DEPARTMENT OF MANAGEMENT STUDIES

II MBA

INTERNATIONAL BUSINESS ENVIRONMENT

IV SEMESTER

P16MBA16

SHRIMATI INDIRA GANDHI COLLEGE,TRICHY

**CORE COURSE XVI**

**INTERNATIONAL BUSINESS ENVIRONMENT**

**P16MBA16**

**Objectives**

The primary objectives of this course is to acquaint the students to emerging global trends in business environment.

**Unit I**

International Business : An overview – Modes of International Business; The External Environment- Economic , Political Environment, technological and Cultural Environment; Its Influence on Trade Investment Patterns; Recent World Trade and Foreign Investment Trends.

**Unit II**

Foreign Direct Investment-FDI-Types of FDI, Rationale for FDI, Benefits of FDI to Home countries, Benefits of FDI to MNC,s, Threats and Restrictions on MNCs , Adverse effect of FDI on Host countries. Reasons for India seeking FDI, Hurdles for FDI in India.

**Unit III**

World Financial Environment; Cross-national Co operation and Agreements; Tariff and Non-Tariff Barriers, WTO, Regional Blocks.

Cross Border Mergers& Acquisition-Reasons for mergers & Acquisition, Why do M & A fail?-Stages involved in M & A-Regulations of M & As.

**Unit IV**

Foreign Exchange Market Mechanism: Determinants of Exchange Rates; Euro-currency Market; Offshore Financial Centers: International Banks; Non-Banking Financial Service Firms; Stock Markets.

**Unit V**

Global Competitiveness; Export Management; Licensing; Joint Ventures Technology and Global Competition; Globalisation and Human Resource Development; Globalisation with Social Responsibility; Negotiating an International Business, Issues in Asset Protection; Multilateral Settlement

**UNIT-I**

**International Business Environment**

**Meaning:**

International Business Environment is multidimensional including the political risks, cultural differences, exchange risks, legal & taxation issues. Therefore (IBE) International Business Environment comprises the political, economic, regulatory, tax, social & cultural, legal, & technological environments.

International business means carrying on business activities beyond national boundaries. These activities normally include the transaction of economic resources such as goods, capital, services (comprising technology, skilled labor, and transportation.) and international production. Production may either involve production of physical goods or provision of service like banking finance, insurance, construction, trading and so on. Thus International business includes not only international trade of goods and service but also foreign investment, especially foreign direct investment.

**International-Expansion Entry Modes**

* **Exporting**
* **Licensing**
* **Franchising**
* **Turnkey Project**
* **Mergers & Acquisitions**
* **Joint Venture**
* **Acquisitions & Mergers**
* **Wholly Owned Subsidiary**

In this section, we will explore the traditional international-expansion entry modes. Beyond importing, international expansion is achieved through exporting, licensing arrangements, partnering and strategic alliances, acquisitions, and establishing new, wholly owned subsidiaries, also known as Greenfield ventures.

**1.Exporting**

Exporting is a typically the easiest way to enter an international market, and therefore most firms begin their international expansion using this model of entry. Exporting is the sale of products and services in foreign countries that are sourced from the home country.

The advantage of this mode of entry is that firms avoid the expense of establishing operations in the new country. Firms must, however, have a way to distribute and market their products in the new country, which they typically do through contractual agreements with a local company or distributor.

When exporting, the firm must give thought to labeling, packaging, and pricing the offering appropriately for the market. In terms of marketing and promotion, the firm will need to let potential buyers know of its offerings, be it through advertising, trade shows, or a local sales force.

**2. Licensing**

In this mode of entry, the domestic manufacturer leases the right to use its intellectual property (i.e.) technology, copy rights, brand name etc to a manufacturer in a foreign country for a fee. Here the manufacturer in the domestic country is called licensor and the manufacturer in the foreign is called licensee.

The cost of entering market through this mode is less costly. The domestic company can choose any international location and enjoy the advantages without incurring any obligations and responsibilities of ownership, managerial, investment etc.

**3. Franchising**

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

* Trade marks
* Operating System
* Product reputation
* Continuous support system like advertising , employee training ,reservation services quality assurances program etc

**4. Turnkey Project**

A turnkey project is a contract under which a firm agrees to fully design, construct and equip a manufacturing/ business/services facility and turn the project over to the purchase when it is ready for operation for remuneration like a fixed price, payment on cost plus basis.

This form of pricing allows the company to shift the risk of inflation enhanced costs to the purchaser. E.g. nuclear power plants, airports, oil refinery, national highways, railway line etc. Hence they are multiyear project.

**5. Mergers & Acquisition**

A domestic company selects a foreign company and merger itself with foreign company in order to enter international business. Alternatively the domestic company may purchase the foreign company and acquires it ownership and control. It provides immediate access to international manufacturing facilities and marketing network

**6. Joint Venture**

Two or more firm join together to create a new business entity that is legally separate and distinct from its parents. It involves shared ownership. Various environmental factors like social, technological economic and political encourage the formation of joint ventures.

It provides strength in terms of required capital. Latest technology required human talent etc. And enable the companies to share the risk in the foreign markets. This act improves the local image in the host country and also satisfies the governmental joint venture.

**7. Acquisitions & Mergers**

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

**Motives for acquisitions:**

1. Removal of competitor

2. Reduction of the Co failure through spreading risk over a wider range of activities.

3. The desire to acquire business already trading in certain markets & possessing certain specialist employees &equipments

4. Obtaining patents, license & intellectual property.

5. Economies of scale possibly made through more extensive operations.

6. Acquisition of land, building & other fixed asset that can be profitably sold off.

7. The ability to control supplies of raw materials.

8. Expert use of resources.

9. Tax consideration.

10. Desire to become involved with new technologies &management method particularly in high risk industries.

**8. Wholly Owned Subsidiary**

Subsidiary means individual body under parent body. This Subsidiary or individual body as per their own generates revenue. They give their own rent, salary to employees, etc. But policies and trademark will be implemented from the Parent body.

**An overview of business environment**

A SWOT analysis therefore is one of the first steps in the strategic management process.

**External Micro Environment:**

Micro external forces have an important effect on business operations of a firm. However, all micro forces may not have the same effect on all firms in the industry. For example, suppliers, an important element of micro level environment, are often willing to provide the materials at relatively lower prices to big business firms.

**Suppliers of Inputs:**

An important factor in the external environment of a firm is the suppliers of its inputs such as raw materials and components. A smooth and efficient working of a business firm requires that it should have ensured supply of inputs such as raw materials.

**Customers:**

The people who buy and use a firm’s product and services are an important part of external micro-environment. Since sales of a product or service is critical for a firm’s survival and growth, it is necessary to keep the customers satisfied. To take care of customer’s sensitivity is essential for the success of a business firm.

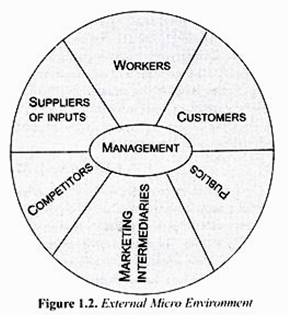
#### Marketing Intermediaries:

In a firm’s external environment marketing intermediaries play an essential role of selling and distributing its products to the final buyers. Marketing intermediaries include agents and merchants such as distribution firms, wholesalers, retailers.

Marketing inter­mediaries are responsible for stocking and transporting goods from their production site to their destination, that is, ultimate buyers. There are marketing service agencies such as marketing research firms, consulting firms, advertising agencies which assist a business firms in targeting, promoting and selling its products to the right markets.

#### Competitors:

Business firms compete with each other not only for sale of their products but also in other areas. Absolute monopolies in case of which competition is totally absent are found only in the sphere of what are called public utilities such as power distribution, telephone service, gas distribution in a city etc. More generally, market forms of monopolistic competition and differen­tiated oligopolies exist in the real world.

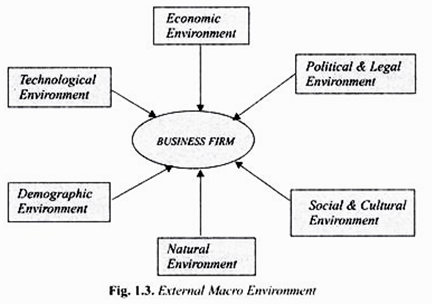


#### Publics:

Finally, publics are an important force in external micro environment. Public, accord­ing to Philip Kottler “is any group that has an actual or potential interest in or impact on a company’s ability to achieve its objective”. Environmentalists, media groups, women associations, consumer protection groups, local groups, citizens associations are some important examples of publics which have an important bearing on environment of the firms.

**External Macro Environment:**

An important fact about external macro-environmental forces is that they are uncontrollable by the management of a firm. Because of the uncontrollable nature of macro forces a firm has to adjust or adapt itself to these external forces.



**International Business Environment factors:**

It consists of every factor influential to the business operations. These factors are classified into two broad categories. These are

a) External or Uncontrollable factors of Business environment.

b) Internal or Controllable factors of Business environment.

**External Factors**

The factors those are not controllable at any cost but have to adopt for success of business are external or uncontrollable factors. For example Demography, Political forces, Legal practices, Cultural influences, Technological advancement, competitiveness etc.

**Internal Factors**

The factors those are related to the internal operations of a business and can be controlled by proper management are controllable or internal factors of business environment. For instance Land, Labor, Capital, Business Location etc.

**Internal Environment Factors**

* Availability of finance
* Availability of staff
* Availability of time
* Experience/Training of staff
* Equipment available
* Current technology
* Quality of products
* Leadership/Quality of management

**EXTERNAL ENVIRONMENTAL FACTORS**

1. **SOCIAL CONDITIONS/ ENVIRONMENT:**

A Sociological perspective of environment includes the Demographic Status and Trends, the Work Ethic and Personal Values and General Cultural Values. Each of these influences how management accomplishes its jobs. Each country has a unique Social Environment and as business becomes international, management must understand these unique environments.

The country’s social environment affects the functioning of the business since it determines the value system of the society. Sociological factors establish the culture of work, labor mobility, work groups etc, hence, business operation of an enterprise. These factors include cost structure, customs and conventions, cultural heritage, peoples’ view towards wealth and income and scientific methods, seniority respect, mobility of labor.

All these factors have big impact on the business. For example, peoples’ demand determine the kind of products to be offered for sale; this demand is consequently affected by peoples’ attitudes, customs, cultural values, fashion and other related forces. The code of conduct that is supposed to be followed by the business is determined by the socio-cultural environment.

**2. Economic Environment**

Economic factors that influence the business are the collective of the nature of the country’s economic system, its structures, and economic policies, how the capital market is organized, and nature of factors of production, business cycles, and socio-economic infrastructure.

Any successful organization pictures out the external factors that affect the business, anticipates the prospective market situations and work to minimize the costs while maximizing the profits. When Burberry noticed the high demand of rainwear, it utilized this opportunity increasing its production in the market.

**3. Political Environment**

The political environment of any country influences the business to a larger extent. This political environment is influenced by the political organization, philosophy, government ideology, nature and extent of bureaucracy, the country’s political stability, its foreign policy, defense and military policy, the country’s image and that of its leaders both locally and internationally.

For example a country’s policy that restricts the growth of multinationals in the market will automatically limit the business operations of the company hence its growth. Similarly, government policy that allows licensing that is liberal, liberal exportation and importation, inflow of foreign capital and technology, affects the business operation.

Globalization as government policy too has influence on the business. Burberry was able to establish its first foreign outlets in Paris, United States and South America, and export its first shipment of raincoat to Japan because of the government’s globalization policy.

**4. Technological Environment:**

Technological factors affects business concerning technological investment, technological application and the effect of technology on markets. Therefore, any technological advancement affects highly the business in a country. The type and quality of goods and services to be produced and the type and quality of plant and equipment to be used in a company, is determined by the kind of technology employed by that company.

For example Burberry is extending its web reach so that its customers worldwide can view its brands.

**5. Legal Environment**

The legal environment affects the business and its managers greatly. Legal factors involve how flexible and adaptable the law and legal rules that govern the business are. It also includes the exact rulings and courts decision. Legal provisions may also contribute to more or less income depending on the environment of operation.

For example, Burberry Limited makes a considerable portion of its income from licensing, which amounts to about £109 million pounds. This is made possible as portrayed by the graph below because of laws and regulations in its foreign destinations of operations, which allow it to charge licensing fee.

**Cultural Environment to influence investment patterns**

Cultural variety is a behavioral characteristic of investors and evaluating the cultural influences in the area of financial management on the decisions of investors plays an important role. In fact, different behaviors and decisions are required in various cultures facing the prices, price fluctuations and important or non-important published news of portfolio.

Experts’ comments were used on the design of items and quintet Likert spectrum was applied for the answers. Structural equation modeling, or multivariable analysis with latent variables, is a comprehensive statistical approach for testing the hypotheses about relationships between observed and latent variables. Such analyzes have been done by LISREL software and the results showed that there was a significant relationship between investment and its triple factors and also between the items and triple factors affecting on investment.

**International Investment**

* The primary form of international seems to be mergers and acquisitions, as evidenced by the sheer amount of attention it receives.  Recently liberalized have allowed telecom companies to purchase networks in other nations or regions.  In the short term, purchasing networks is far less costly than constructing new networks.
* Again, no set international statistics were found.  We believe that because markets are still in development and have not reached saturation, profitable opportunities are widely available within developed countries.  Within developing economies, domestic firms lead efforts to expand networks physically.
* Numerous examples of merger activity are available in the company section of this web site.

**International investment patterns**

* We provide a systematic analysis of the bilateral factors driving portfolio equity holdings across countries. We find that bilateral equity holdings are strongly correlated with bilateral trade in goods and services. Larger bilateral positions are also associated with proxies for informational proximity.

**Patterns and trends in international business**

Wall, Minocha and Rees (2010) identified broad range of important and measurable trends in international business activity. These trends are

* + Rapid growth in world trade and investment
  + Rapid growth in cross-border mergers and acquisitions
  + More liberalized markets on global scale
  + More globally-dispersed value chains
  + Bi-polar to tri-polar (triad)
  + Growth of regional trading arrangements
  + Growth of bilateral investment and trade treaties
  + Growth of sovereign wealth fund (SWFs)
  + Growth of ‘defensive techniques’ to combat global insecurity Changing area patterns of international cost

**Trade:**

Trade refers to buying and selling of goods and services for money or money's worth. It involves transfer or exchange of goods and services for money or money's worth. The manufacturers or producer produces the goods, then moves on to the wholesaler, then to retailer and finally to the ultimate consumer.

**Different Types of Trade**

* **Internal trade**

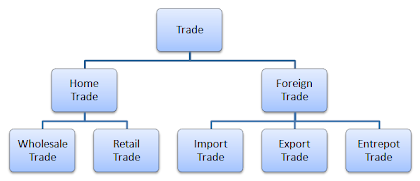
Internal trade is also known as Home trade. It is conducted within the political and geographical boundaries of a country. It can be at local level, regional level or national level.

* **Wholesale Trade**

It involves buying in large quantities from producers or manufacturers and selling in lots to retailers for resale to consumers. The wholesaler is a link between manufacturer and retailer.

* **Retail Trade**

It involves buying in smaller lots from the wholesalers and selling in very small quantities to the consumers for personal use. The retailer is the last link in the chain of distribution.



* **External trade**

**E**xternal tradealso called as [foreign trade](http://kalyan-city.blogspot.com/2011/03/what-is-foreign-trade-types-and.html). It refers to buying and selling between two or more countries.

* **Export Trade**: When a trader from home country sells his goods to a trader located in another country, it is called export trade. For e.g. a trader from India sells his goods to a trader located in China.
* **Import Trade**: When a trader in home country obtains or purchase goods from a trader located in another country, it is called import trade. For e.g. a trader from India purchase goods from a trader located in China.
* **Entrepot Trade**: When goods are imported from one country and then re-exported after doing some processing, it is called Entrepot trade.

**INDIA TOP TEN EXPORTS**

The following export product groups represent the highest dollar value in Indian global shipments during 2018. Also shown is the percentage share each export category represents in terms of overall exports from India.

* Mineral fuels including oil: US$48.3 billion (14.9% of total exports)
* Gems, precious metals: $40.1 billion (12.4%)
* Machinery including computers: $20.4 billion (6.3%)
* Vehicles: $18.2 billion (5.6%)
* Organic chemicals: $17.7 billion (5.5%)
* Pharmaceuticals: $14.3 billion (4.4%)
* Electrical machinery, equipment: $11.8 billion (3.6%)
* Iron, steel: $10 billion (3.1%)
* Cotton: $8.1 billion (2.5%)
* Clothing, accessories (not knit or crochet): $8.1 billion (2.5%)

**ADVANTAGES**

The following types of Indian product shipments represent positive net exports or a trade balance surplus. It defines net exports as the value of a country’s total exports minus the value of its total imports.  
  
In a nutshell, net exports is the amount by which foreign spending on a home country’s goods or services exceeds or lags the home country’s spending on foreign goods or services.

**OPPOUTUNITIES**

Overall India incurred a -$184.5 billion trade deficit for all products during 2018, swelling 24.5% from its -$148.2 billion in red ink one year earlier.  
  
 Below are exports from India that result in negative net exports or product trade balance deficits. These negative net exports reveal product categories where foreign spending on home country India’s goods trail Indian importer spending on foreign products.

**Major Indian Export Companies**

* India places over 50 corporations on the Forbes Global 2000 rankings. Many of these are major Indian export companies. Below is a selection of some of the biggest Indian corporations.
* Reliance Industries (oil, gas)
* Tata Motors (cars, trucks)
* Indian Oil (oil, gas)
* Coal India (diversified metals, mining)
* ITC (tobacco)
* Bharat Heavy Electricals (electrical equipment)
* Hindalco Industries (aluminum)
* Tata Steel (iron, steel)
* Bharat Petroleum (oil, gas)
* Hindustan Petroleum (oil, gas)
* Sun Pharma Industries (pharmaceuticals)
* Steel Authority of India (iron, steel)
* Bajaj Auto (recreational products)
* Hero Motocorp (recreational products)
* Grasim Industries (construction materials)

JSW Steel (iron, steel)

**UNIT II**

**FDI**

Foreign direct investment (FDI) is an important factor in acquiring investments and grows the local market with foreign finances when local investment is unavailable. There are various formats of FDI and companies should do a good research before actually investing in a foreign country.

**Types of Foreign Direct Investment**

There are two types of foreign direct investment. One is a horizontal foreign direct investment and another is the vertical foreign direct investment.

**Horizontal FDI**

This is the most common types of foreign direct investment. In this case, a company merges with another company of another country to get stronger in the market and the products/services offered are of a homogeneous nature. It’s done first to have a piece of market share in the foreign market and next to reduce competition.

**Vertical FDI**

When a company of one country acquires or merger with another company of different country just to add more value to their value chain, it would be called vertical FDI. For example, if a company invests in a foreign company just to have a supplier producing raw materials for them, it would be a vertical FDI.

Foreign Direct Investments can also be divided into another two types inward FDI and outward FDI.

Inward FDI is invested in the local resources. And outward Foreign Direct Investment is defined as the investments made abroad that are thoroughly backed by the government.

**Methods of Foreign Direct Investment (FDI)**

There are many ways through which FDI is done. Here we will talk about the most prominent methods and types of foreign direct investment. Methods of FDI can be divided into two broad categories Greenfield investments and Brownfield investments.

**1 – Greenfield Investments:**

Green-field investments occur when a parent company or government begins a new venture by constructing new facilities in a country outside where the firm is headquartered.

**2 – Brownfield Investments:**

A Brownfield (also known as "brown-field") investment is when a company or government entity purchases or leases existing production facilities to launch a new production activity. This is one strategy used in foreign-direct investment.

**Advantages of Foreign Direct Investment:**

**1. Economic Development Stimulation.**   
Foreign direct investment can stimulate the target country’s economic development, creating a more conducive environment for you as the investor and benefits for the local industry.

**2. Easy International Trade.**  
Commonly, a country has its own import tariff, and this is one of the reasons why trading with it is quite difficult. Also, there are industries that usually require their presence in the international markets to ensure their sales and goals will be completely met. With FDI, all these will be made easier.

**3. Employment and Economic Boost.**   
Foreign direct investment creates new jobs, as investors build new companies in the target country, create new opportunities. This leads to an increase in income and more buying power to the people, which in turn leads to an economic boost.

**4. Development of Human Capital Resources.**   
One big advantage brought about by FDI is the development of human capital resources, which is also often understated as it is not immediately apparent. Human capital is the competence and knowledge of those able to perform labor, more known to us as the workforce. The attributes gained by training and sharing experience would increase the education and overall human capital of a country. Its resource is not a tangible asset that is owned by companies, but instead something that is on loan. With this in mind, a country with FDI can benefit greatly by developing its human resources while maintaining ownership.

**5. Tax Incentives.**   
Parent enterprises would also provide foreign direct investment to get additional expertise, technology and products. As the foreign investor, you can receive tax incentives that will be highly useful in your selected field of business.

**6. Resource Transfer.**   
Foreign direct investment will allow resource transfer and other exchanges of knowledge, where various countries are given access to new technologies and skills.

**7. Reduced Disparity Between Revenues and Costs.**   
Foreign direct investment can reduce the disparity between revenues and costs. With such, countries will be able to make sure that production costs will be the same and can be sold easily.

**8. Increased Productivity.**   
The facilities and equipment provided by foreign investors can increase a workforce’s productivity in the target country.

**9. Increment in Income.**   
Another big advantage of foreign direct investment is the increase of the target country’s income. With more jobs and higher wages, the national income normally increases. As a result, economic growth is spurred. Take note that larger corporations would usually offer higher salary levels than what you would normally find in the target country, which can lead to increment in income

### Disadvantages of Foreign Direct Investment

**1. Hindrance to Domestic Investment.**   
As it focuses its resources elsewhere other than the investor’s home country, foreign direct investment can sometimes hinder domestic investment.

**2. Risk from Political Changes.**   
Because political issues in other countries can instantly change, foreign direct investment is very risky. Plus, most of the risk factors that you are going to experience are extremely high.

**3. Negative Influence on Exchange Rates.**   
Foreign direct investments can occasionally affect exchange rates to the advantage of one country and the detriment of another.

**4. Higher Costs.**   
If you invest in some foreign countries, you might notice that it is more expensive than when you export goods. So, it is very imperative to prepare sufficient money to set up your operations.

**5. Economic Non-Viability.**   
Considering that foreign direct investments may be capital-intensive from the point of view of the investor, it can sometimes be very risky or economically non-viable.

**6. Expropriation.**   
Remember that political changes can also lead to expropriation, which is a scenario where the government will have control over your property and assets.

**7. Negative Impact on the Country’s Investment.**   
The rules that govern foreign exchange rates and direct investments might negatively have an impact on the investing country. Investment may be banned in some foreign markets, which means that it is impossible to pursue an inviting opportunity.

**8. Modern-Day Economic Colonialism.**  
Many third-world countries, or at least those with history of colonialism, worry that foreign direct investment would result in some kind of modern day economic colonialism, which exposes host countries and leave them vulnerable to foreign companies’ exploitations.

**HURDLES FOR FDI IN INDIA**

1. **Political Considerations:**

 The fractious nature of Indian politics has led to expiry of one party rule system. No government is possible these days without the support of regional political outfits. These regional satraps in the name of protecting the interests of poor, oppose liberalizations of policies which might lead to increase in foreign investment.

1. **Infrastructure:**

 Despite the importance being accorded to infrastructure by the government it continues to be a reason to not invest in India. India’s roads still continue to be one of the worst in the world. The power cuts remain a way of life.

1. **Government Policies:**

India happens to have one of the highest tariff rates in the world. Most of the East Asian countries charge taxes up to 30%. However the corporate taxes are charged in excess of 35% in India. A cap on the foreign equity in certain sectors also limits foreign investments.

1. **Labor Laws:**

 India has abundance of manpower available at one of the cheapest rates in the world. But, the inflexible nature of labour laws often makes investors shy away from India. The present Indian labour laws forbid layoffs of workers for any reason. These laws protect the workers and thwart attempts to restructure business.

1. **Corruption** **& Bureaucracy:**

In India corruption is the norm, not an exception. India is afflicted with a crisis in governance, with corruption in nearly every public service. In order to set up an operation in India, investors whether local or foreign have to pay some form of bribery.

**IMPACT OF FDI ON HOST COUNTRY:**

1. The main assumption of this model is that there is an increase in the marginal productivity of labour and a decrease in the marginal productivity of capital.

2. The other theory was proposed by Hymmer (1960) and is called the theory of industrial organization. The main question of the theory is why firms make investments in other countries in order to manufacture the similar goods they manufacture at home. The answer to this question has been rightly devised by Kindleberger, 1969, who says, “for direct investment to thrive there must be some imperfection in markets for goods or factors, including among the latter technology, or some interference in competition by government or by firms, which separates markets”.

**POSITIVE EFFECTS OF FDI ON HOST ECONOMY:**

* FDIs have a number of positive impacts on the host country.
* It encourages economic development by increasing the productivity and exports of the host countries. There are four channels which help in increasing the productivity of host country, namely imitation, skill acquisition, competition and exports.
* Firms in the host countries benefit by the indirect technology transfer that takes place between the MNC and the domestic companies.
* Local firms can compete more successfully in the export markets by copying the superior technology or management techniques used by the multinationals.
* Domestic firms become more exposed to the foreign markets and subsequently their knowledge of the international markets increases. The Managers and other qualified employees of the domestic firms acquire the superior managerial and technical skills, which increases their efficiency.
* Multinationals increase the existing market competition, instigating the local firms to become more efficient by investing in physical or human capital. They help to increase industrial efficiency and improve resource allocation in host countries by entering markets which had many entry barriers.
* Multinationals also influence the local suppliers of intermediate products to become more efficient with delivery speed, quality and reliability of the products so as to meet the high standards of the overseas company.
* It is seen that FDI has a positive impact on labour market.
* Lastly FDI affects the economy of the host country positively by increasing their revenues in the form of taxes, strengthening the exchange rate of the country and instigating the government to make policies which would attract more MNCs towards it.

**NEGATIVE IMPACT OF FDI ON HOST ECONOMY:**

* **ENVIRONMENTAL DEGRADATION:**

With increasing competition all over the world, companies are shifting their production base to developing countries where they can carry out the production of goods that are pollutant to the environment. These countries have flexible environmental regulations and are less stringent with their enforcements.

* **MARKET STRUCTURE:**

FDI has a negative impact on the market structure as well. As the multinationals enter the market, it leads to the increase of concentration levels within the economy which in turn hampers market control. Therefore risk is prevalent.

* **TECHNOLOGY:**

FDI’s open the doors for the host country to access new technology but this technology is controlled and possessed only by the MNEs. MNCs generally invest in capital-intensive technologies and have strict proprietary rights which prevent its spill over to local firms.

* **COMPETITION:**

FDIs have an adverse affect on competition and hamper the prevailing market equilibrium. In developing countries, the domestic firms may not be able to cope up with the competition put up by the MNCs. Thus they would lose out on business.

* **PRODUCTIVITY:**

With the establishment of multinationals, the demand for foreign inputs increases in comparison to local inputs which hinder the domestic firm from producing to its optimum capacity. Thus the domestic firms are not able to take advantage of economies of scale.

* **LABOURERS:**

One of the most attractive features for FDI in a host country is cheap labour. They take advantage of the cheap labour by producing labour intensive goods and thereby decreasing their costs of goods. With the establishment of labour intensive technology by MNCs, a country becomes highly dependent on them for its employment.

* **GOVERNMENT POLICIES:**

The government of the host country may face problems due to the establishment of FDIs. The government has less control over the operations of the foreign company that is functioning as the wholly owned subsidiary of an overseas company. Taking advantage of this, the MNC may not abide by the economic policies of the host country.

* **CROWDING OUT OF DOMESTIC INVESTMENTS:**

FDI crowds out domestic investments by creating a monopolistic environment. This can be explained in two ways. Firstly MNCs raise funds locally in the domestic market, increasing the demand for money and in turn increasing the interest rates, which crowds out domestic investments. Secondly when MNCs enter a new country, they bring with them huge investments which increases the overall money flow of the country.

* **INFRASTRUCTURE CONSTRAINTS:**

Multinationals come in the way of a country’s infrastructure development. It is seen that multinationals are always attracted towards the more favorable regions of a country. Now with the establishment of multinationals in these regions, more efforts are put towards the betterment of these regions. As a result the rural and poor regions are ignored and they continue to remain underdeveloped.

* **COUNTRY’S TRADE BALANCE:**

The capital and current account are also hampered. When the MNC enters the host country, it might have previous raw material suppliers, or intermediary product suppliers, from whom it continues to buy its secondary material; this would lead to an increase in the import of the country making the BOP unfavorable. Secondly MNCs transfer their profits, management fees, royalty fees, etc back to their home country, hampering the capital account of the country.

* **ECONOMY:**

Multinationals usually tend to exist in close proximity to each other. It is seen that MNCs have a tendency to concentrate in the certain sectors taking advantage of the location, labour and resources. Thus the economy becomes extremely reliant on the MNC. A withdrawal of MNC from such areas could seriously hamper the economy and this is seen as a very severe problem in the backward areas.

### Factors affecting foreign direct investment

**1. Wage rates**

A major incentive for a multinational to invest abroad is to outsource labour intensive production to countries with lower wages. If average wages in the US are $15 an hour, but $1 an hour in the Indian sub-continent, costs can be reduced by outsourcing production. This is why many Western firms have invested in clothing factories in the Indian sub-continent.

* However, wage rates alone do not determine FDI, countries with high wage rates can still attract higher tech investment. A firm may be reluctant to invest in Sub-Saharan Africa because low wages are outweighed by other drawbacks, such as lack of infrastructure and transport links.

**2. Labour skills**

Some industries require higher skilled labour, for example pharmaceuticals and electronics. Therefore, multinationals will invest in those countries with a combination of low wages, but high labour productivity and skills. For example, India has attracted significant investment in call centers, because a high percentage of the population speak English, but wages are low. This makes it an attractive place for outsourcing and therefore attracts investment.

**3. Tax rates**

Large multinationals, such as Apple, Google and Microsoft have sought to invest in countries with lower corporation tax rates. For example, Ireland has been successful in attracting investment from Google and Microsoft. In fact it has been controversial because Google has tried to funnel all profits through Ireland, despite having operations in all European countries.

**4. Transport and infrastructure**

A key factor in the desirability of investment is the transport costs and levels of infrastructure. A country may have low labour costs, but if there are then high transport costs to get the goods onto the world market, this is a drawback. Countries with access to the sea are at an advantage to landlocked countries, who will have higher costs to ship goods.

**5. Size of economy / potential for growth**

Foreign direct investment is often targeted to selling goods directly to the country involved in attracting the investment. Therefore, the size of the population and scope for economic growth will be important for attracting investment. For example, Eastern European countries, with a large population, e.g. Poland offers scope for new markets. This may attract foreign car firms, e.g. Volkswagen, Fiat to invest and build factories in Poland to sell to the growing consumer class. Small countries may be at a disadvantage because it is not worth investing for a small population. China will be a target for foreign investment as the new emerging Chinese middle class could have very strong demand for the goods and services of multinationals.

**6. Political stability / property rights**

Foreign direct investment has an element of risk. Countries with an uncertain political situation, will be a major disincentive. Also, economic crisis can discourage investment. For example, the recent Russian economic crisis, combined with economic sanctions, will be a major factor to discourage foreign investment. This is one reason why former Communist countries in the East are keen to join the European Union. The EU is seen as a signal of political and economic stability, which encourages foreign investment.

Related to political stability is the level of corruption and trust in institutions, especially judiciary and the extent of law and order.

**7. Commodities**

One reason for foreign investment is the existence of commodities. This has been a major reason for the growth in FDI within Africa – often by Chinese firms looking for a secure supply of commodities.

**8. Exchange rate**

A weak exchange rate in the host country can attract more FDI because it will be cheaper for the multinational to purchase assets. However, exchange rate volatility could discourage investment.

**9. Clustering effects**

Foreign firms often are attracted to invest in similar areas to existing FDI. The reason is that they can benefit from [external economies of scale](https://www.economicshelp.org/blog/glossary/external-economies-of-scale/) – growth of service industries and transport links. Also, there will be greater confidence to invest in areas with a good track record. Therefore, some countries can create a virtuous cycle of attracting investment and then these initial investments attracting more. It is also sometimes known as an [agglomeration effect](https://www.economicshelp.org/blog/glossary/agglomeration-economies/).

**10. Access to free trade areas.**

A significant factor for firms investing in Europe is access to EU Single market, which is a free trade area but also has very low non-tariff barriers because of harmonisation of rules, regulations and free movement of people. For example, UK post-Brexit is likely to be less attractive to FDI, if it is outside the Single Market.

**UNIT-III**

**WORLD BUSINESS ENVIRONMENT:**

Environment refers to all external forces, which have a bearing on the functioning of business. Environment factors “are largely if not totally, external and beyond the control of individual industrial enterprises and their managements. The business environment poses threats to a firm or offers immense opportunities for potential market exploitation.

**Definition** **of** **financial environment:**

A financial environment is a part of an economy with the major players being firms, investors, and markets. Essentially, this sector can represent a large part of a well-developed economy as individuals who retain private property have the ability to grow their capital.

**TYPES OF ENVIRONMENT:**

Environment includes such factors as socio-economic, technological, supplier, competitor and the government. There are two more factors, which exercise considerable influence on business. They are physical or natural environment and global environment.

* **Technological Environment**

Technology is understood as the systematic application of scientific or other organized knowledge to practical tasks. Technology changes fast and to keep pace with it, businessmen should be ever alert to adopt changed technology in their businesses.

* **Economic Environment**

There is close relationship between business and its economic environment. Business obtains all its needed inputs from the economic environment and it absorbs the output of business units

* **Political Environment**

It refers to the influence exerted by the three political institutions viz., legislature executive and the judiciary in shaping, directing, developing and controlling business activities. A stable and dynamic political environment is indispensable for business growth.

* **Natural Environment**

Business, an economic pursuit of man, continues to be dictated by nature. To what extend business depends on nature and what is the relationship between the two constitutes an interesting study.

* **Global or international Environment**

Thanks to liberalization, Indian companies are forces to view business issues from a global perspective. Business responses and managerial practices must be fine-tuned to survive in the global environment.

* **Social and culture Environment**

It refers to people’s attitude to work and wealth; role of family, marriage, religion and education; ethical issues and social responsiveness of business.

**Nature, Significance, and Scope of Financial Management**

Financial management is an organic function of any business. Any organization needs finances to obtain physical resources, carry out the production activities and other business operations, pay compensation to the suppliers, etc. There are many theories around financial management:

1. Some experts believe that financial management is all about providing funds needed by a business on terms that are most favorable, keeping its objectives in mind. Therefore, this approach concerns primarily with the procurement of funds which may include instruments, institutions, and practices to raise funds. It also takes care of the legal and accounting relationship between an enterprise and its source of funds.
2. Another set of experts believe that finance is all about cash. Since all business transactions involve cash, directly or indirectly, finance is concerned with everything done by the business.
3. The third and more widely accepted point of view is that financial management includes the procurement of funds and their effective utilization. For example, in the case of a manufacturing company, financial management must ensure that funds are available for installing the production plant and machinery. Further, it must also ensure that the profits adequately compensate the costs and risks borne by the business.

In a developed market, most businesses can raise capital easily. However, the real problem is the efficient utilization of the capital through effective financial planning and control.

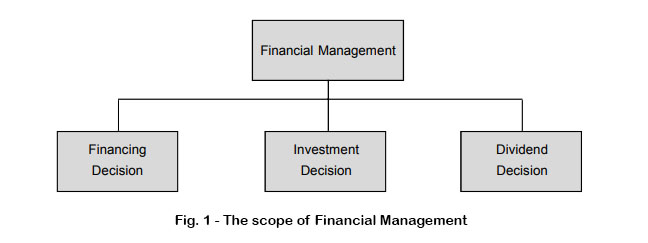
Further, the business must ensure that it deals with tasks like ensuring the availability of funds, allocating them, managing them, investing them, controlling costs, forecasting financial requirements, planning profits and estimating returns on investment, assessing working capital, etc.

### The scope of Financial Management

The introduction to financial management also requires you to understand the scope of financial management. It is important that financial decisions take care of the shareholders ‘interests.

Further, they are upheld by the maximization of the wealth of the shareholders, which depends on the increase in net worth, capital invested in the business, and plowed-back profits for the growth and prosperity of the organization.

**The scope of financial management is explained in the diagram below:**



### Core Financial Management Decisions:

In organizations, managers in an effort to minimize the costs of procuring finance and using it in the most profitable manner, take the following decisions:

**Investment Decisions:**Managers need to decide on the amount of investment available out of the existing finance, on a long-term and short-term basis. They are of two types:

* Long-term investment decisions or Capital Budgeting mean committing funds for a long period of time like fixed assets. These decisions are irreversible and usually include the ones pertaining to investing in a building and/or land, acquiring new plants/machinery or replacing the old ones, etc. These decisions determine the financial pursuits and performance of a business.
* Short-term investment decisions or Working Capital Management means committing funds for a short period of time like current assets. These involve decisions pertaining to the investment of funds in the inventory, cash, bank deposits, and other short-term investments. They directly affect the liquidity and performance of the business.

**Financing Decisions:**Managers also make decisions pertaining to raising finance from long-term sources (called Capital Structure) and short-term sources (called Working Capital). They are of two types:

* **Financial Planning decisions** which relate to estimating the sources and application of funds. It means pre-estimating financial needs of an organization to ensure availability of adequate finance. The primary objective of financial planning is to plan and ensure that the funds are available as and when required.
* **Capital Structure decisions** which involve identifying sources of funds. They also involve decisions with respect to choosing external sources like issuing shares, bonds, borrowing from banks or internal sources like retained earnings for raising funds.
* **Dividend Decisions:**These involve decisions related to the portion of profits that will be distributed as dividend. Shareholders always demand a higher dividend, while the management would want to retain profits for business needs. Hence, this is a complex managerial decision.

**Cross-national co-operation and agreement**

Chapter Objectives

* To profile the World Trade Organization
* To discuss the pros and cons of global, bilateral, and regional integration
* To describe the static and dynamic effects and the trade creation and diversion effects of bilateral and regional economic integration
* To define different forms of regional economic integration
* To present different regional trading groups, such as the European Union (EU), the North American Free Trade Agreement (NAFTA), and Asia
* Pacific Economic Cooperation (APEC)
* To describe the rationale for and success of commodity agreements

**Cross- national co-operation and agreements**

Integration is a political and economic agreement among countries that gives preference to member countries to the agreement. General integration can be achieved in three different approachable ways: through the [World Trade Organization](https://en.wikipedia.org/wiki/World_Trade_Organization) (WTO), bilateral integration, and [regional integration](https://en.wikipedia.org/wiki/Regional_integration). In bilateral integration, only two countries economically cooperate with one another, whereas in regional integration, several countries within the same geographic distance become joint to form organizations such as the [European Union](https://en.wikipedia.org/wiki/European_Union) (EU) and the [North American Free Trade Agreement](https://en.wikipedia.org/wiki/North_American_Free_Trade_Agreement) (NAFTA). Indeed, factors of mobility like capital, technology and labor are indicating strategies for cross-national integration along with those mentioned above.

**WTO**

The WTO is one of the most effective trade agreements among nations. The WTO replaced the [General Agreement on Tariffs and Trade](https://en.wikipedia.org/wiki/General_Agreement_on_Tariffs_and_Trade) (GATT) in 1995 and has 125 member nations. Currently 153 members are part of WTO. Many believe GATT initiated rampant liberalization in trade in 1947 and its move contributed to the expansion of trade all over the world by eliminating tariff and quotas. Moreover, WTO continued GATT's principle with more multilateral forum, which enables governments to settle agreements or to dispute them regarding trade.

Rapid growth of trade among nations has forced the agreement to be acknowledged as a fundamental basis for the member nations to follow certain rules and regulations as the signatories of the agreement. As a result, WTO expanded its mission to include trade in services, investments, intellectual property, sanitary measures, plant health, agriculture, and textiles, as well as technical barriers to trade.[[2]](https://en.wikipedia.org/wiki/Cross-national_cooperation_and_agreements#cite_note-Daniels,_J._2007-2)

**EU (EURO)**

The largest and most comprehensive regional economic group is the [EU](https://en.wikipedia.org/wiki/European_Union). It began as a [free trade agreement](https://en.wikipedia.org/wiki/Free_trade_agreement) with the goal to become a customs union and to integrate in other ways. The formation of the [European Parliament](https://en.wikipedia.org/wiki/European_Parliament) and the establishment of a [Euro](https://en.wikipedia.org/wiki/Euro) the common currency make EU the most ambitious in comparison to other regional [trade groups](https://en.wikipedia.org/wiki/Trade_group). It progressed from being the European Economic Community (EEC) to the [European Community](https://en.wikipedia.org/wiki/European_Community) (EC) to finally the European Union. Iceland, Liechtenstein, Norway, and Switzerland who decided not to leave [European Free Trade Area](https://en.wikipedia.org/wiki/European_Free_Trade_Area) are linked together with the EU as a customs union The EU comprises 28 countries, including 12 countries from mostly Central and Eastern Europe that joined since 2004. The EU abolished [trade barriers](https://en.wikipedia.org/wiki/Trade_barriers) on intra-zonal trade, instituted a [common external tariff](https://en.wikipedia.org/wiki/Common_external_tariff), created a common currency, the euro.

**Implication of the EU for corporate strategy**

* Companies need to determine where to produce products.
* Companies need to determine what their entry strategy will be.
* Companies need to balance the commonness of the EU with national differences.

**GATT**

The General Agreement on Tariffs and Trade (GATT), begun in 1947, created a continuing means for countries to negotiate the reduction and elimination of trade barriers and to agree on simplified mechanisms for the conduct of international trade

**Regional Economic Integration?**

Efforts at regional economic integration began to emerge after World War II as countries saw benefits of cooperation and larger market sizes

The major types of economic integration are:

* 1. the free trade area
  2. the customs union
  3. the common market

**GATT/WTO Milestones**

* 1947 Havana, Cuba: 23 countries negotiated major reductions in trade barriers that are codified as the General Agreement on Tariffs and Trade
* 1947 Geneva, Switz.: 23 members held first official meeting of the founding nations
* 1949 Annecy, France: 13 members negotiatedtariffconcessions
* 1951 Torquay, UK: 38 members negotiated tariff reductions and concessions
* 1956 Geneva, Switz.: 26 members negotiated tariff reductions and concessions
* 1960-61 Dillon Round (Geneva, Switz): 26 members
* negotiated tariff reductions and concessions
* 1964-67 Kennedy Round (Geneva, Switz): 62 members reviewed new trade rules and passed an anti-dumping agreement
* 1973-79 Tokyo Round: 102 members reduced customs duties and nontariff barriers
* 1986-94 Uruguay Round: 123 members expanded
* negotiations to include trade rules, services, intellectual property, dispute resolution, textiles, and agriculture; World Trade Organization was created
* 1995: World Trade Organization was formally institutionalized
* 2001 Doha Development Agenda: 148+ members continue to meet to resolve contentious issues between developed and developing nations

**Types of Regional Trade.**

**Types of Regional Trade Agreements**

Agreements that primarily address barriers to trade:

* free trade areas: economic bloc sin which all barriers to trade, i.e., tariff and nontariff barriers, are abolished amongst member nations, but each member determines its own external trade barriers beyond the bloc
* customs unions: economic blocs in which all barriers to trade, i.e., tariff and nontariff barriers, are abolished amongst member nations, and common external barriers are levied against non member countries A more extensive type of regional trade agreement
* common market: an economic bloc which also permits the free flow of capital and labor

**Tariff and Non-tariff barriers**

**Tariff**

A tariff is a tax imposed by a government on goods and services imported from other countries that serves to increase the price and make imports less desirable, or at least less competitive, versus domestic goods and services. Tariffs are generally introduced as a means of restricting trade from particular countries or reducing the importation of specific types of goods and services.

**Tariff barriers**

A tariff designed to make imports more expensive than domestically produced products. That is, a tariff barrier is a tax imposed upon imports to protect local industries and companies. However, proponents of tariff barriers argue that they can force countries to develop their own domestic industries.

**Non-tariff barriers**

A nontariff barrier is a way to restrict trade using trade barriers in a form other than a tariff. Nontariff barriers include quotas, embargoes, sanctions, and levies. As part of their political or economic strategy, large developed countries frequently use nontariff barriers to control the amount of trade they conduct with other countries.

**Difference between Tariff and Non-Tariff Barriers**

1. With tariffs the Government receives the revenue whereas no revenue is received by the Government by applying non-tariff measures. However, it is favored as an appropriate measure to meet the demand of the country and to protect the industry.

2. Non-tariff measures protect the procedures and make them feel more secure than under a tariff. But incentives are not there under tariffs.

3. In tariff customer’s classification and valuation procedures pose a problem before the customs authorities. Where-as under non-tariff measures no such problem arises.

4. Non-tariff barriers to trade induce the domestic producers to form monopolistic organizations with a view to keeping output low and prices high. This is not possible under import duty. Non-tariff barriers remain ineffective if monopolistic tendencies prevail in the country.

5. Non-tariff measures are flexible than tariff. Imposition of tariff and amendments are subject to legislative enactment.

6. In non-tariff the price differences will be greater in two countries because there is no free flow of imports; but in tariff—price differentiation will be equal to the cost of tariff and transportation between exporting and importing countries.

7. Tariffs are simple to operate. Tariff rates once fixed through legislation require no individual allocation of licensing quotas or exchange.

For non-tariff measures numbers of authorities are there to administer. It may result in political interference or corruption.

8. Tariff favors particularly to efficient firms in the country but non-tariff measures benefit established firm because they get quotas or import licenses.

9. Non-tariffs discriminate against new-comers but tariff do not discriminate.

**Reasons Governments are for Trade Barriers**

1. To protect domestic jobs from “cheap” labor abroad

Wages in industrialized countries are higher because their output per worker is higher than developing country. The higher wages reflect higher productivity. Otherwise, there is no comparative advantage in producing that product, or the owners would have to reduce wages to match productivity.

For example, the U.S. has import tariffs on sugar, making imported sugar more expensive than domestically-grown sugar. Thus, people in the US are going to buy US-produced sugar, which keeps money in the wallets of US sugar producers and farmers.

2. **To improve a trade deficit**

Trade barriers make imports more expensive, and as a result, they also decrease the demand for imports. However, in retaliation trade partners can do the same and increase prices for exports.

Thus, this using this rationale, governments won’t necessarily fix the problem, if domestically produced goods aren’t competitive or are not high-quality. Countries will also spend less on imports if their exports go down. To improve a trade deficit

3. **To protect “infant industries.”**

Countries want to give newly developing industries (known as infant industries) time to grow and become competitive nation. This is a reasonable argument for imposing trade barriers. However, in some cases, government protection never ends. These industries become competitive only because the government has given the benefit of the trade barrier.

4. **Protection from “dumping.”**

Dumping is when an importer sells products at below average cost of production. Dumping is hard to prove, yet nonetheless, sometimes countries impose anti-dumping duties just because it is competing against a locally manufactured product.

**5. To earn more revenue**

Governments gain extra revenue from tariffs (which is a tax on imports). The tariff may be in the form of a specific or ad valorem tax. Tariffs raise the price of the imported good and lower its consumption.

**Types of Trade Barriers**

1. Voluntary Export Restraints (VERs)

They are agreements between an exporting and an importing country that limits the quantity businesses can export during a period. Even though the term says the agreement is voluntary, it is usually not. By reducing the quantity exported, the exporting country can increase prices and total revenue.

2. Regulatory Barriers

Any “legal” barriers that try to restrict imports. These include things like safety standard, pollution standards, product standards that specify that the product should meet or exceed standards set by the local government. Ex: Car manufacturers often have to pass certain safety ratings to sell the car in the importing country.

3. Anti-Dumping Duties

Dumping happens when the exporting producer sells goods below cost. The government then can impose a duty on the good till the World Trade Organization decides the issue. However, firms often claim that the good is produced below cost to buy more time for themselves. It is often difficult to determine the actual costs of the firm.

4. Subsidies

Government offer subsidies to help make firms more competitive by lowering their cost.

5. Tariffs

A tariff is a type of trade barrier that acts as a tax on imports. The tariff may be in the form of a specific or ad valorem tax. Tariffs raise the price of the imported good to lowers its consumption. This price increase encourages consumers to pick the local option.

6. Quotas

A quota, a type of trade barrier, is a restriction on the quantity that can import into a country. Quotas and Tariffs are effectively the same except that governments collect revenue from tariffs while exporting firms can collect extra revenue from quotas (box 3). This increases the firm’s export revenue.

**Advantages and Disadvantages of Tariff and Non-Tariff Barriers**

**Tariff Barriers**

**Pros**

1. Protecting local industries: Tariffs are imposed on imports in order to protect local industries from collapsing. They discourage foreign industries from importing cheaper goods from abroad hence protecting local industries.

2. Saving jobs: Tariffs also play an important role in protecting local jobs. By imposing tariffs, cheaper goods from foreign countries are restricted hence promoting local industries which leads to creation of more jobs.

3. Fair play: Tariffs play an important role in encouraging fair play between countries. It makes it easier for countries to grow their industries to the level of other countries.

4. Creation of employment: Tariffs create employment within a country by encouraging local industries to grow and manufacture their own goods.

5. Strengthening of local economy: By encouraging the local industries to grow and manufacture local goods and services, this has an effect on the growth of the economy.

6. Reduces the deficit of the economy: Tariffs prevent foreign goods and service from infiltrating the market hence reducing the deficit of the economy since most of the products are produced locally.

7. Restricts importation of undesired goods: Tariffs increases the prices of goods that come in from other countries. This will discourage other people from importing goods that are undesired such as sex toys and drugs in to the country.

8. Prevent dumping: Tariffs protect the country from being a recipient of goods that have been rejected in other countries. This is known as dumping.

9. Additional revenue to the government: Tariffs increase the tax charged on goods and services being imported into the country and this increases the revenue collected by the government.

10. Expansion of the economy: Tariffs also play an important role in the growth and expansion of the economy through such things as creation of employment, reduction of the deficit and increase in revenue for the government.

**Cons**

1. Increases taxation: Tariffs have the net effect of increasing the tax levied on goods and services being imported which then increases the price of the good.

2. Discourages imports: Tariffs discourage other countries from exporting goods to other countries which may eventually lead to shortage of goods and services.

3. Reduces or eliminates variety: Tariffs means that less and less goods and services will be shipped into a country and this has the effect of reducing or eliminating variety among the consumers.

4. Discourages trade: Tariffs have an overall effect of discouraging trade between countries which also means that it may hinder the cooperation between two countries and affect their relationship in the long run.

5. Reduce the quality of goods and services: When countries impose tariffs on goods from other countries, they reduce competition within that country. By reducing competition, it means that local producers will stop producing quality goods and services because there is no competition.

6. Raises the price of imports: Tariffs have an effect on the prices of goods being imported to a country thereby making them expensive and sometimes unaffordable among the local population.

7. Discourages competition: Tariffs work to protect the local companies from competition from other foreign companies. While this helps in building local companies, it also eliminates competition which is healthy in the provision of quality and cheap products for the consumers.

8. Discourages foreign investment: Tariffs discourages foreign investors from investing in the country. This has a negative impact on the economy since it denies the country foreign direct investment.

9. Affects international relations: Tariffs have an impact on the relations between two countries since they negate the gains made through foreign relations. This may also impact negatively the bilateral relations between two countries.

10. It may have negative effects on the economy: Tariffs have the potential of having negative effects on the economy through reduction in competition between manufacturers, lack of adequate supply of products and so on.

**Non-tariff barriers**

**Pros**

The advantages of NTMs will also mainly be those of protectionism. Non-tariff barriers help protect the development of new industries against foreign rivals.

If foreign industries compete with domestic industries that are not developed enough or large enough yet to take advantage of economies of scale, then NTBs, such as import quotas, can protect the ‘infant’ industry from too much competition through its maturing stages until it can compete on its own.

Similarly, NTMs also offer protection to certain economies against foreign countries that are interested to trade with them only because they know that the domestic economies will not be able to face competition from them and will eventually collapse, leaving them a monopoly of the domestic market. An example of such unfair trading is ‘dumping’.

The barriers to trade protect the domestic economies from such countries with an unfair relative advantage.

It is believed that the use of NTBs can result in increased domestic employment. Since foreign firms create jobs abroad, NTBs such as import quotas, reduce imports, make domestic production rise instead, and thus create domestic employment.

Also, reducing imports from countries with cheaper labor levels the competition compared to the higher wages being paid for local production.

NTBs, moreover, by cutting down imports, help countries boost those local industries that are concerned with the national security and also those industries which help give the country economic independence.

**Cons**

The main disadvantage of NTMs is that they hinder free trade and the benefits that accompany the latter. The protectionist aspect of NTBs discourages competition from bigger industries and also from foreign countries.

While this might help domestic firms and industries to grow at first, in the long run, it in fact dampens future growth. This is because, due to the lack of competition, domestic firms can then afford to provide a narrow choice of goods to customers, to lower the goods’ quality, and to raise their prices.

Because of this inefficient production, there is also no more incentive for the firms to strive for constant innovation and excellence. Thus, ultimately, NTBs do not help in the future growth of firms.

There is another way in which NTMs drive up the prices of goods in the domestic economy. By restricting access to foreign countries where goods could be made more cheaply, more resources have to be employed domestically itself to make the same goods at a higher price.

Also, while free trade allows countries to benefit from the concept of comparative advantage, the use NTMs prevents countries from enjoying these benefits.

If countries specialize only in the production of goods in which they have a competitive advantage, this allows each country to produce at the minimum prices.

This efficiency in production benefits all parties to the trade. However, NTMs, by restricting trade, do not help in achieving that goal.

The use of NTBs can also result in trade wars. By raising trade barriers against a foreign country, the latter can decide to do the same in retaliation. The imports and exports of both countries are thus restricted, and this greatly reduces the markets open to them, lowering their scope for growth and efficiency.

If many countries across the world engage in these trade wars, global trade and economic activity will suffer drastically. These retaliations can also quickly spread beyond the source of conflict and affect the countries’ other economy policies as a way to retaliate.

It can be seen that all participants can take advantage of free trade through efficiency of the market, for instance, increased choice and reduced prices. However, non-tariff measures also have their uses and are necessary in certain conditions. There must be a balance between the quest for efficiencies and the use of barriers to trade.

**WTO (WORLD TRADE ORGNISTION)**

The WTO was established on January 1, 1995. It is the embodiment of the Uruguay round result and the success to GATT. 76 Governments become members of WTO on its first day. It has how 146 members, India being one of the founder members. It has a legal status and enjoys privileges and immunities on the same footing as the IMF and the world bank.

**World trade organization**

The world trade organization is “member – driven”, with decision taken by general agreement among all member of governments and it deals with the rules of trade between nations at a global or near – global level. But there is more to it than that ”

**FUNCTIONS OF WTO**

* Administering WTO trade agreements
* Forum for trade negotiations
* Handling trade disputes
* Monitoring national trade policies
* Technical assistance and training for developing countries
* Co-operation with other international organization

**SCOPE OF WTO**

* To oversee implementing and administering WTO agreements
* To provide a forum for negotiations
* To provide a dispute settlement mechanism
* Raising standards of living
* Ensuring full employment
* Ensuring large and steadily growing real income and demand
* Expanding the production of and trade in goods and services

**OBJECTIVES OF WTO**

* Its relation in the field of trade and economic endeavor shall be conducted with a view to raising standards of living, ensuring full employment.
* The allow for the optimal use of the world’s resources in accordance with the objective of sustainable development.
* To make positive efforts designed to ensure that developing countries especially the least developed among them.
* To achieve these objectives by entering into reciprocal and mutually advantageous arrangements.
* To develop an integrated more viable and durable multilateral trading system.
* To ensure linkages between trade policies environment policies and

sustainable development.

**PRINCIPLES OF WTO**

* **Trade without Discrimination**
* **Most – favoured – nation (MFN):**

Treating other people equally under the wto agreements, countries cannot normally discriminate between their trading partners. Grant someone a special favour (such as a lower customer duty rate for one of their products) and you have to do the same for all other wto member.

* **National treatment** :

Treating foreigners and locals equally imported and locally – produced goods should be treated equally – at least after the foreign goods have entered the market. The same should apply to foreign and domestic services. And to foreign and local trade marks.

* **Freer trade :**

gradually , through negotiation lowering trade barriers is one of the most obvious means of encouraging trade. The barriers concerned include customs duties and measures such as import bans or quotas that restrict quantities selectively

* **Predictability** :

Through binding and transparency sometimes, promising not to raise a trade barriers can be as important as lowering one because the promise gives businesses a clearer view of their future opportunities. With stability and predictability, investment is encouraged , jobs are created and consumers can fully enjoy the benefits of competition – choice and lower prices. The multilateral trading system is an attempt by governments to make the business environment stable and predictable.

* **Promoting fair competition:**

The wto is sometimes described as a “free trade” institution, but that is not entirely accurate. The system does allow tariffs and, in limited circumstances, other forms of protection. More accurately , it is a system of rules dedicated to open, fair and undistorted competition.

* **Encouraging development and economic reform**:

The wto system contributes to development. On the other hand, developing countries need flexibility in the time they take to implement the system’s agreements. And the agreement themselves inherit the earlier provisions of GATT that allow for special assistance and trade concessions for developing countries.

**Regional trading blocs**

A regional trading bloc is a group of countries within a geographical region that protect themselves from imports from non-members. Trading blocs are a form of economic integration, and increasingly shape the pattern of world trade.

**Regional Trade Blocs (RTBs)**

Regional Trade Blocs or Regional Trade Agreements (or Free Trade Agreements) are a type of regional intergovernmental arrangement, where the participating countries agree to reduce or eliminate barriers to trade like tariffs and non-tariff barriers.

The RTBs are thus historically known for promoting trade within a region by reducing or eliminating tariff among the member countries.

Over the last few decades, international trade liberalizations are taking place in a serious manner through the formation of RTBs. They are getting wide attention because of many important international developments.

First, now the world is trying hard to escape from the ongoing great recession phase. Second is the failure of the WTO to take further liberalization measures on the trade liberalization front.

**Types of trading bloc**

**Preferential Trade Area**

Preferential Trade Areas (PTAs) exist when countries within a geographical region agree to reduce or eliminate tariff barriers on selected goods imported from other members of the area. This is often the first small step towards the creation of a trading bloc.

**Free Trade Area**

Free Trade Areas (FTAs) are created when two or more countries in a region agree to reduce or eliminate barriers to trade on all goods coming from other members.

**Customs Union**

A customs union involves the removal of tariff barriers between members, plus the acceptance of a common (unified) external tariff against non-members. This means that members may negotiate as a single bloc with 3rd parties, such as with other trading blocs, or with the WTO.

**Advantages and Disadvantages of regional trading blocs**

**Advantages of trading blocs**

**Free trade within the bloc**

Knowing that they have free access to each other's markets, members are encouraged to specialize. This means that, at the regional level, there is a wider application of the principle of comparative advantage.

**Market access and trade creation**

Easier access to each other’s markets means that trade between members is likely to increase. Trade creation exists when free trade enables high cost domestic producers to be replaced by lower cost, and more efficient imports. Because low cost imports lead to lower priced imports, there is a 'consumption effect', with increased demand resulting from lower prices.

**Economies of scale**

Producers can benefit from the application of scale economies, which will lead to lower costs and lower prices for consumers.

**Jobs**

Jobs may be created as a consequence of increased trade between member economies.

**Protection**

Firms inside the bloc are protected from cheaper imports from outside, such as the protection of the EU shoe industry from cheap imports from China and Vietnam.

**Disadvantages of trading blocs**

**Loss of benefits**

The benefits of free trade between countries in different blocs is lost.

**Distortion of trade**

Trading blocs are likely to distort world trade, and reduce the beneficial effects of specialization and the exploitation of comparative advantage.

**Inefficiencies and trade diversion**

Inefficient producers within the bloc can be protected from more efficient ones outside the bloc. For example, inefficient European farmers may be protected from low-cost imports from developing countries. Trade diversion arises when trade is diverted away from efficient producers who are based outside the trading area.

**Cross border merger and acquisitions**

Cross border merger and acquisitions are of two types Inward and Outward. Inward cross border M&A's involve an inward capital movement due to the sale of a domestic firm to a foreign investor. Conversely outward cross border M&A's involves outward capital movement due to purchase of a foreign firm. Inward and outward M&A's are closely linked as on a whole M&A transactions comprise of both sales and purchase.

**Factors to be considered in Cross Border Mergers and Acquisitions:**

It is established in business reports that cross border M&A's actualize only when there are incentives to do so. Both the foreign company and the domestic partner must gain from the deal as otherwise; eventually the deal would turn sour. Many domestic firms in emerging markets overstate their capabilities in order to attract M&A, the foreign firms have to do their due diligence when considering an M&A deal with a domestic firm. Due to these reasons, many foreign firms get assistance of management consultancies and investment banks before they venture into an M&A deal. Apart from this, the foreign firms also consider the risk factors associated with cross border M&A that is a combination of political risk, economic risk, social risk, and general risk associated with black swan events. The foreign firms evaluate potential M&A partners and countries by forming a risk matrix composed of all these elements and depending upon whether the score is appropriate or not, they decide on the M&A deal. Cross border M&A also needs regulatory approvals as well as political support because in the absence of such expediting factors, the deals cannot go through.

**Numerous factors which motivate firms for cross border M&A's include**

* Globalization of financial markets
* Market pressures and falling demand due to international competition
* Seek new market opportunities since the technology is fast evolving
* Geographical diversification which would result in exploring the assets in other countries
* Increase companies efficiency in producing the goods and services
* Fulfilment of the objective to grow profitably
* Increase the scale of production
* Technology share and innovation which reduction

**Effects of Cross Border Merger and Acquisitions**

Normally, it is apparent that cross border merger and acquisitions are a reformation of industrial assets and production structures on a worldwide basis. It empowers the global transfer of technology, capital, goods and services and integrates for universal networking. Cross border M&A's leads to economies of scale and scope which helps in gaining efficiency. Apart from this, it also benefits the economy such as increased productivity of the host country, increase in economic growth and development particularly if the policies used by the government are favourable.

Capital build-up: Cross border merger and acquisitions support in capital accumulation on a long term basis. In order to expand their businesses it not only undertakes investment in plants, buildings and equipment's but also in the incorporeal assets such as the technical know-how, skills rather than just the physical part of the capital.

Employment creation: It is observed that the M&A's that are undertaken to drive restructuring may lead to downscaling but would lead to employment gains in the long term. The downsizing is sometimes essential for the continued existence of operations. When in the long run the businesses expands and becomes successful, it would create new employment opportunities.

Technology handover: When firms across countries join together, it sustains positive effects of transfer of technology, sharing of best management skills and practices and investment in intangible assets of the host country. This results in innovations and has an influence on the operations of the company.

**Cross Border Merger and Acquisitions - Issues and Challenges**

It is analyzed that cross border merger and acquisitions are quite similar to domestic M&A's. But because the former are huge and international in nature they pose certain unique challenges in terms of different economic, legal and cultural structures. There could be huge differences in terms of customer's choices, business practices, and the culture which could pose as a huge threat for companies to fulfil their strategic objectives. There are many issues and challenges related to cross border merger and acquisitions.

1. Political concerns: Political situation has major role in cross border merger and acquisitions, particularly for industries which are politically sensitive such as defence, security etc. It is also important to concerns of the parties like the governmental agencies (federal, state and local), employees, suppliers and all other interested should be addressed subsequent to the plan of the merger is known to public. In fact in certain cases there could be a requirement of prior notice and discussion with the labour unions and other concerned parties. It is important to identify and evaluate present or probable political consequences to avoid any probability of political risk arising.

2. Cultural challenges: Cultural factors exert more threat to the success of cross border merger and acquisitions. From past records, it can be established that huge mergers that have failed because of the cultural issues they have had. When there are cross border transactions issues arise because of the geographic scope of the deal. Several factors such as differing cultural backgrounds, language necessities and dissimilar business practices have led to fail mergers in spite of being in the age where we can instantly communicate. Research suggests that intercultural disagreement is one of the major indicator of failure in cross-border merger and acquisition. Hence irrespective of what the objective behind the alliance is businesses should be well aware of the of the intercultural endangerment and prospects that come hand in hand with the amalgamation process and prepare their workforce to manage these issues. In order to deal with these challenges businesses need to invest good amount of time and effort to be well aware of the local culture to gel with the employees and other concerned parties. It is better to over communicate and conforming things for successful merger.

3. Legal considerations: Firms interested to merge cannot ignore the challenge of various legal and regulatory issues. Various laws in relation to security, corporate and competition law are bound to diverge from each other. Hence before considering the deal, it is important to review the employment regulations, antitrust statute and other contractual requirements to be dealt with. These laws are very much part of both while the deal is under process and also after the deal has been closed. While undergoing the process of reviewing these concerns, it could indicate that the potential merger or acquisition would be totally incompatible and hence it is recommended to not go ahead with the deal.

4.Tax and accounting considerations: Tax issues are critical particularly when it comes to structuring the transactions. The proportion of debt and equity in the transaction involved would influence the outlay of tax; hence a clear understanding of the same becomes important. Another factor to decide whether to structure an asset or a stock purchase is the issue of transfer taxes. It is very important to lessen the tax risks. Countries also follow different accounting policies though the acceptance of IFRS has reduced this to an extent and many countries have yet to implement it. If the parties in the merger are well aware about the financial and accounting terms in the deal, it would aid in minimizing the misperception.

5. Due diligence: Due diligence is significant element of the M&A process. Apart from the legal, political and regulatory issues, there are also infrastructure, currency and other local risks which need thorough appraisal. Due diligence can affect the terms and conditions under which the M&A transaction would take place, influence the deal structure, and affect the price of the deal. It supports in revealing the danger area and gives a comprehensive view of the proposed dealings. It has been recognized that Cross border merger and acquisition has numerous advantages but also there is high risk of failure. Researches demonstrate that the failure rate is as high as 50% (Valant, 2008). The main reason for that are cultural differences (Badrtalei and Bates, 2007). One of the major merger which has failed is the merger between Daimler and Chrysler.

To summarize, a cross-border M&A is elaborated as an activity in which an enterprise from one country buys the whole asset or controlling percentage of an enterprise in another country. Cross border merger and acquisitions is highly advantageous to companies and also increase its share price but as we saw there are a lot of factors which need to be taken into consideration to avoid any anomalies. It is documented that Cross-border M&A has become one of the leading approaches for firms to gain access to global markets. Though there has been little progress in the research literature to explore the role of culture in the success of these ventures. Poor culture-fit has often been cited as one reason why M&A has not produced the outcomes organizations hoped for (Cartwright & Schoenberg, 2006). Cross-border M&A has the added challenges of having to deal with both national and organizational culture differences. It is imperative for the business structures of both the countries involved in M&A transactions and learn from cases like that of Daimler-Chrysler. Most critical factors which separate the successful M&A transactions from the others, who fail, are thorough and planned preparation and commitment of time and other resources.

**Reason for Merger and Acquisition**

Mergers and acquisitions take place for many strategic business reasons, but the most common reasons for any business combination are economic at their core. Following are some of the various economic reasons:

**Increasing capabilities:**

Increased capabilities may come from expanded research and development opportunities or more robust manufacturing operations (or any range of core competencies a company wants to increase). Similarly, companies may want to combine to leverage costly manufacturing operations (as was the hoped for case in the acquisition of Volvo by Ford).

Capability may not just be a particular department; the capability may come from acquiring a unique technology platform rather than trying to build it.

Biopharmaceutical companies are a hotbed for M&A activities due to the extreme investment necessary for successful R&D in the market. In 2011 alone, the four biggest mergers or acquisitions in the biopharmaceutical industry were valued at over US$75 billion.

Gaining a competitive advantage or larger market share: Companies may decide to merge into order to gain a better distribution or marketing network. A company may want to expand into different markets where a similar company is already operating rather than start from ground zero, and so the company may just merge with the other company.

This distribution or marketing network gives both companies a wider customer base practically overnight.

One such acquisition was Japan-based Takeda Pharmaceutical Company’s purchase of Nycomed, a Switzerland-based pharmaceutical company, in order to speed market growth in Europe. (That deal was valued at about US$13.6 billion, if you’re counting.)

**Diversifying products or services**:

Another reason for merging companies is to complement a current product or service. Two firms may be able to combine their products or services to gain a competitive edge over others in the marketplace. For example, in 2008, HP bought EDS to strengthen the services side of their technology offerings (this deal was valued at about US$13.9 billion).

**Replacing leadership:**

In a private company, the company may need to merge or be acquired if the current owners can’t identify someone within the company to succeed them. The owners may also wish to cash out to invest their money in something else, such as retirement!

**Cutting costs:**

When two companies have similar products or services, combining can create a large opportunity to reduce costs. When companies merge, frequently they have an opportunity to combine locations or reduce operating costs by integrating and streamlining support functions.

This economic strategy has to do with economies of scale: When the total cost of production of services or products is lowered as the volume increases, the company therefore maximizes total profits.

**Surviving:**

It’s never easy for a company to willingly give up its identity to another company, but sometimes it is the only option in order for the company to survive. A number of companies used mergers and acquisitions to grow and survive during the global financial crisis from 2008 to 2012.

During the financial crisis, many banks merged in order to deleverage failing balance sheets that otherwise may have put them out of business.

Mergers and acquisitions occur for other reasons, too, but these are some of the most common. Frequently, companies have multiple reasons for combining.

Even though management and financial stakeholders view mergers and acquisitions as a primarily financial endeavor, employees may see things a little differently (they’re thinking WIIFM, or what’s in it for me?).

Combining companies has some potential downsides for employees, who have to deal with immediate fears about employment or business lines, but more positive sides of merging may include more opportunities for advancement, or having access to more resources to do one’s job.

**Reasons Why Merger & Acquisition Fail**

**Limited or no involvement from the owners:**

Appointing M&A advisors at high costs for various services is almost mandatory for any mid to large size deal. But leaving everything to them just because they get a high fee is a clear sign leading to failure. Advisors usually have a limited role, till the deal is done. Following that, the new entity is the onus of the owner. Owners should be involved right from the start and rather drive and structure the deal on their own, letting advisors take the assistance role. Among others, the inherent benefit will be a tremendous knowledge-gaining experience for the owner, which will be a lifelong benefit.

**Theoretical valuation versus practical proposition of future benefits:**

The numbers and assets that look good on paper may not be the real winning factors once the deal is through. The failed case of Bank of America’s acquisition of Countrywide is a typical example.

**Lack of clarity and execution of the integration process:**

A major challenge for any M&A deal is the post-merger integration. A careful appraisal can help to identified key employees, crucial projects and products, sensitive processes and matters, impacting bottlenecks, etc. Using these identified critical areas, efficient processes for clear integration should be designed, aided by consulting, automation or even outsourcing options being fully explored.

**Cultural integration issues:**

The Daimler Chrysler case is a study of the challenges inherent in cultural and integration issues. This factor is also quite evident in global M&A deals, and a proper strategy should be devised either to go for hard-decision forceful integration setting aside cultural differences or allowing the regional/local businesses run their respective units, with clear targets and strategy on profit making.

**Required capacity potential versus current bandwidth:**

The deals with the purpose of expansion require an assessment of the current firm’s capacity to integrate and build upon the larger business. Are your existing firm’s resources already fully or over-utilized, leaving no bandwidth for the future to make the deal a success? Have you allocated dedicated resources (including yourself) to fill in the necessary gaps, as per the need? Have you accounted for time, effort and money needed for unknown challenges which may be identified in the future?

**Actual cost of a difficult integration and high cost ofrecovery:**

The Daimler Chrysler case also ran up high costs toward the expected integration attempts, which could not sail through. Keeping bandwidth and resources ready with correct strategies which can surpass the potential costs and challenges of integration could have helped. Investments today in a difficult integration spread over the next few years may be difficult to recover in the long run.

**Negotiations errors:**

Cases of overpaying for an acquisition (with high advisory fee) are also rampant in executing M&A deals, leading to financial losses and hence failures.

**External factors and changes to the business environment:**

The Bank of America/Countrywide failure was also due to the overall financial sector collapsing, with mortgage companies being the worst hit. External factors may not be fully controllable, and the best approach in such situations is to look forward and cut further losses, which may include completely shutting down the business or taking similar hard decisions.

**Assessment of alternatives:**

Instead of buying to expand with an aim to surpass competitors, is it worth considering being a sale target and exit with better returns to start something new? It helps to consider extreme options which may prove more profitable, instead of holding onto the traditional thoughts.

**Backup plan:**

With more than 50% of M&A deals failing, it’s always better to keep a backup plan to disengage in a timely manner (with/without a loss), to avoid further losses. The above-mentioned examples although are cited as failed, but they do seem to have executed the de-merger in a timely manner.

**Stages involved in M&A**

* + 1. Develop an acquisition strategy – Developing a good acquisition strategy revolves around the acquirer having a clear idea of what they expect to gain from making the acquisition – what their business purpose is for acquiring the target company (e.g., expand product lines or gain access to new markets)
    2. Set the M&A search criteria – Determining the key criteria for identifying potential target companies (e.g., profit margins, geographic location, or customer base)
    3. Search for potential acquisition targets – The acquirer uses their identified search criteria to look for and then evaluate potential target companies
    4. Begin acquisition planning – The acquirer makes contact with one or more companies that meet its search criteria and appear to offer good value; the purpose of initial conversations is to get more information and to see how amenable to a merger or acquisition the target company is
    5. Perform valuation analysis – Assuming initial contact and conversations go well, the acquirer asks the target company to provide substantial information (current financials, etc.) that will enable the acquirer to further evaluate the target, both as a business on its own and as a suitable acquisition target
    6. Negotiations – After producing several valuation models of the target company, the acquirer should have sufficient information to enable it to construct a reasonable offer; Once the initial offer has been presented, the two companies can negotiate terms in more detail
    7. M&A due diligence – Due diligence is an exhaustive process that begins when the offer has been accepted; due diligence aims to confirm or correct the acquirer’s assessment of the value of the target company by conducting a detailed examination and analysis of every aspect of the target company’s operations – its financial metrics, assets and liabilities, customers, human resources, etc.
    8. Purchase and sale contracts – Assuming due diligence is completed with no major problems or concerns arising, the next step forward is executing a final contract for sale; the parties will make a final decision on the type of purchase agreement, whether it is to be an asset purchase or share purchase
    9. Financing strategy for the acquisition – The acquirer will, of course, have explored financing options for the deal earlier, but the details of financing typically come together after the purchase and sale agreement has been signed.
    10. Closing and integration of the acquisition – The acquisition deal closes, and management teams of the target and acquirer work together on the process of merging the two firms.

**Types of Mergers**

From the perception of business organizations, there is a whole host of different mergers. However, from an economist point of view i.e. based on the relationship between the two merging companies, mergers are classified into following:

(1) Horizontal merger- Two companies that are in direct competition and share the same product lines and markets i.e. it results in the consolidation of firms that are direct rivals. E.g. Exxon and Mobil, Ford and Volvo, Volkswagen and Rolls Royce and Lamborghini

(2) Vertical merger- A customer and company or a supplier and company i.e. merger of firms that have actual or potential buyer-seller relationship

(3) Conglomerate merger- generally a merger between companies which do not have any common business areas or no common relationship of any kind. Consolidated firma may sell related products or share marketing and distribution channels or production processes.

On a general analysis, it can be concluded that Horizontal mergers eliminate sellers and hence reshape the market structure i.e. they have direct impact on seller concentration whereas vertical and conglomerate mergers do not affect market structures e.g. the seller concentration directly. They do not have anticompetitive consequences.

**Laws Regulating Merger and Acquisition**

Following are the laws that regulate the merger of the company:-

**(I) The Companies Act , 1956**

Section 390 to 395 of Companies Act, 1956 deal with arrangements, amalgamations, mergers and the procedure to be followed for getting the arrangement, compromise or the scheme of amalgamation approved. Though, section 391 deals with the issue of compromise or arrangement which is different from the issue of amalgamation as deal with under section 394, as section 394 too refers to the procedure under section 391 etc., all the section are to be seen together while understanding the procedure of getting the scheme of amalgamation approved. Again, it is true that while the procedure to be followed in case of amalgamation of two companies is wider than the scheme of compromise or arrangement though there exist substantial overlapping.

**The procedure to be followed while getting the scheme of amalgamation and the important points, are as follows:-**

(1) Any company, creditors of the company, class of them, members or the class of members can file an application under section 391 seeking sanction of any scheme of compromise or arrangement. However, by its very nature it can be understood that the scheme of amalgamation is normally presented by the company. While filing an application either under section 391 or section 394, the applicant is supposed to disclose all material particulars in accordance with the provisions of the Act.

(2) Upon satisfying that the scheme is prima facie workable and fair, the Tribunal order for the meeting of the members, class of members, creditors or the class of creditors. Rather, passing an order calling for meeting, if the requirements of holding meetings with class of shareholders or the members, are specifically dealt with in the order calling meeting, then, there won’t be any subsequent litigation. The scope of conduct of meeting with such class of members or the shareholders is wider in case of amalgamation than where a scheme of compromise or arrangement is sought for under section 391

(3) The scheme must get approved by the majority of the stake holders viz., the members, class of members, creditors or such class of creditors. The scope of conduct of meeting with the members, class of members, creditors or such class of creditors will be restrictive some what in an application seeking compromise or arrangement.

(4) There should be due notice disclosing all material particulars and annexing the copy of the scheme as the case may be while calling the meeting.

(5) In a case where amalgamation of two companies is sought for, before approving the scheme of amalgamation, a report is to be received form the registrar of companies that the approval of scheme will not prejudice the interests of the shareholders.

(6) The Central Government is also required to file its report in an application seeking approval of compromise, arrangement or the amalgamation as the case may be under section 394A.

(7) After complying with all the requirements, if the scheme is approved, then, the certified copy of the order is to be filed with the concerned authorities.

**(II) The Competition Act ,2002**

Following provisions of the Competition Act, 2002 deals with mergers of the company:-

(1) Section 5 of the Competition Act, 2002 deals with “Combinations” which defines combination by reference to assets and turnover

(a) exclusively in India and

(b) in India and outside India.

For example, an Indian company with turnover of Rs. 3000 crores cannot acquire another Indian company without prior notification and approval of the Competition Commission. On the other hand, a foreign company with turnover outside India of more than USD 1.5 billion (or in excess of Rs. 4500 crores) may acquire a company in India with sales just short of Rs. 1500 crores without any notification to (or approval of) the Competition Commission being required.

(2) Section 6 of the Competition Act, 2002 states that, no person or enterprise shall enter into a combination which causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India and such a combination shall be void.

All types of intra-group combinations, mergers, demergers, reorganizations and other similar transactions should be specifically exempted from the notification procedure and appropriate clauses should be incorporated in sub-regulation 5(2) of the Regulations. These transactions do not have any competitive impact on the market for assessment under the Competition Act, Section 6.

**(III) Foreign Exchange Management Act,1999**

The foreign exchange laws relating to issuance and allotment of shares to foreign entities are contained in The Foreign Exchange Management (Transfer or Issue of Security by a person residing out of India) Regulation, 2000 issued by RBI vide GSR no. 406(E) dated 3rd May, 2000. These regulations provide general guidelines on issuance of shares or securities by an Indian entity to a person residing outside India or recording in its books any transfer of security from or to such person. RBI has issued detailed guidelines on foreign investment in India vide “Foreign Direct Investment Scheme” contained in Schedule 1 of said regulation.

(**IV) SEBI Take over Code 1994**

SEBI Takeover Regulations permit consolidation of shares or voting rights beyond 15% up to 55%, provided the acquirer does not acquire more than 5% of shares or voting rights of the target company in any financial year. [Regulation 11(1) of the SEBI Takeover Regulations] However, acquisition of shares or voting rights beyond 26% would apparently attract the notification procedure under the Act. It should be clarified that notification to CCI will not be required for consolidation of shares or voting rights permitted under the SEBI Takeover Regulations. Similarly the acquirer who has already acquired control of a company (say a listed company), after adhering to all requirements of SEBI Takeover Regulations and also the Act, should be exempted from the Act for further acquisition of shares or voting rights in the same company.

(**V) The Indian Income Tax Act (ITA), 1961**

Merger has not been defined under the ITA but has been covered under the term 'amalgamation' as defined in section 2(1B) of the Act. To encourage restructuring, merger and demerger has been given a special treatment in the Income-tax Act since the beginning. The Finance Act, 1999 clarified many issues relating to Business Reorganizations thereby facilitating and making business restructuring tax neutral. As per Finance Minister this has been done to accelerate internal liberalization. Certain provisions applicable to mergers/demergers are as under: Definition of Amalgamation/Merger — Section 2(1B).

Amalgamation means merger of either one or more companies with another company or merger of two or more companies to form one company in such a manner that:

(1) All the properties and liabilities of the transferor company/companies become the properties and liabilities of Transferee Company.

(2) Shareholders holding not less than 75% of the value of shares in the transferor company (other than shares which are held by, or by a nominee for, the transferee company or its subsidiaries) become shareholders of the transferee company.

The following provisions would be applicable to merger only if the conditions laid down in section 2(1B) relating to merger are fulfilled:

(1) Taxability in the hands of Transferee Company — Section 47(vi) & section 47

(a) The transfer of shares by the shareholders of the transferor company in lieu of shares of the transferee company on merger is not regarded as transfer and hence gains arising from the same are not chargeable to tax in the hands of the shareholders of the transferee company. [Section 47(vii)]

(b) In case of merger, cost of acquisition of shares of the transferee company, which were acquired in pursuant to merger will be the cost incurred for acquiring the shares of the transferor company. [Section 49(2)]

**(VI) Mandatory permission by the courts**

Any scheme for mergers has to be sanctioned by the courts of the country. The company act provides that the high court of the respective states where the transferor and the transferee companies have their respective registered offices have the necessary jurisdiction to direct the winding up or regulate the merger of the companies registered in or outside India.

The high courts can also supervise any arrangements or modifications in the arrangements after having sanctioned the scheme of mergers as per the section 392 of the Company Act. Thereafter the courts would issue the necessary sanctions for the scheme of mergers after dealing with the application for the merger if they are convinced that the impending merger is “fair and reasonable”.

The courts also have a certain limit to their powers to exercise their jurisdiction which have essentially evolved from their own rulings. For example, the courts will not allow the merger to come through the intervention of the courts, if the same can be effected through some other provisions of the Companies Act; further, the courts cannot allow for the merger to proceed if there was something that the parties themselves could not agree to; also, if the merger, if allowed, would be in contravention of certain conditions laid down by the law, such a merger also cannot be permitted. The courts have no special jurisdiction with regard to the issuance of writs to entertain an appeal over a matter that is otherwise “final, conclusive and binding” as per the section 391 of the Company act.

**(VII) Stamp duty**

Stamp act varies from state to State. As per Bombay Stamp Act, conveyance includes an order in respect of amalgamation; by which property is transferred to or vested in any other person. As per this Act, rate of stamp duty is 10 per cent.

**Intellectual Property Due Diligence In Mergers And Acquisitions**

The increased profile, frequency, and value of intellectual property related transactions have elevated the need for all legal and financial professionals and Intellectual Property (IP) owner to have thorough understanding of the assessment and the valuation of these assets, and their role in commercial transaction. A detailed assessment of intellectual property asset is becoming an increasingly integrated part of commercial transaction. Due diligence is the process of investigating a party’s ownership, right to use, and right to stop others from using the IP rights involved in sale or merger ---the nature of transaction and the rights being acquired will determine the extent and focus of the due diligence review. Due Diligence in IP for valuation would help in building strategy,

(a) If Intellectual Property asset is underplayed the plans for maximization would be discussed.

(b) If the Trademark has been maximized to the point that it has lost its cachet in the market place, reclaiming may be considered.

(c) If mark is undergoing generalization and is becoming generic, reclaiming the mark from slipping to generic status would need to be considered.

(d) Certain events can devalue an Intellectual Property Asset, in the same way a fire can suddenly destroy a piece of real property. These sudden events in respect of IP could be adverse publicity or personal injury arising from a product. An essential part of the due diligence and valuation process accounts for the impact of product and company-related events on assets – management can use risk information revealed in the due diligence.

(e) Due diligence could highlight contingent risk which do not always arise from Intellectual Property law itself but may be significantly affected by product liability and contract law and other non Intellectual Property realms.

Therefore Intellectual Property due diligence and valuation can be correlated with the overall legal due diligence to provide an accurate conclusion regarding the asset present and future value.

**Legal Procedure for Bringing About Merger of Companies**

(1) Examination of object clauses:

The MOA of both the companies should be examined to check the power to amalgamate is available. Further, the object clause of the merging company should permit it to carry on the business of the merged company. If such clauses do not exist, necessary approvals of the share holders, board of directors, and company law board are required.

(2) Intimation to stock exchanges:

The stock exchanges where merging and merged companies are listed should be informed about the merger proposal. From time to time, copies of all notices, resolutions, and orders should be mailed to the concerned stock exchanges.

(3) Approval of the draft merger proposal by the respective boards:

The draft merger proposal should be approved by the respective BOD’s. The board of each company should pass a resolution authorizing its directors/executives to pursue the matter further.

(4) Application to high courts:

Once the drafts of merger proposal is approved by the respective boards, each company should make an application to the high court of the state where its registered office is situated so that it can convene the meetings of share holders and creditors for passing the merger proposal.

(5) Dispatch of notice to share holders and creditors:

In order to convene the meetings of share holders and creditors, a notice and an explanatory statement of the meeting, as approved by the high court, should be dispatched by each company to its shareholders and creditors so that they get 21 days advance intimation. The notice of the meetings should also be published in two news papers

(6) Holding of meetings of share holders and creditors:

A meeting of share holders should be held by each company for passing the scheme of mergers at least 75% of shareholders who vote either in person or by proxy must approve the scheme of merger. Same applies to creditors also.

(7) Petition to High Court for confirmation and passing of HC orders:

Once the mergers scheme is passed by the share holders and creditors, the companies involved in the merger should present a petition to the HC for confirming the scheme of merger. A notice about the same has to be published in 2 newspapers.

(8) Filing the order with the registrar:

Certified true copies of the high court order must be filed with the registrar of companies within the time limit specified by the court.

(9) Transfer of assets and liabilities:

After the final orders have been passed by both the HC’s, all the assets and liabilities of the merged company will have to be transferred to the merging company.

(10) Issue of shares and debentures:

The merging company, after fulfilling the provisions of the law, should issue shares and debentures of the merging company. The new shares and debentures so issued will then be listed on the stock exchange.

**UNIT-IV**

Foreign Exchange Market Mechanism: Determinants of Exchange Rates; Euro-currency Market; Offshore Financial Centers: International Banks; Non-Banking Financial Service Firms; Stock Markets.

**What is the Foreign Exchange Market**

The foreign exchange market is an [over-the-counter](https://www.investopedia.com/terms/o/otc.asp) (OTC) marketplace that determines the exchange rate for global currencies. Participants are able to buy, sell, exchange and speculate on currencies. Foreign exchange markets are made up of banks, [forex dealers](https://www.investopedia.com/terms/a/authorizeforexdealer.asp), commercial companies, [central banks](https://www.investopedia.com/terms/c/centralbank.asp), investment management firms, [hedge funds](https://www.investopedia.com/terms/h/hedgefund.asp), [retail forex dealers](https://www.investopedia.com/terms/r/retail-foreign-exchange-dealer-rfed.asp) and investors.

**Foreign exchange market mechanism**

The foreign exchange market (forex, FX, or currency market) is a global decentralized market for the trading of currencies. The main participants in this market are the larger international banks.

Financial centers around the world function as anchors of trading between a wide range of multiple types of buyers and sellers around the clock, with the exception of weekends. The foreign exchange market determines the relative values of different currencies.

The foreign exchange market assists international trade and investments by enabling currency conversion. For example, it permits a business in the United States to import goods from the European Union member states, especially Eurozone members, and pay euros, even though its income is in Unites States dollars. It also supports direct speculation and evaluation relative to the value of currencies, and the carry trade, speculation based on the interest rate differential between two currencies.

**Functions of the Foreign Exchange Market**

* The foreign exchange market is the mechanism, by which a person of firm transfers purchasing power from one country to another, obtains or provides credit for international trade transactions, and minimizes exposure to foreign exchange risk.
* Transfer of purchasing power is necessary because international transactions normally involve parties in countries with different national currencies. Each party usually wants to deal in its own currency, but the transaction can be invoiced in only one currency.
* Provision of Credit. Because the movement of goods between countries takes time, inventory in transit must be financed.
* Minimizing Foreign Exchange Risk: The foreign exchange market provides "hedging" facilities for transferring foreign exchange risk to someone else.

One of the most unique features of the forex market is that it is comprised of a global network of financial centers that transact 24 hours a day, closing only on the weekends. As one major forex hub closes, another hub in a different part of the world remains open for business. This increases the liquidity available in currency markets, which adds to its appeal as the largest [asset class](https://www.investopedia.com/terms/a/assetclasses.asp) available to investors.

The most liquid trading pairs are, in descending order of liquidity:

1. EUR/USD
2. USD/JPY
3. GBP/USD

**Forex Leverage**

The [leverage](https://www.investopedia.com/terms/l/leverage.asp) available in FX markets is one of the highest that traders and investors can find anywhere. Leverage is a loan given to an investor by their broker. With this loan, investors are able to increase their trade size, which could translate to greater profitability. A word of caution, though losses are also amplified.

For example, investors who have a $1,000 forex market account can trade $100,000 worth of currency with a margin of 1 percent. This is referred to as having a 100:1 leverage. Their profit or loss will be based on the $100,000 [notional](https://www.investopedia.com/terms/n/notionalvalue.asp) amount.

**Benefits of Using the Forex Market**

There are some key factors that differentiate the forex market from others, like the stock market.

* There are fewer rules, which mean investors aren't held to the strict standards or regulations found in other markets.
* There are no [clearing houses](https://www.investopedia.com/terms/c/clearinghouse.asp) and no central bodies that oversee the forex market.
* Most investors won't have to pay the traditional fees or [commissions](https://www.investopedia.com/terms/c/commission.asp) that you would on another market.
* Because the market is open 24 hours a day, you can trade at any time of day, which means there's no cut-off time to be able to participate in the market.
* Finally, if you're worried about risk and reward, you can get in and out whenever you want and you can buy as much currency as you can afford.

**Determinants of Foreign Exchange**

**Definitions foreign exchange**

The system of converting one national currency into another, or of transferring money from one country to another.

**Features of Foreign Exchange Market**

* The foreign exchange market is unique because of
* Trading volume results in market liquidity
* Geographical dispersion
* Continuous operation: 24 hours a day except weekends
* The variety of factors that affect exchange rates
* The low margins of relative profit compared with other markets of fixed income
* The use of leverage to enhance profit margins with respect to account size
* Participants Individuals: tourists, migrants Firms: importers and exporters Banks: commercial & central banks Governments / monetary authorities International agencies

**Exchange rate classification**

**From the perspective of bank foreign exchange trading**

**Buying rate:** Also known as the purchase price, it is the price used by the foreign exchange bank to buy foreign currency from the customer. In general, the exchange rate where the foreign currency is converted to a smaller number of domestic currencies is the buying rate, which indicates how much the country's currency is required to buy a certain amount of foreign exchange.

**Selling rate:** Also known as the foreign exchange selling price, it refers to the exchange rate used by the bank to sell foreign exchange to customers. It indicates how much the country’s currency needs to be recovered if the bank sells a certain amount of foreign exchange.

**Middle rate:** The average of the bid price and the ask price. Commonly used in newspapers, magazines or economic analysis.

**According to the length of delivery after foreign exchange transactions**

**Spot exchange rate:** Refers to the exchange rate of spot foreign exchange transactions. That is, after the foreign exchange transaction is completed, the exchange rate in Delivery within two working days. The exchange rate that is generally listed on the [foreign exchange market](https://en.wikipedia.org/wiki/Foreign_exchange_market) is generally referred to as the spot exchange rate unless it specifically indicates the forward exchange rate.

**Forward exchange rate:** To be delivered in a certain period of time in the future, but beforehand, the buyer and the seller will enter into a contract to reach an agreement. When the delivery date is reached, both parties to the agreement will deliver the transaction at the exchange rate and amount of the reservation. Forward foreign exchange trading is an appointment-based transaction, which is due to the different time the foreign exchange purchaser needs for foreign exchange funds and the introduction of foreign exchange risk. The forward exchange rate is based on the spot exchange rate, which is represented by the “premium”, “discount”, and “parity” of the spot exchange rate.

**According to the method of setting the exchange rate**

**Basic rate:** Usually choose a key convertible currency that is the most commonly used in international economic transactions and accounts for the largest proportion of foreign exchange reserves. Compare it with the currency of the country and set the exchange rate. This exchange rate is the basic exchange rate. The key currency generally refers to a world currency, which is widely used for pricing, settlement, reserve currency, freely convertible, and internationally accepted currency.

**Cross rate:** After the basic exchange rate is worked out, the exchange rate of the local currency against other foreign currencies can be calculated through the basic exchange rate. The resulting exchange rate is the cross exchange rate.

**Other classifications**

According to the payment method in foreign exchange transactions

* Telegraphic exchange rate
* Mail transfer rate
* Demand draft rate

**According to the level of**[**foreign exchange controls**](https://en.wikipedia.org/wiki/Foreign_exchange_controls)

**Official rate:** The official exchange rate is the rate of exchange announced by a country’s foreign exchange administration. Usually used by countries with strict foreign exchange controls.

**Market rate:** The market exchange rate refers to the real exchange rate for trading foreign exchange in the free market. It fluctuates with changes in foreign exchange supply and demand conditions.

**According to the international exchange rate regime**

Fixed exchange rate: It means that the exchange rate between a country’s currency and another country's currency is basically fixed, and the fluctuation of exchange rate is very small.

Floating exchange rate: It means that the monetary authorities of a country do not stipulate the official exchange rate of the country’s currency against other currencies, nor does it have any upper or lower limit of exchange rate fluctuations. The local currency is determined by the supply and demand relationship of the foreign exchange market, and it is free to rise and fall.

**Whether**[**inflation**](https://en.wikipedia.org/wiki/Inflation)**is included**

**Nominal exchange rate:** an exchange rate that is officially announced or marketed which does not consider inflation.

**Real exchange rate:** The nominal exchange rate eliminating inflation

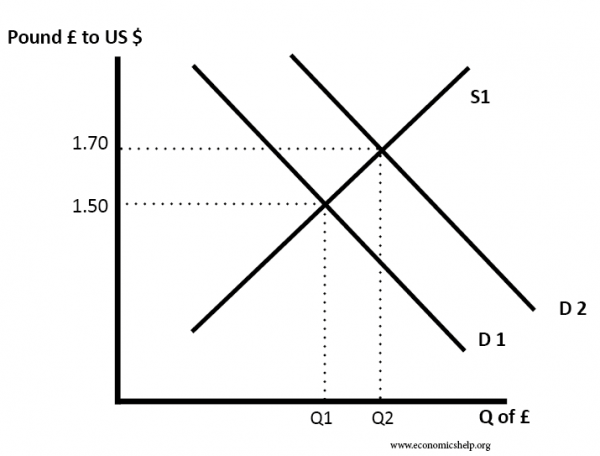
**Factors which influence the exchange rate**

Exchange rates are determined by factors, such as interest rates, confidence, and the current account on balance of payments, economic growth and relative inflation rates. For example:

If US business became relatively more competitive, there would be greater demand for American goods; this increase in demand for US goods would cause an appreciation (increase in value) of the dollar.

However, if markets were worried about the future of the US economy, they would tend to sell dollars, leading to a fall in the value of the dollar.

**Determination of exchange rates using supply and demand diagram**



In this example, a rise in demand for Pound Sterling has led to an increase in the value of the £ to $ – from £1 = $1.50 to £1 = $1.70

**Note:**

**Appreciation = increase in value of exchange rate**

**Depreciation / devaluation = decrease in value of exchange rate.**

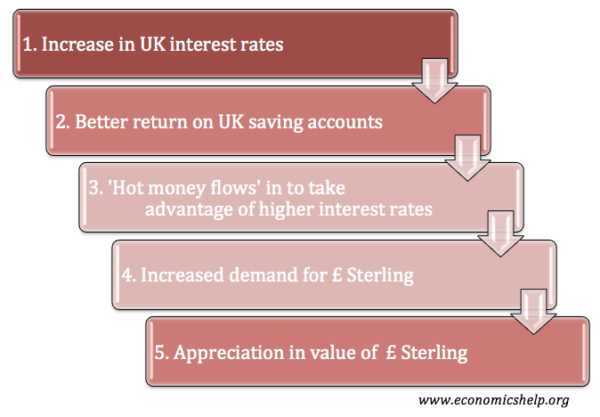
**Factors that influence exchange rates**

**1. Inflation**

If inflation in the UK is relatively lower than elsewhere, then UK exports will become more competitive, and there will be an increase in demand for Pound Sterling to buy UK goods. Also, foreign goods will be less competitive and so UK citizens will buy fewer imports.

Therefore, countries with lower inflation rates tend to see an **appreciation** in the value of their currency. For example, the long-term appreciation in the German D-Mark in the post-war period was related to the relatively lower inflation rate.

**2. Interest rates**

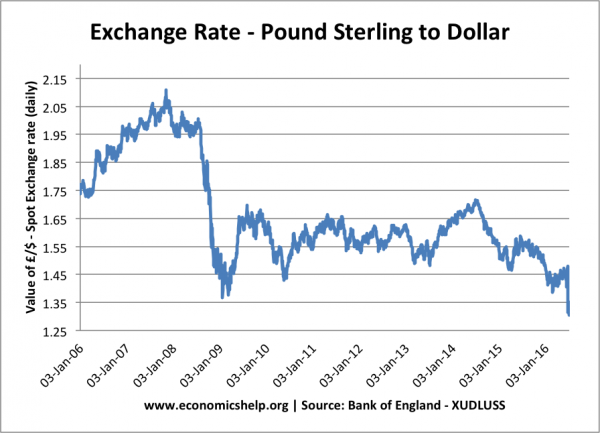
[](https://www.economicshelp.org/wp-content/uploads/2012/11/hot-money-flows.png)

If UK interest rates rise relative to elsewhere, it will become more attractive to deposit money in the UK. You will get a better rate of return from saving in UK banks. Therefore demand for Sterling will rise.  This is known as “[hot money flows](https://www.economicshelp.org/dictionary/h/hot-money-flows.html)” and is an important short-run factor in determining the value of a currency.

* Higher interest rates cause an appreciation.
* Cutting interest rates tends to cause a depreciation

**3. Speculation**

If speculators believe the sterling will rise in the future, they will demand more now to be able to make a profit. This increase in demand will cause the value to rise. Therefore movements in the exchange rate do not always reflect economic fundamentals but are often driven by the sentiments of the financial markets. For example, if markets see news which makes an interest rate increase more likely, the value of the pound will probably rise in anticipation.

[](https://www.economicshelp.org/wp-content/uploads/2016/07/Pound-dollar-daily-since-2006.png)

The fall in the value of the Pound post-Brexit was partly related to the concerns that the UK would no longer attract as many capital flows outside the Single Currency.

**4. Change in competitiveness**

If British goods become more attractive and competitive this will also cause the value of the exchange rate to rise. For example, if the UK has long-term improvements in labour market relations and higher productivity, good will become more internationally competitive and in long-run causes an appreciation in the Pound. This is a similar factor to low inflation.

**5. Relative strength of other currencies**

In 2010 and 2011, the value of the Japanese Yen and Swiss Franc rose because markets were worried about all the other major economies – US and EU. Therefore, despite low-interest rates and low growth in Japan, the Yen kept appreciating. In the mid-1980s, the Pound fell to a low against the Dollar – this was mostly due to the strength of Dollar, caused by rising interest rates in the US.

**6. Balance of payments**

[](https://www.economicshelp.org/wp-content/uploads/2016/04/current-account-from-2001.png)

A deficit on the current account means that the value of imports (of goods and services) is greater than the value of exports. If this is financed by a surplus on the financial/capital account, then this is OK. But a country which struggles to attract enough capital inflows to finance a current account deficit will see a depreciation in the currency. (For example, current account deficit in US of 7% of GDP was one reason for depreciation of dollar in 2006-07). In the above diagram, the UK current account deficit reached 7% of GDP at the end of 2015, contributing to the decline in the value of the Pound.

**7. Government debt**

Under some circumstances, the value of government debt can influence the exchange rate. If markets fear a government may default on its debt, then investors will sell their bonds causing a fall in the value of the exchange rate. For example, Iceland debt problems in 2008 caused a rapid fall in the value of the Icelandic currency.

For example, if markets feared the US would default on its debt, foreign investors would sell their holdings of US bonds. This would cause a fall in the value of the dollar. See: [US dollar and debt](https://www.economicshelp.org/blog/2948/economics/us-dollar-and-debt/)

**8. Government intervention**

Some governments attempt to influence the value of their currency. For example, China has sought to keep its currency undervalued to make Chinese exports more competitive. They can do this by buying US dollar assets which increases the value of the US dollar to Chinese Yuan.

**9. Economic growth/recession**

A recession may cause depreciation in the exchange rate because during a recession interest rates usually fall. However, there is no hard and fast rule. It depends on several factors. See: [Impact of recession on currency.](https://www.economicshelp.org/blog/9746/currency/happens-value-currency-recession/)

**What is Currency**

Currency is a generally accepted form of [money](https://www.investopedia.com/terms/m/money.asp), including coins and paper notes, which is issued by a government and circulated within an economy. Used as a [medium of exchange](https://www.investopedia.com/terms/m/mediumofexchange.asp) for goods and services, currency is the basis for trade.

**What is currency symbol?**

* The symbol used to denote that a number of monitory value such as the dollar, pound, euro, rupees.
* Every world currency has an assigned code, used on currency exchange market, and a currency code symbol which is typically used when pricing goods in a store, or services.

**Breaking down Currency**

* Generally speaking, each country has its own currency. For example, Switzerland's official currency is the Swiss franc, and Japan's official currency is the yen.
* An exception would be the [euro](https://www.investopedia.com/terms/e/euro.asp), which is used as the currency for most countries within the [Euro zone](https://www.investopedia.com/terms/e/eurozone.asp). A core characteristic of most modern currencies is that the material comprising the currency itself - the paper in a dollar bill, for example - is essentially worthless, so that the whole of the currency's value is in its value as a medium of exchange.
* While these currencies can be specific to a nation, other countries have declared foreign currency to be legal tender in their own country. For example, El Salvador and Ecuador allow the use of the U.S. [dollar](https://www.investopedia.com/terms/u/usdx.asp) as legal tender, and immediately after the founding of the U.S. mint in 1792, U.S. residents used Spanish coins because they were heavier.
* Some currencies, including crypto currencies such as [Bit coin](https://www.investopedia.com/terms/b/bitcoin.asp) and Lit coin​, and other online currencies and branded currencies are not tied to any country. Branded currencies, like airline and credit card points, or in-game credits, are valued in relationship to the value of the products or services to which they are tied. Control over digital currencies is entirely decentralized, and the exchange rate of a digital currency can vary widely in a short period of time.
* In most all cases, the [central bank](https://www.investopedia.com/terms/c/centralbank.asp) of a country has the sole right to issue money for circulation. Along with a main unit of currency, these banks issue fractional units, usually in the form of coins. These usually show up as 1/100th, and 1/4th, but can at times be as small as 1/1000th of the main unit of currency.

**Offshore financial centre**

An Offshore Financial Centre or OFC is defined as a country or jurisdiction that provides financial services to nonresidents on a scale that is incommensurate with the size and the financing of its domestic economy**.** "Offshore" does not refer to the location of the OFC (many [FSF](https://en.wikipedia.org/wiki/Financial_Stability_Forum) [IMF](https://en.wikipedia.org/wiki/IMF) OFCs, such as Luxembourg and Hong Kong, are located "onshore"), but to the fact that the largest users of the OFC are nonresident (e.g. they are "offshore").The IMF lists OFCs as a third class of [financial centre](https://en.wikipedia.org/wiki/Financial_centre), with International Financial Centers (IFCs), and Regional Financial Centers (RFCs); there is overlap (e.g. Singapore is an RFC and an OFC).

**DEFINITION**

The definition of an offshore financial centre dates back to academic papers by Dufry & McGiddy (1978), and McCarthy (1979) regarding locations that are: Cities, areas or countries which have made a conscious effort to attract offshore banking business, i.e., non-resident foreign currency denominated business, by allowing relatively free entry and by adopting a flexible attitude where taxes, levies and regulation are concerned.

The attributes that define an OFC, into the following four main attributes, which still remain relevant:

* Primary orientation towards non-residents;
* Favorable regulatory environment;
* Low or zero-taxation scheme;
* Disproportion between the size of the financial sector and the domestic financing needs.

An international bank is a financial entity that offers financial services, such as payment accounts and lending opportunities, to foreign clients. These foreign clients can be individuals and companies, though every international bank has its own policies outlining with which they do business.

According to OCRA Worldwide -- an organization that matches people and companies to international banking -- international banks tend to offer their services to companies and to fairly wealthy individuals, i.e., people with $100,000 and counting But plenty of international banks, particularly Swiss banks, open their doors to customers of any income bracket.

Companies do business with international banks to help facilitate international business, the complexities of which can be quite costly.

**EXAMPLE OF INTERNATIONAL BANKING**

Suppose Microsoft, an American company is functioning in London. It is in need of funds to meet its [working capital](https://efinancemanagement.com/working-capital-financing/working-capital) requirements. In such scenario, Microsoft can avail the banking services in form of loans, overdraft or any other financial service through banks in London. Here, the residential bank of London shall be giving its services to an American company. Therefore, the transaction between them can be said to be part of international banking facility.



**FEATURES AND BENEFITS OF INTERNATIONAL BANKING**

International banking facility provides flexibility to the multinational companies to deal in multiple currencies. The major currencies that multinational companies or individuals can deal with include euro, dollar, pounds, sterling, and rupee. The companies having headquarters in other countries can manage their bank accounts and avail financial services in other countries through international banking without any hassle.

**ACCESSIBILITY**

International banking provides accessibility and ease of doing business to the companies from different countries. An individual or MNC can use their money anywhere around the world. This gives them a freedom to transact and use their money to meet any requirement of funds in any part of the world.

**INTERNATIONAL TRANSACTIONS**

International banking allows the business to make international bill payments. The currency conversion facility allows the companies to pay and receive money easily. Also, the benefits like [overdraft facility](https://efinancemanagement.com/working-capital-financing/bank-overdraft-facility), loans, deposits, etc. are available every time for overseas transactions.

**ACCOUNTS MAINTENANCE**

A multinational company can maintain the records of global accounts in a fair manner with the help of international banking. All the transactions of the company are recorded in the books of the banks across the globe. By compiling the data and figures, the accounts of the company can be maintained.

**Financial Institutions (intermediaries)**

**Banking:**

Reserve Bank of India (RBI), Commercial Banks, Co-operative Credit Societies, Co-operative Banks, Post-office Saving Banks,

**Non-Banking:**

Provident and Pension Funds, Small Savings Organizations, Life Insurance Corporation (LIC), General Insurance Corporation (GIC), Unit Trust of India(UTI), Mutual Funds, Investment Trusts, Investment Companies, Finance Corporations, Nidhis, Chit Funds, Hire-Purchase Finance Companies, Lease Finance Companies, National Housing Bank (NHB), Housing and Urban Development Corporation (HUDCO), Housing Development Finance Corporation (HDFC), and other housing finance companies, Manufacturing companies accepting public deposits, Venture Capital Funds and National Cooperative Bank of India(NCBI).

**Financial Institutions (Special Development)**

Industrial Finance Corporation of India (IFCI or IFC), Industrial Credit and Investment Corporation of India(ICICI), Industrial Development Bank of India(IDBI),Industrial Reconstruction Bank of India(IRBI),Export and Import Bank of India(EXIM Bank), National Bank for Agricultural and Rural Development(NABARD), Shipping Credit and Investment Company of India (SCICI),Tourism Finance Corporation of India (TFCI),Risk Capital and Technology Finance Corporation (RCTFC),Agricultural Finance Consultancy Ltd. (AFC), National Cooperative Development Corporation (NCDC), Central Warehousing Corporation(CWC),State Warehousing Corporations (SWCs), Rural Electrification Corporation(REC),National Industrial Development , Corporation (NIDC), National Small Industries Corporation (NSIC) and Small Industries.

**Financial Institutions**

**Regulatory:**

Reserve Bank of India, Securities and Exchange Board of India (SEBI), Board for Industrial and Financial, Reconstruction (BIFR), Board for Financial Supervision, Insurance Regulatory Authority.

**Others:**

Deposit Insurance and Credit Guarantee Corporation (DICGC),Export Credit and Guarantee Corporation (ECGC), Technical Consultancy Organizations (TCOs),Stock Holding Corporation of India(SHCI),Credit Rating Information , Services of India (CRISIL),Discount and Finance House of India(DFHI),Infra-structure Leasing and Financial Services ,Ltd.(ISLFS), Technology Development and Information Company of India(TDICI),Merchant Banks, Factoring Companies, Money Lenders, Indigenous Bankers, Securities Trading Corporation of India(STCI),Primary Dealers, Investment Information and Credit Rating Agency (ICRA),Depositories and Custodians.

**Non-Banking Financial Companies (NBFCs)**

**What are Non-Banking Financial Companies (NBFCs?)**

Non-banking financial companies (NBFCs) are financial institutions that offer various banking services, but do not have a banking license. Generally, these institutions are not allowed to take deposits from the public, which keeps them outside the scope of traditional oversight required [under banking regulations](https://www.investopedia.com/articles/economics/09/financial-regulatory-body.asp). NBFCs can offer banking services such as loans and credit facilities, retirement planning, money markets, [underwriting](https://www.investopedia.com/terms/u/underwriting.asp) and merger activities.

According to the Reserve Bank of India Amendment Act 1997 the Non Banking Finance company was defined as under: -

* A financial institution which is a company,
* A non-banking institution which is a company and whose principal business is to receiving of deposits under any scheme/arrangement/in any other manner or lending in any manner and
* Other non-banking institutions/class of institutions as the RBI may specify.

The directions apply to a NBFC which is defined to include only non-banking institution, which is any hire-purchase finance, loan or mutual benefit financial company and an equipment leasing company but excludes an insurance company/stock exchange/stock broking company /merchant banking company. The RBI (Amendment) Act, 1997 defines NBFC’S as an Institution or company whose principal business is to accept deposits under any scheme or arrangement or in any other manner, and to lend in any manner. As a result of this new definition, a number of loan and investment Companies registered under the Companies Act by Business houses for the purpose of making investments in group of companies are now included as NBFCs.

The Financial intermediaries in Indian Financial System are broadly characterized by Public owned, Monopoly or Oligopoly or Monopolistic market structure and are centralized. The Indian financial system has another part which comprises a large number of private owned, decentralized, and relatively small sized financial intermediaries and which makes a more or less competitive market. Some of them are fund based, and are called (NBFCs) and some are providing financial services (NBFSCs) Both NBFIs, NBFCs are

(1) Loan companies (LCs)

(2) Investment companies or ICs

(3) Hire-Purchase finance companies or HPFCs

(4) Lease finance companies or LFCs

(5) Housing finance companies (or) HFCs

(6) Mutual Benefit financial companies or MBFCs

(7) Residuary non-banking companies or RNBCs

(8) Merchant Banks

(9) Venture capital funds

(10) Factors

(11) Credit Rating Agencies

(12) Depositories and custodial services.

**Types of Non-Banking Financial Companies (NFBC)**

There are certain entities which are involved in the business of financial activities but do not require to obtain a registration with the Reserve Bank of India (RBI). As these entities are regulated by other financial sector regulators, they do not need either of the NBFC registration or the NBFC regulations of RBI. These entities are as follows:

* Insurance Companies which are regulated by Insurance Regulatory and Development Authority of India (IRDA)
* Housing Finance Companies which are regulated by the National Housing Bank
* Stock Broking Companies which are regulated by Securities and Exchange Board of India
* Merchant Banking Companies which are regulated by Securities and Exchange Board of India
* Mutual Funds which are regulated by Securities and Exchange Board of India
* Venture Capital Companies which are regulated by Securities and Exchange Board of India
* Companies that run Collective Investment Schemes which are regulated by Securities and Exchange Board of India
* Chit Fund Companies which are regulated by the respective State Governments
* Nidhi Companies which are regulated by the Ministry of Corporate Affairs (MCA)

**Breaking Down Non-Banking Financial Companies**

NBFCs were officially classified under the [Dodd-Frank Wall Street Reform and Consumer Protection Act](https://www.investopedia.com/terms/d/dodd-frank-financial-regulatory-reform-bill.asp)as companies predominantly engaged in financial activity when more than 85% of their consolidated annual gross revenues or consolidated assets are financial in nature. This classification encompasses a wide range of companies offering bank-like services, including credit unions, insurance companies, money market funds, asset managers, hedge funds, private equity firms, mobile payment systems, micro-lenders and peer-to-peer lenders.

**DEFINE INTERNATIONAL BANKING**

According to the Bank for International Settlements' Committee on the Global Financial System, international banking is when a bank headquartered in one country extends credit to residents of another country for example, when a Canadian bank lends money to Americans.

**ANY TWO FEATURES AND BENEFITS EXPLAIN THE INTERNATIONAL BANKING**

**Flexibility**

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**Accessibility**

International banking provides accessibility and ease of doing business to the companies from different countries. An individual or MNC can use their money anywhere around the world. This gives them a freedom to transact and use their money to meet any requirement of funds in any part of the world.

**WHAT ARE THE BENEFITS OF INTERNATIONAL BANKING**

* Flexibility
* Accessibility
* International Transactions
* Accounts Maintenance

**WHAT ARE THE TYPES OF INTERNATIONAL BANKING**

* Correspondent Banks
* Foreign Branch Bank
* Subsidiaries and Affiliates
* Edge Act Banks
* Offshore Banking Centre

**WHAT IS CORRESPONDENT BANKS**

Correspondent banking implies a relationship between at least two banks, including those in differing countries. Multinational corporations (MNCs) may utilize these banks for conducting global business, according to the University of Michigan. Correspondent banks are usually small, and may have representative offices serving MNCs outside of the bank's home country.

**WHAT DO YOU MEAN BY FOREIGN BRANCH BANK**

These banks operate in countries foreign to the parent bank to which they are legally tied. They must abide by banking regulations established in the home and host countries, according to Investopedia.com.

**WHAT DO YOU MEAN BY SUBSIDIARIES AND AFFILIATES**

A subsidiary bank is incorporated in one country, but is either partially or completely owned by a parent bank in another country. An affiliate works in a similar manner except it is not wholly owned by a parent company and operates independently.

**WHAT IS EDGE ACT BANKS**

This designation applies to certain U.S. banks, and is based on a 1919 constitutional amendment. While physically located in the United States, A "Swiss bank account," commonly referred to in Hollywood movies, is an example of an offshore banking center's services. According to the University of Michigan, these centers are actually countries with banking systems allowing foreign accounts that function independent from the country's banking regulations. Edge Act banks conduct business internationally under a federal charter.

**DEFINE OFFSHORE BANKING CENTER**

**DEFINE NON-BANKING FINANCIAL COMPANIES (NBFCs)**

**Definition:**

The Non-Banking Financial Companies (NBFCs) are the financial institutions that offer the banking services, but do not comply with the legal definition of a bank, i.e. it does not hold a bank license.

**ANY TWO TYPES OF NON-BANKING FINANCIAL COMPANIES**

* [Mutual Benefit Finance Company](https://businessjargons.com/mutual-benefit-finance-companies.html)
* [Investment Company](https://businessjargons.com/investment-companies.html)

**WHAT IS DIFFERENCE BETWEEN BANKS & NBFCs**

NBFCs lend and make investments and hence their activities are akin to that of banks; however there are a few differences as given below:

i. NBFC cannot accept demand deposits;

ii. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on itself;

iii. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

**FEATURES AND BENEFITS OF INTERNATIONAL BANKING**

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International banking allows the business to make international bill payments. The currency conversion facility allows the companies to pay and receive money easily. Also, the benefits like [overdraft facility](https://efinancemanagement.com/working-capital-financing/bank-overdraft-facility), loans, deposits, etc. are available every time for overseas transactions.

**ACCOUNTS MAINTENANCE**

A multinational company can maintain the records of global accounts in a fair manner with the help of international banking. All the transactions of the company are recorded in the books of the banks across the globe.

**WHAT IS DIFFERENCE BETWEEN BANKS & NBFCs?**

NBFCs lend and make investments and hence their activities are akin to that of banks; however there are a few differences as given below

i. NBFC cannot accept demand deposits

ii. NBFCs do not form part of the payment and settlement system and cannot issue cheques drawn on it

iii. Deposit insurance facility of Deposit Insurance and Credit Guarantee Corporation is not available to depositors of NBFCs, unlike in case of banks.

**EXPLAIN TYPES OF INTERNATIONAL BANKING**

**CORRESPONDENT BANKS**

Correspondent banking implies a relationship between at least two banks, including those in differing countries. Multinational corporations (MNCs) may utilize these banks for conducting global business, according to the University of Michigan. Correspondent banks are usually small, and may have representative offices serving MNCs outside of the bank's home country.

**FOREIGN BRANCH BANK**

These banks operate in countries foreign to the parent bank to which they are legally tied. They must abide by banking regulations established in the home and host countries

**SUBSIDIARIES AND AFFILIATES**

A subsidiary bank is incorporated in one country, but is either partially or completely owned by a parent bank in another country. An affiliate works in a similar manner except it is not wholly owned by a parent company and operates independently.

**EDGE ACT BANKS**

This designation applies to certain U.S. banks, and is based on a 1919 constitutional amendment. While physically located in the United States, Edge Act banks conduct business internationally under a federal charter.

**OFFSHORE BANKING CENTER**

A "Swiss bank account," commonly referred to in Hollywood movies, is an example of an offshore banking center's services. According to the University of Michigan, these centers are actually countries with banking systems allowing foreign accounts that function independent from the country's banking regulations.

**BRIEF NON-BANKING FINANCIAL COMPANIES (NBFCs)**

**Definition:**

The Non-Banking Financial Companies (NBFCs) are the financial institutions that offer the banking services, but do not comply with the legal definition of a bank, i.e. it does not hold a bank license.

**TYPES OF NON-BANKING FINANCIAL COMPANIES**

* [Mutual Benefit Finance Company](https://businessjargons.com/mutual-benefit-finance-companies.html)
* [Investment Company](https://businessjargons.com/investment-companies.html)
* [Hire-Purchase Company](https://businessjargons.com/hire-purchase-company.html)
* [Loan Company](https://businessjargons.com/loan-company.html)
* [Asset Finance Company (AFC)](https://businessjargons.com/asset-finance-company.html)
* [Infrastructure Finance Company (IFC)](https://businessjargons.com/infrastructure-finance-company.html)
* [Infrastructure Debt Fund: Non-Banking Finance Company (IDF-NBFC)](https://businessjargons.com/infrastructure-debt-fund-non-banking-financial-companies.html)
* [Non-banking Financial Company: Micro Finance Institution (NBFC-MFI)](https://businessjargons.com/non-banking-financial-company-micro-finance-institution.html)
* [Systematically Important Core Investment Company (CIC-ND-SI)](https://businessjargons.com/systematically-important-core-investment-company.html)
* [Non-Banking Financial Company-Factors](https://businessjargons.com/non-banking-financial-company-factors.html)
* [Housing Finance Company](https://businessjargons.com/housing-finance-company.html)
* [Chit Fund Company](https://businessjargons.com/chit-fund-company.html)
* [Residuary Non-Banking Company](https://businessjargons.com/residuary-non-banking-company.html)

**WHAT IS DIFFERENCE BETWEEN BANKS & NBFCs?**

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**UNIT V**

**EXPORT MANAGEMENT**

Export means transaction of products and services from one nation to other following legal rules for trade purposes. Export goods are given to international end users by domestic producers. Export management is the use of managerial process to the serviceable area of exports.

**Concept of export management**

Export business is prevalent around the globe and in recent times it has grown at much faster rate due to globalization process. Export means transaction of products and services from one nation to other following legal rules for trade purposes. Export goods are given to international end users by domestic producers. Export management is the use of managerial process to the serviceable area of exports. It is basically associated with export activities and type of management that brings harmonization and incorporation of an export business. Export management is concerned with export orders and accomplish objectives to successfully complete in time as per the requirements given by the overseas buyers. The main purpose of export management is to secure export orders and to make certain for timely delivery of goods as per agreed norms of quality and other specifications including terms and conditions agreed to between the exporter and the importer.

## Function of Export Manager

Export manager has important role in managing business for international orders. They must be competent to perform export business. The conventional management structures with functional classification such as purchases, marketing, finance, accounts, administration, cannot make certain efficiency in export management through all stages in the export phases. Therefore, export manager is needed to successfully conduct export business operation. The basic role of an export manager is to bring about synchronization and integration of the export transaction from within the established management structures and concerned external agencies to guarantee timely delivery of goods as per the specifications of purchaser. The export manager is accountable for the successful completing of the order in terms of time, cost and technical performance. He must provide the guidance necessary to connect the people and groups from dissimilar departments working on the export order, into one team in a managerial organisation and provide the drive necessary to complete the task on time and within cost. He must have good understanding of the techniques applied in export planning, financial management, inventory management, merchandising, risk management, foreign exchange operations, exchange control, negotiation with banks information systems, communication, personnel management and industrial relations, co-ordination and control. The efficiency of export manager will depend upon the extent of authority delegated to him by the senior management.

## Process of Export Management

When it is decides to develop export business, the primary function is to make good plan to secure an export order. After confirming the order to the consumer, it is necessary to develop an organization structure for it and form competent team of personnel for its implementation. Export Manager has great responsibility to manage all operation in timely manner. The success of the export order depends, on his efficient management and handling of export orders. He must maintain liaison with the importer, prepare plans for its implementation and issue necessary executive instructions to the export employees. He has also to develop an information system so that there is continuous flow of information on the progress of the order. In case, if progress is not satisfactory and some tasks are not performed as per prescribed schedules, export manager has duty to evaluate the variances and tasks suitable corrective measures, if necessary, for the purpose and ultimately submit report on the progress of work to the top management. The major functions of the export manager in managing orders are: procurement of export order, planning for export order execution, direction for exports, export order execution, importer liaison, export order evaluation, reprogramming, reporting on export order execution.

## Development of Export Strategies

Once a detailed market analysis has been completed, company should develop a method of market entry. The indirect methods of market entry usually need less marketing investment, but company could lose considerable control over the marketing process. Direct exporting may require huge capital investment in marketing, but there is more control over export strategies. Corporate presence is a choice for companies with successful test marketing. In Direct Exporting, Company or individual can access directly to customers and sell them products in foreign markets by establishing an export department within your organization. Selling through company's sales department creates a chance to establish healthy relationship with the abroad market and buyer. In addition to selling directly to the market, company can penetrate and may also choose to use an export manager to handle other parts of the world. In fact, in some countries, it is not necessary to sell directly to the end-user; company must use a local agent or representative. Other direct exporting options are Manufacturer's Representative or Sales Agents. They are the persons who are responsible for closing the sale and taking orders on a commission basis. They do not take financial responsibility or collect payment for the goods sold, and they assume no risk or responsibility for the product. Foreign Distributor/Importer is another option for exporting who buys the product and is always responsible for payment of the export item. They presume financial risk and generally provide support and service for the product. Distributors often buy to fill their own inventories and typically carry a range of non-competitive, but complementary products. Overseas Retailers are also involved in exporting products.

Indirect Exporting is preferable for complex task and also cover the risk of direct exporting. An Export Management Company functions as an "off-site" export sales department, representing company's product along with a variety of non-competitive manufacturers. The Export Management Company searches for business for company and usually provides the array of services like it performs market research and develops a marketing strategy, locates new and utilizes existing foreign distributors or sales representatives, to put your product into the foreign market, functions as an overseas distribution channel or wholesaler, takes title to the goods and operates on a commission basis. Another indirect exporting option is through Export Trading Company which is analogous to Export Management Companies. The ETC is more likely to take title to the product and pay directly, but like an EMC, they can also act as an export department. Usually, there is less responsibility on the part of the ETC towards the supplier and they tend to be demand driven and transaction oriented. Licensing offers a small business the advantages of rapid entry into foreign markets as well as reducing the capital requirements to establish manufacturing facilities overseas. Other option is Franchise agreements that tend to give the franchiser more control over marketing, since it is the company's reputation and existing market relationship that adds value to the product. Agreements with foreign manufacturers to produce company product, as opposed to exporting to the overseas region is known as contract manufacturing. It is an easy foreign market entry method when your manufacturer is already producing company product for the domestic market.

## Benefits of Exporting

* Main benefit of export is the possession which is specific to the firms' international experience, asset and capacity of the exporter to offer distinct product or low cost product with in the values chain.
* An assortment of investment risk and market potential is recognized as the site benefit of the particular market combination.
* Some companies have lower level of ownership advantage therefore they may not enter into the foreign markets.
* Another benefit is that low investment is needed in exporting of goods than the other modes of international trade and development.
* In export of products, the managers perform the various operational control however it does not have the option over the control of marketing activities of the company. The consumer of exported goods is far away from the exporter though the different intermediaries can manage the risk.

**Need for export management**

* At the national level
* At the business level

**At the National level**

* Earning foreign exchange
* International Relations
* Balance of payments
* Reputation in the world
* Employment
* Research and development
* Standard of living
* Economic growth

**At the Business level**

* Export management
* Higher profits
* Reputation and goodwill
* Imports are liberalized
* Government incentives

**LICENSING IN INTERNATIONAL BUSINESS**

**Meaning of Licensing**

**Licensing** is a **business** arrangement in which one company gives another company permission to manufacture its product for a specified payment.

**Licensing** generally involves allowing another company to use patents, trademarks, copyrights, designs, and other intellectual in exchange for a percentage of revenue or a fee.

**Definition of Licensing**

“A business arrangement in which one company gives another company permission to manufacture its product for a specified payment”

**Types of licensing**

* Proprietary license.
* GNU General Public License.
* End User License Agreement (EULA)
* Workstation licenses.
* Concurrent user license.
* Site licenses.
* Perpetual licenses.
* Non-perpetual licenses. etc.

**Benefits of licensing**

* The advantages of a licensing arrangement include:
* Quick, easy entry in
* To foreign markets, allowing a company to “jump” border and tariff barriers.
* **Lower** capital requirements.
* Potential for large return on investment (ROI), which can be realized fairly quickly.

**Licensing fees**

A licensing fee can be an amount of money paid by an individual or business to a government agency for the privilege of performing a certain service or engaging in a certain line of business. Many types of professions require licenses to participate in the profession.

**JOINT VENTURE TECHNOLOGY**

**Joint Ventures**

Joint Ventures can be with a company of same industry or can be of some other industry, but with a combination of both, they will generate a competitive advantage over other players in the market. In short, when two or more organizations join hands together for creating synergy and gain a mutual competitive advantage, the new entity is called a Joint Venture. It can be a private company, public company or even a foreign company.

In India, many companies underwent joint venture with various foreign companies, which were either technologically more advanced or geographically more scattered. The major joint ventures in India were done in sectors like Insurance, Banking, Commercial Transport vehicle, etc.

**1. Meaning of Joint Venture**

Joint Venture is a business preparation in which more than two organizations or parties share the ownership, expense, return of investments, profit, governance, etc. To gain a positive synergy from their competitors, various organizations expand either by infusing more capital or by the medium of Joint Ventures with organizations.

**2. Possibilities in a Joint Venture**

A joint venture can be very flexible which can be in context to the requirements of the organization. The agreement between the companies should have detailed terms and conditions with respect to the activities that will be carried by them. This aids in clarification and don’t allow any ambiguity between the stakeholders. The agreement also helps to designate the actual scope of work which either of parties has to conduct.

Two organizations of different countries can also undergo a Joint Venture to conduct a business. In this case, the directives issued by the respective governments have to be followed before entering into any kind of Joint Venture.

## 3. Types of joint venture

## There are different types of joint ventures. How you set up a joint venture depends on what your business is trying to achieve. The most ****common types of joint venture**** are:

* **Limited co-operation**

This is when you agree to collaborate with another business in a limited and specific way. For example, a small business with an exciting new product might want to sell it through a larger company's distribution network. The two partners agree a contract setting out the terms and conditions of how this would work.

* **Separate joint venture business**

This is when you set up a separate joint venture business, possibly a new company, to handle a particular contract. A joint venture company like this can be a very flexible option. The partners each own shares in the company and agree how they should manage it.

* **Business partnerships**

In some cases, a limited company may not be the right choice. Instead, you could form a business partnership or a limited liability partnership. You could even merge the two businesses.

**4. Purposes for establishing Joint Venture in India.**

JVs are envisaged as alliances that yield benefits for the JV partners by offering a platform to attain their business goals which would be difficult or uneconomical to attain independently. Establishing a JV with an ideal partner provides a fast way to leverage complementary resources available with the other partner, share each others’ capabilities, access new markets, strengthen position in the current markets, or diversify into new businesses. India Inc. has come of age and is not just an investment destination but also an aggressive investor. Indian companies have exhibited, in the recent past, their ambition to venture into the quest for overseas expansion. The main stumbling blocks for Indian com-panies in achieving expected levels of global presence are deficiencies in terms of product quality, technology, infrastructure and even management processes. These deficiencies can be negated by way of an alliance with a foreign counterpart who is a strategic fit. Alliances between those possess-ing varying expertise and capabilities in technology, marketing and distribution, etc. are necessary to meet the growing needs of modern business.

* **Leveraging Resources**

With the globalization, access to labor, capital and technological resources have become driving forces for modern businesses to aim to achieve ‘economies of scale.’ Today, business commitments are far too large to be executed by a single company. From a wider perspective, the conduct of business mandates a huge pool of resources extending from massive financial backup to plenty of skilled manpower. Cross-border business projects are all the more demanding and the best solution is to either outright acquire or share them by entering into a JV. Co-operation is a great way of reducing research and manufacturing costs while limiting exposure.

* **Exploiting Capabilities and Expertise**

Parties to a JV may have complementary skills or capabilities to contribute to the JV; or parties may have experience in different industries which it is hoped will produce synergistic benefits. The basic tenet of a JV is the sharing of capabilities and expertise of both the partners on mutually agreed terms. Such sharing grants a competitive advantage to the JV partners over other players in the market.

**Sharing Liabilities**

A JV also offers parties an opportunity to jointly manage the risks associated with new ventures. Through a JV they can limit their individual exposure by sharing the liabilities. When the liabilities and risks are shared the pressure on each individual partner is correspondingly reduced. It reduces the risks in a number of ways as the business activities of the JV can be expanded with smaller investment outlays than if financed independently.

**GLOBAL HUMAN RESOURCE MANAGEMENT**

Global human resource management, sometimes referred to as global harm, is an umbrella term that includes all aspects of an organization’s hr, payroll, and talent management processes operating on a global scale.  
 As technological innovations make it easier for organizations to conduct business across the world, global expansion has become an increasing reality, if not a necessity. Likewise, it’s essential for these multinational organizations to have the right HRM software in place that’s capable of serving employees working around the globe.

**Objectives of global HRM**

1. Create a local appeal without compromising upon the global identity.
2. Generating awareness of cross cultural sensitivities among managers globally and hiring of staff across geographic boundaries.
3. training upon cultures and sensitivities of the host country

## Functions of global HRM

## Staffing and recruitment

The primary functions of human resource managers involve the recruitment, hiring and retention of skilled and qualified employees. The tasks involved in executing these functions include preparing a job description, interviewing potential candidates, extending employment offers and discussing compensation packages. International human resource operations call for a complete understanding of the occupational methods required in each region, an assessment of the skill levels and availability required to carry out the job tasks, and the physical and educational abilities of the local workforce.

## Salaries and compensation packages

Globalization has forced human resource manager to adapt to new methods of offering compensation and benefits to a company's employees. The balance between compensation and benefits for the firm's employees is a crucial human resources function that involves developing an awareness of the desires and needs of a diverse workforce. Human resource management also involves educating employees about nontraditional benefits packages, such as telecommuting; flex time, parental leave for parents of newborns and tuition compensation for adult students.

## Training and development

The training and development of employees is crucial to their professional success. Human resource managers must ensure that employees have the time and materials to learn about the company's processes and methods. For companies undergoing globalization, human resource managers must also carry out the function of teaching employees about the legal and cultural differences in their new environments. An effective training program can increase the efficiency of operations in multiple locations and reduce the dangers that can arise from cultural miscommunications.

1. **Administrative tasks**

Human resource managers must understand how to accomplish the various administrative tasks that come with overseeing a global workforce. Human resource staffers often act as a buffer between management's decisions and the impact on employees. These staffers must communicate the processes behind payroll enrollment, expense reports, vacation time and health insurance benefits to employees when they come on board and when management decides to change these procedures. They must also deal with reassigning or terminating employees whose job functions are no longer required.

## Legal compliance

A major function of human resource management in a global company involves an understanding of local labor laws that regulate practices such as minimum wage, workweek hours, health benefits and paid vacations. Human resource managers must also develop an understanding of employment tax law in their jurisdiction. National, regional and local governments may choose to impose employment taxes on the company, so the human resources manager must grasp these laws and communicate their impact to senior management.

**Barriers to global human resource management**

1. **Political & legal factors**

Throughout the world, the political & legal systems are diversified. The organizations deal with the political & legal systems that are fairly stable, particularly in the developed countries of Europe. On the other hand, in certain other countries, there are relatively unstable political & legal systems. The governments of certain countries face coups, corruption & dictatorial rules that are all badly affecting the legal & business environment. Due to internal politics, the legal systems in certain countries are also becoming unstable. In this way the variations in the political & legal systems around the world become as a hurdle in the effective global human resource management.

1. **Cultural factors**

Every country has its own unique culture which is slightly similar to the cultures of other countries of the world. The global human resource management should apply such policies & procedure in the organization which are in accordance with the local culture of the country or region. Even most of the employees of the foreign subsidiary should be hired from the host country. There may be certain cultural norms that are allowed in one country but are prohibited in another country. So, cultural factor becomes a barrier for the smooth working of the global human resource management of any organization. Therefore the expatriates of the organization should also take into account the cultural norms & values of the host country to some extent. The management should make ensure that the implemented wider corporate culture is being followed in all the subsidiaries of the globally operating organization.

1. **Economic factors**

The economic factor is also regarded as a barrier for the effective global human resource management because there is not any single economic system operating globally. In case of the capitalist system, the efficiency & productivity are focused by the management of the organization by making such policies &procedures that promote efficiency. On the other system of economics, which is the socialist, the elimination of unemployment is concentrated by the management of the organization by sacrificing the productivity & efficiency which is definitely harmful for the organization. So before development & implementation of any human resource policy or practice of the management of the organization, the economic barrier of the global operations should be properly comprehended by the organization. Moreover, the difference in the labor costs around the world becomes a serious problem for a global business.

1. **Labor/management relations factor**

The policies & procedures of the global [human resource management](http://www.businessstudynotes.com/category/hrm/human-resource-management/) are affected by the relations of workers & employees with the management because the nature of these relations varies from one country to another country of the world.

**Challenges in HRM**

1. **Compliance with laws and regulations**

Keeping up with changing employment laws is a struggle for business owners. Many choose to ignore employment laws, believing they don’t apply to their business. But doing so could mean audits, lawsuits, and possibly even the demise of your company.

1. **Management changes**

As a business grows, its strategies, structure, and internal processes grow with it. Some employees have a hard time coping with these changes. A lot of companies experience decreased productivity and morale during periods of change.

1. **Leadership development**

A recent study showed more than a third of companies are doing an average job, at best, at [implementing leadership development](https://trainingmag.com/study-shows-leadership-development-rated-below-average-or-poor-more-one-third-organizations) programs. Thirty-six percent of companies surveyed in Brandon hall group’s state of leadership development study admitted that their leadership development practices are below average.

1. **Adapting to innovation**

Technology is constantly changing. Businesses must be quick to adapt, or risk being left in the dust by their competitors. The challenge for small business owners is getting employees to embrace innovation and learn new technology.

1. **Recruiting talented employees**

Attracting talent is a huge investment of time and money. It’s difficult for entrepreneurs to balance between keeping a business running, and hiring the right people at the right time. In addition, it’s impossible to know whether a candidate will actually be a good fit until they’ve worked for you for a period of time.

1. **Retaining talented employees**

Competition for talented employees is fierce. Startups and small companies don’t have big budgets for retirement plans, expensive insurance plans, and other costly items that their larger competitors do at least, not yet. Employee turnover is expensive and can negatively impact business growth.

1. **Workplace diversity**

Multiple generations. Ethnic and cultural differences. These are just a few of the many factors that make workplace diversity a continual challenge for small businesses. The risk of lawsuits for failing to protect employees from harassment is real.

**GLOBALISATION AND SOCIAL RESPONSIBILITY**

**Definition**

Globalization and Social Responsibility invites both empirical examination and critical reflection on timely worldwide social problems that we will encounter as we circumnavigate the globe. The United Nations Millennium Development Goals will provide the broader context within which students will identify specific problems to investigate.

Globalization in its true sense is a way of corporate life necessitated, facilitated and nourished by the transnationalisation of the world economy and developed by corporate strategies, globalization is an attitude of mind.

**Meaning of Social responsibilities**

Social responsibility of business refers to what the business does, over and above the statutory requirement, for the benefit of the society. The word responsibility connotes that the business has some moral obligations to the society.

**Social responsibility model**

* Economic
* Legal
* Ethical
* Discretionary

1. **Economic**

The firm being an economic entity, its primary responsibility is economic. i.e., efficient operations to satisfy economic needs of the society and generation of surplus for rewarding investors and further development.

1. **Legal**

Legal responsibilities are also fundamental in nature because a company is bound to obey the law of the land.

1. **Ethical**

Ethical responsibilities are certain norms which the society expects the business to observe though they are not mandated by law. For example, a company shall not resort to bribing or unethical practices, unfair competitive practices etc..

1. **Discretionary**

Discretionary responsibilities refer to the voluntary contribution of the business to the social cause, like involvement in community development or other social programmes.

**Scope of social responsibility**

Initially, CSR emphasized the official behavior of individual firms. Later, it expanded to include supplier behavior and the uses to which products were put and how they were disposed of after they lost value. They are two types.

* Supply chain
* Corporate social initiatives

1. **Supply chain**

In the 21st century, corporate social responsibility in the supply chain has attracted attention from businesses and stakeholders. Corporations' supply chain is the process by which several organizations including suppliers, customers and logistics providers work together to provide a value package of products and services to the end user, who is the customer.

Corporate social irresponsibility in the supply chain has greatly affected the reputation of companies, leading to a lot of cost to solve the problems. For instance, incidents like the 2013 Saver building collapse, which killed over 1000 people, pushed companies to consider the impacts of their operations on society and environment.

On the other side, the horse meat scandal of 2013 in the United Kingdom affected many food retailers, including Tesco, the largest retailer in the United Kingdom, leading to the dismissal of the supplier. Corporate social irresponsibility from both the suppliers and the retailers has greatly affected the stakeholders who lost trust for the affected business entities, and despite the fact that sometimes it's not directly undertaken by the companies, they become accountable to the stakeholders. These surrounding issues have prompted supply chain management to consider the corporate social responsibility context.

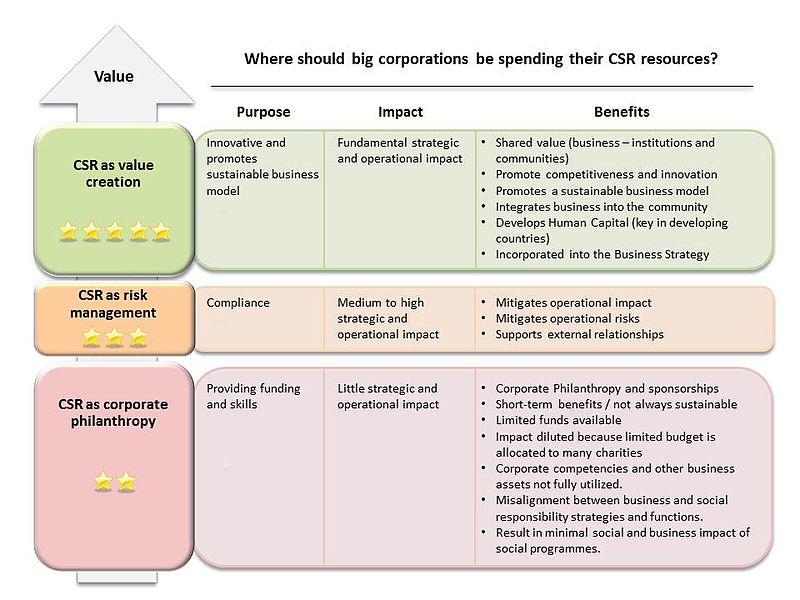
Wieland and Hand field (2013) suggested that companies need to include social responsibility in their reviews of component quality. They highlighted the use of technology in improving visibility across the [supply chain](https://en.wikipedia.org/wiki/Supply_chain).

1. **Corporate social initiatives**

Corporate social responsibility includes six types of corporate social initiatives:

* Corporate philanthropy: company donations to charity, including cash, goods, and services, sometimes via a corporate foundation
* company-organized volunteer activities, sometimes while an employee receives pay for pro-bono work on behalf of a non-profit organization
* Socially-responsible business practices: ethically produced products which appeal to a customer segment
* Cause promotions and [activism](https://en.wikipedia.org/wiki/Activism): company-funded advocacy campaigns
* Cause-related marketing: donations to charity based on product sales
* Corporate social marketing

**Approaches of social responsibilities:**



**NEGOTIATION IN INTERNATIONAL BUSINESS**

**Introduction**

Negotiating with international customers, regulators and partner often require a lot of meticulous preparation.

* Successful negotiation requires analysis and evaluation of the commercial and there impressive presentation and proper understanding and appreciation of cultural nuances of the negotiation a party and skillfully navigating the negotiation process accordingly.
* Negotiation is a process to manage relationship. It is basic human activity that exists between employers and employee, buyer and seller and between business associates.

**Characteristics of a negotiation situation:**

* There are two or more parties.
* There is a conflict of need and desires between two or more parties
* Parties expect a “give-and-take” process

**Key step to an ideal negotiation process:**

* Preparation.
* Relationship building.
* Information gathering.
* Information using.
* Bidding.
* Closing the deal.
* Implementing the agreement.

**FIVE strategies for negotiation international business contracts:**

1. Hire a consultant.
2. Choose your team wisely.
3. Gauge your counterpart’s.
4. Meet them in person.
5. Fix the agenda and keep detailed records.

**Factors affecting negotiation process:**

• Authority

• Credibility

• Information

• Time of negotiation

• Emotional control

• Communication skills

**Two types of negotiation competitive negotiation:**

* One time deal cooperative
* Long term negotiation

**4 c’ s of negotiation**

• Common interest

• Conflicting interest

• Compromise

• Criteria

**Prerequisites of effective negotiation**

• Selection of the appropriate negotiation team.

•Management of preliminaries, including training, preparation and manipulation of negotiating setting.

• Management of the process of negotiation, i.e., what happens at the negotiation table.

• Appropriate follow-up procedure and practices.

**Cultural problem in international negotiation**

• Language & non verbal Behavior.

• Values

• Thinking & decision making process.

• Difference in political, legal & economic system.

**Negotiation with regulators**

• In many instances government is a party in international business negotiation.

• There are 2 view point of governmental authority:

1. Hierarchical view

2. Bargaining view

**Third party negotiation**

• **mediator:** a mediator is a neutral third party who facilitates a negotiated solution by using persuasion, reasoning & suggestion for alternative.

• **Arbitrator:** third party negotiation to dictate an agreement.

• Conciliator: it is a trusted third party who provides an informal communication link between 2 parties. consultant it is an important third party skilled in conflict management who attempts to facilitate by creative problem solving tactics.

**Determinants of bargaining power**

• Relative importance of the project.

• Alternative

• Urgency

• Strengths

**Verbal and non verbal negotiation tactics**

• Promise

• Threat

• Recommendation

• Warning

• Reward

• Punishment

• Normative appeal

• Commitment

• Self disclosure

• Command

**Personal characteristics**

• Tolerance of ambiguous situation.

• Flexibility & creativity

• Humor

• Stamina

• Empathy

**Negotiation in Different Countries**

• FRANCE: The French like to conflict in Negotiation. They don’t pay much attention to likes & dislikes of the opposite party.

• Chinese: They use How & Why in Negotiation process. Whenever we fell that they are about to take decision they start negotiating again.

• North American: very impatient, they take decision on the basis of facts & logic . They want to approach more & more.

• Arabs: They are very casual regarding deadline. There is difference in gender negotiation.

• Brazilians: They have a habit of saying no as much as 83 times in 1 hour. They always try to their opponent by making physical touch.

**INTERNATIONAL ASSEST PROTECTION**

A Companies investment and other assets in foreign countries may face the risk of expropriation. Governments are therefore concerned about the protection of the interests of their national companies in the foreign countries. The potential risk was more before the worldwide liberalization set in the 1980s.

**Coercion and pressure**

Until the Second World War, home countries used military force and coercion to ensure that host governments would give foreign investors prompt, adequate, and effective compensation in cases of expropriation, under a concept known as the international standard of fair dealing. In a two conference held at The Hague in 1930 and at Montevideo in 1933, participating developing countries got established a treaty stating that “foreigners may not claim rights other or more extensive than nationals.”

Further the dependencia theory holds, developing economics have practically no power as host countries when dealing with MNEs.their assets are of title importance in bargaining again, MNCs can enlist the loyalties of their home governments local elites to maintain their power”.

**Bilateral and multilateral agreements etc.**

There are a number of bilateral and multilateral agreements, conventions, treaties etc. between nations which seek to protect international assets and rights and to settle disputes.

At the regional and interregional levels, the number of investment-related instruments continues to grow, especially in the form of free trade and investment agreements.

Thenumber of bilateral treaties for the avoidance of double taxation (DTTs) also increased, reaching a total of 2,118 at the end of 2000 and 2185 by the end of 2001.

**Insurance cover**

There are public and private insurers who provide insurance covers against political risks associated with exports and foreign investments. for examples, the public sector export credit guarantee corporation of India (ECGC) provides such insurance covers. Coverage in respect of international investments is also available through old bank’s multilateral investments guarantee agency (MIGC).

**Protection of IPRS**

Protection of intellectual property organization (WIPO) is an international organization dedicated to helping to ensure that the rights of creators and owners intellectual property of protection.

WIPO expanded its role and further demonstrated the important intellectual property rights in the management of globalized trade in 1996 by entering into a corporation agreement with the world trade organization (WTO).

In 1898, BIRPI administered only four international treaties. Today its successor, WIPO, administer

23 treaties and carries out a rich and varied program of work, through its member states and secretariat that seeks to:

* Harmonize national intellectual property legislation and procedures
* Provide services for international applications for industrial property rights.
* Exchange intellectual property information.
* Provide legal and technical assistance to developing and other countries.
* Facilitate the resolution of private intellectual property disputes.

Marshal information technology as a tool for storing, assessing and using valuable intellectual property information.

**Offshore Asset Protection**

Offshore asset protection is all about protecting someone’s assets outside of his home country. It can also mean assets held inside his home country are not owned by him anymore but by a legal entity registered in another country. That’s where the term “offshore” means, away from home.

**Why Offshore Asset Protection Is So Important?**

Protecting one’s assets offshore is a legal strategy used by thousands of people around the world. The benefits include lawsuit protection.

That’s right, protecting assets which include real estate, vehicles, antiques, art work, cash, jewelry, securities, commodities, and other valuable personal properties from civil lawsuits. When someone is negligent or gets into an accident that is his fault resulting in death, injuries, or property damages he can be sued in a civil court of law with a large money judgment being made against him.

This can run into millions of dollars depending upon the severity of the injury or damage. Everything he owns is subject to seizure by the injured parties to pay for their monetary judgment. [Global asset protection](https://cs-p.com/asset-protection-services) eliminates ownership of these assets which keeps them away from the former owner’s creditors.

If you no longer own something creditors can’t seize it. The strategy is to strip the person of everything he owns making him worthless to go after because it will be a waste of time and money. Plaintiffs’ lawyers won’t get paid until they can collect the money judgments because most operate on what is called a “contingency” fee arrangement. That means if he doesn’t find and seize the defendant’s assets he won’t get paid. A debtor who owns nothing is nothing more than a poor pauper making him judgment proof because there is nothing to seize to satisfy the judgment. That is why offshore asset protection is so important in these days of lawsuit crazy societies.

Another benefit is assets can be anonymously owned offering complete privacy to the owner. Some people value their privacy especially when it comes to their financial affairs and will gladly pay for such a system.

**Offshore asset protection** also offers the benefit of paying lower taxes or no taxes at all. That’s because this strategy spreads ownership on income producing assets amongst several [offshore corporations,](https://cs-p.com/offshore-incorporation-services/) offshore foundations, or offshore trusts.

Some countries tax income on a sliding scale whereby if one entity only earns a small income its tax liability would be less than accumulating all of the assets in one person or one entity creating a higher tax bracket. Spread the wealth and lower each entity’s tax bracket. Elimination of all income and corporation taxes can also be accomplished. The use of entities in totally tax free countries to own all of the income producing assets results in no taxes. To pay for setting up an offshore asset protection plan usually results in tax savings far beyond the set up costs.

**Offshore asset protection strategies**

* There are several structures that can be used for protecting assets. For example, an offshore asset protection trust (APT) can provide a high level of security for personal assets.