their people for their (you know) for the citizens. So, they are leaving aside their political differences and things and they are moving towards the economic integration.

And the last point which I have said is the **stagnation**, the home markets have stagnated the home markets they are not finding any new customers how would they find because they have already worked so for so long and new customers are difficult to find right! so; obviously, these companies now today are looking for new places where they have not explored.

So, they want to come to a large country like India, China for example, Bangladesh where countries like which have a large population base and they have a very untapped (you know) large potential right! so, there is an untapped market. So, these are some of the reasons which are contributing to the rapid growth of the international business.

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Let us look at this interesting diagram right! So, this is a case where it says where the parts of an iPhone 6 come from, now look at it. So, how the world has integrated this is just a simple example this example you can take it to other products also for example, a simple computer, a car manufacturer where different parts of the car or different parts of the computer are coming from different places.

So, let us see similarly this example now this is an iPhone now where you see the storage (you know) comes from Toshiba right! the camera comes from the Japan Sony right! the display part comes from Asahi, the RAM comes from Korea Samsung provides it, the processor is coming from again Korea and Taiwan two different companies Samsung and TSMC, rare minerals which are required for the phone for the manufacturing of the phone they come from California and China.

So, for example, for the multiple parts like colors for screen, phone circuitry, speakers, vibration unit so, whatever the minerals you require the (you know) raw materials they are coming from California and China. The chassis, the body is coming from China right! So, the radio frequency receiver is coming from Qualcomm China right! the WiFi module is coming from China Universal Scientific Industrial right! the batteries coming from again China. So, you can see here LTE Modem is coming from China.

So, although there are large number of countries, but you can one thing for from through a visibility also you can observation you can see that China has been really making it good right! has been making and it is not only for an iPhone 6 or something.

If you look at most of the mobile phones also that are there in for example, in India they are mostly Chinese even US a country like US is worried today that most of the defense equipments some of the many of the equipments right! and are having this there (you know) if a defensive equipment has got 100 components, many of these components are coming from China. So, you can understand that how much hold this country (China) today having in terms of its capacity to supply right!

So, this is an example to tell you what international business is all about. So, international business is because of international business today such kind of products to develop such products and sell it internationally has been possible, because you are getting parts from different different places and you cannot claim that it is from only one nation or one country.

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External trade is of three types:

1. **Export.** It refers to selling goods or services to foreign countries.
2. **Import.** It refers to buying goods or services from foreign countries
3. **Entrepot (Re-export).** It refers to import of goods not for consumption in home country but for exporting them to another country. This type of trade occurs at duty-free ports, where these goods do not have additional import or export duties, or taxes, placed upon them. The UAE may have engaged in re-export of goods to Iran as a way for Iran to avoid U.S trade sanctions against it.

Examples of international firms like Apple, Coca Cola, HUL, P&G, Adidas, IBM, SONY, Microsoft, Philips, etc

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So, when we talk about international business we will talk about international external trade. So, what is this external trade basically when you talk about business. So, the first thing is export. So, it refers to the selling of goods or services to the foreign countries. So, you are exporting something your major revenue that you generate any country generates is through the exports right!

So, the exports of a nation is very very important is very vital because if you are exports is not up to the mark it is not you are not doing good in exports then maybe you cannot earn revenue right!

The second is the import, which refers to the buying of goods or services from other countries so; that means, foreign countries. So, I want to make a part for example, today India is even thinking of **Make in India** and (you know) to develop or (you know) national protection right!

So, in such a condition many of the parts as I showed might not be (you know) there or might not be available in India. So, these parts have to be or these products have to be imported yes, there is a problem if the product is available in India also and then you are importing then that is a different story we will talk about later on, but then at the moment try to understand the basic definition of import is that import means you are importing an item when it is not available right!

The third is re-export, **entrepot** or **re – export**; it says the import of goods is not done for consumption in the home country, but for exporting them to another country. So, it is a simple we can understand like a trading right!

So, this type of trade occurs at duty free ports where these goods do not have additional import or export duties right! or taxes placed upon them. The UAE, United Arab Emirates may have engaged in re export of goods to Iran as a way for Iran to avoid US trade sanctions against it.

So, external trade is basically is of 3 types, now it is not that simple as it looks we will go deeper into it, but just for a beginning is an introductory class. So, just try to understand what do we mean what are the 3 important terms export, import and then the re - export or the entrepot right!

Some examples of international firms you can also think on your own. So, which I have mentioned is Apple for example, Coca Cola, Hindustan Unilever Limited, Procter and Gamble, Adidas, IBM, Sony, Microsoft, Philips etc etc. right!

So, there are so many firms and almost today these large companies are they are may be operating in 100s of countries not 1 or 2 or 3, but some of these companies and in fact, these companies which you can say here see here in the list they operate in more than (you know) around 100 countries almost right!

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This is a small quiz for you right! So, what I am leaving you with today is this look at these logos and try to recognize this brands, they are all international brands right! They are these companies are working in several countries as I said, try to recognize some of them and this is take it as a (you know) take a pause and take as a homework and try to find out what these companies are and where do they come from and where do they operate what are their products and services do they provide etc. right!

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Importance of International Business

- **Earn foreign exchange:** Through the exports of goods and services all over the world it helps to earn valuable foreign exchange.
- **Get benefits from Government:** It gets many financial and tax benefits from the government *for example* The Hyundai unit at Sriperumbudur, Tamil Nadu in India.
- **Optimum utilization of resources:** produces goods on a very large scale and helps in the efficient utilization of resources.
- **To increase market share:** Kellogg's in India

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So, in the next session we will start from here. So, the importance of international business and we will move from there right!

So, thank you very much I hope you had a good session and we will meet in the next session.

Thank you.