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| **GLOBAL BUSINESS MANAGEMENT** |
| **SUB. CODE:16MBEBB3** |
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| **III B.B.A – VI SEMESTER** |

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**GLOBAL BUSINESS MANAGEMENT**

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**UNIT-I**

**2 MARKS QUESTION & ANSWERS:**

1. **DEFINE DOMESTIC BUSINESS.**

Commercial activities conducted within a nation or a commercial entity that conducts economic transactions inside the borders of its home nation. A domestic business typically has the advantage of only having to deal with its local currency, customs, culture, regulations and tax system.

1. **WHAT IS CULTURAL ENVIRONMENT?**

A cultural environment is a set of beliefs, practices, customs and behaviors that are found to be common to everyone that is living within a certain population. Cultural environments shape the way that every person develops, influencing ideologies and personalities.

1. **DEFINE GLOBAL ECONOMY**

The **global economy** is the **world economy** or the **worldwide economy**.

The term has two meanings:

* The economy of the whole planet, i.e., global GDP. GDP [stands for Gross Domestic Product](https://marketbusinessnews.com/financial-glossary/gross-domestic-product-gdp/).
* The way the world is today, with [countries’ economies so intertwined and interdependent](https://marketbusinessnews.com/financial-glossary/global-interdependence-definition-meaning/) that they all seem like parts of one whole. That ‘whole’ we call the ‘global economy.’

1. **What Is a Foreign Direct Investment (FDI)?**

A foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country.

1. **Define International Business**

International business refers to the trade of goods, services, technology, capital and/or knowledge across national borders and at a global or transnational scale. It involves cross-border transactions of goods and services between two or more countries.

**5 &10 MARKS QUESTION & ANSWERS:**

1. **Explain the Benefits of international business:**
   1. [Market expansion](https://www.marketing91.com/importance-international-business/#1)-Market-expansion)
   2. [Non-availability of product in new market](https://www.marketing91.com/importance-international-business/#2)-Nonavailability-of-product-in-new-market)
   3. [Cost advantage](https://www.marketing91.com/importance-international-business/#3)-Cost-advantage)
   4. [Product Differentiation](https://www.marketing91.com/importance-international-business/#4)-Product-Differentiation)
   5. [Economic recession in one’s own country](https://www.marketing91.com/importance-international-business/#5)-Economic-recession-in-one%E2%80%99s-own-country)
   6. [Loss of Domestic market share](https://www.marketing91.com/importance-international-business/#6)-Loss-of-Domestic-market-share)
   7. [Growth in Demand in other markets](https://www.marketing91.com/importance-international-business/#7)-Growth-in-Demand-in-other-markets)
   8. [Excess capacity of Production](https://www.marketing91.com/importance-international-business/#8)-Excess-capacity-of-Production)
   9. [Economies of Scale](https://www.marketing91.com/importance-international-business/#9)-Economies-of-Scale)
   10. [Purchasing Power](https://www.marketing91.com/importance-international-business/#10)-Purchasing-Power)
2. **Differentiate between domestic business and international business**

|  |  |  |
| --- | --- | --- |
| **Nature** | **Domestic Business** | **International Business** |
| **Geography** | Happens within one country. | Can happen in more than one country. |
| **Quality of products/ services** | Standards may be lower. | Very high standards are expected and enforced. |
| **Currency** | Mostly depends on local currency for transactions. | It depends on foreign currencies for transactions. |
| **Research** | It is easy to conduct research for the business. | Research processes for the business is very expensive and hard to conduct. |
| **Investment** | The capital investment is not as high. | Capital investment is extremely high. |
| **Production factors** | There is free and easy movement of the factors of production. | The movement of production factors is limited. |

8.**Explain the economic and political Environment of International Business.**

The environment of international business is regarded as the sum total of all the external forces working upon the firm as it goes about its affairs in foreign and domestic markets.

The environment can be classified in terms of domestic, foreign, and international spheres of impact.

1. The domestic environment – is familiar to managers and consists of those uncontrollable external forces that affect the firm in its home market.

2. The foreign environment - can be taken as those factors which operate in those other countries within which the MNC operates.

3. The international environment - is conceived as the interaction between domestic and foreign factors and indeed they cover a wide spectrum of forces

The forces are:

1. Political environment
2. Legal environment
3. Cultural environment
4. Technological environment
5. Economic environment.

**ECONOMIC ENVIRONMENT**

Economic conditions, economic policies and the economic system are the important external factors that constitute the economic environment of a business. The economic conditions of a country-for example, the nature of the economy, the stage of development of the economy, economic resources, the level of income, the distribution of income and assets, etc- are among the very important determinants of business strategies.

The economic policy of the government, needless to say, has a very great impact on business. Some types or categories of business are favorably affected by government policy, some adversely affected, while it is neutral in respect of others. For example, a restrictive import policy, or a policy of protecting the home industries, may greatly help the import-competing industries.

**POLITICAL AND LEGAL ENVIRONMENT**

Political and government environment has close relationship with the economic system and economic policy. For example, the communist countries had a centrally planned economic system. In most countries, apart from those laws that control investment and related matters, there are a number of laws that regulate the conduct of the business. These laws cover such matters as standards of products, packaging, promotion etc.

**SOCIO-CULTURAL ENVIRONMENT**

The socio-cultural fabric is an important environmental factor that should be analysed while formulating business strategies. The cost of ignoring the customs, traditions, taboos, tastes and preferences, etc., of people could be very high. The buying and consumption habits of the people, their language, beliefs and values, customs and traditions, tastes and preferences, education are all factors that affect business

**DEMOGRAPHIC ENVIRONMENT**

Demographic factors like the size, growth rate, age composition, sex composition, etc. of the population, family size, economic stratification of the population, educational levels, languages, caste, religion etc

**TECHNOLOGICAL ENVIRONMENT**

Technological factors sometimes pose problems. A firm, which is unable to cope with the technological changes, may not survive. Further, the differing technological environment of different markets or countires may call for product modifications. For example, many appliances and instruments in the U.S.A. are designed for 110 volts but this needs to be converted into 240 volts in countries which have that power system. Technological developments may increase the demand for some existing products.

1. **Discuss the types of International Business.**

## Exporting

Exporting includes producing goods in the home country and then shipping them to another country. Once the products reach the foreign shores, the exporter’s role is over. A local firm then sells the goods to local customers.

Once the exported products are found to be available in a given country, exporting often becomes undesirable. An exporting firm loses control of the management and operation of goods’ sales once they are turned over to a local firm for sale. Also, an exporter earns money when it sells its goods to a local firm, but it cannot get any profit when the end users buy the goods. Exporting is the easiest way of entering an international market but risky too.

## Wholly Owned Subsidiary

A wholly owned subsidiary is a new business in a foreign country owned by the foreign firm. It can be a greenfield venture, meaning that the organization builds up the entire operation itself. The other possibility is purchasing an existing operation.

Having a wholly owned subsidiary is an attractive option as the firm has complete control over the operation and gets all the profits. It can be quite risky, however, as the firm must pay all of the expenses required to set it up and operate it.

## Franchising

Franchising involves a firm (franchisor) granting the rights to use its brand name, products, and processes to other firms (franchisees) in lieu for a fee (a franchise fee) and a pre-set percentage of franchisees’ revenues (a royalty fee).

## Licensing

Licensing includes permitting a foreign company the right to produce a company’s product within a foreign country in return for a fee. The products are usually produced using a patented technology.

The firm that grants a license avoids many types of costs, but also the profits are limited. The firm also loses the control over use of its technology.

## Joint Ventures and Strategies Alliances

In a Joint Venture (JV), the participating organizations contribute to the creation of a new entity. In such an arrangement, organizations work cooperatively, but a new organization is not created. The firm and its partner shares decision-making, control over the operations, and the profits.

1. **DISCUSS THE PROBLEMS FACED BY INTERNATIONAL BUSINESS**

. The important problems in international marketing are given below:

1**. POLITICAL AND LEGAL DIFFERENCES** The political and legal environment of foreign markets is different from that of the domestic. The complexity generally increases as the number of countries in which a company does business increases. . For example, the political and legal environment is not exactly the same in all the states of India.

2. **CULTURAL DIFFERENCES** The cultural differences, is one of the most difficult problems in international marketing. Many domestic markets, however, are also not free from cultural diversity.

3. **ECONOMIC DIFFERENCES** The economic environment may vary from country to country.

4**. DIFFERENCES IN THE CURRENCY** **UNIT** The currency unit varies from nation to nation. This may sometimes cause problems of currency convertibility, besides the problems of exchange rate fluctuations. The monetary system and regulations may also vary.

**5. DIFFERENCES IN THE LANGUAGE** An international marketer often encounters problems arising out of the differences in the language. Even when the same language is used in different countries, the same words of terms may have different meanings. The language problem, however, is not something peculiar to the international marketing. For example: the multiplicity of languages in India.

**6. DIFFERENCES IN THE MARKETING INFRASTRUCTURE** The availability and nature of the marketing facilities available in different countries may vary widely. For example, an advertising medium very effective in one market may not be available or may be underdeveloped in another market.

**7. TRADE RESTRICTIONS** A trade restriction, particularly import controls, is a very important problem, which an international marketer faces

**. 8. HIGH COSTS OF DISTANCE** When the markets are far removed by distance, the transport cost becomes high and the time required for affecting the delivery tends to become longer. Distance tends to increase certain other costs also.

**9. DIFFERENCES IN TRADE PRACTICES** Trade practices and customs may differ between two countries.

**UNIT-II**

1. **WHAT IS FTZ?**

FTZ- Foreign-Trade Zone (FTZ)

A foreign-trade zone (FTZ) is a class of special economic zone It is a geographic area where goods may be landed, stored, handled, manufactured, or reconfigured and re-exported under specific customs regulation and generally not subject to customs duty.

1. **WHAT IS DGFT?**

DGFT - Directorate General of Foreign Trade (DGFT)

The Directorate General of foreign Trade (DGFT) is the agency of the Ministry of Commerce and Industry of the Government of India, responsible for execution of the import and export Policies of India.

1. **WHAT IS THE BENEFIT OF SUPER STAR TRADING HOUSE?**

* On being recognized as a star export house, the exporter enjoys various benefits and privileges as Authorisation and
* customs clearance for both imports and exports may be allowed on self-declaration basis.

1. **WHAT IS TRADING HOUSE?**

A trading house is a business that specializes in facilitating [transactions](https://www.investopedia.com/terms/t/transaction.asp) between a home country and foreign countries. A trading house is an exporter, importer and also a trader that purchases and sells products for other businesses.

1. **WHAT IS EPZ?**

An **Export Processing Zone** (**EPZ**) is a Customs area where one is allowed to import plant, machinery, equipment and material for the manufacture of export goods under security, without payment of duty.

**5&10 MARKS**

1. **ADVANTAGES OF TRADING HOUSES.**

**Trading House Advantages**

**Economies of Scale**: A trading house typically has a large portfolio of clients that provide [economies of scale](https://www.investopedia.com/insights/what-are-economies-of-scale/) benefits. For example, a large trading house can use its significant buying power to receive discounts from manufacturers and suppliers. A trading house can also reduce transportation costs if it ships to customers in large quantities.

**International Foothold:** Trading houses have an extensive network of contacts in international markets that help them secure favorable deals and find new [customers](https://www.investopedia.com/terms/c/customer.asp). They may also have staff working in foreign offices to work with customs officials and manage legal issues to ensure smooth operation of the business.

**Currency Management**: Because a trading house is continually importing and exporting products, they have expertise in managing currency risk. Trading houses use risk management techniques, such as [hedging](https://www.investopedia.com/articles/optioninvestor/07/hedging-intro.asp), to avoid getting exposed to adverse currency fluctuations. For example, a trading house that has a future payment in euros may use a currency forward contract to lock in the current EUR/USD exchange rate.

1. **FUNCTIONS OF EXPORT HOUSE.**
   1. The functions of export house are mentioned below
   2. Identifying potential market for a product
   3. Finding buyers and their agent and eliciting their response for export proposal.
   4. Establishing product specification  in the light of market needs, standards and regulation in accordance with suppliers capabilities.
   5. Determining appropriate mode of transportation and routing keeping in mind the cost, quality of service and security
   6. Preparing the goods for delivery at destination
   7. Determining buyer’s creditworthiness
   8. Negotiating the transactions
   9. Arranging proper insurance coverage against maritime risks and currency fluctuations
   10. Financing the transactions and paying for goods and service received.

Preparing document for international trade

* 1. Settling claim.

1. **EXPLAIN FEW EXPORT PROMOTION MEASURES.**

Some of the export promotion measures are listed below.

**Duty Free Replenishment Certificate (DFRC):** DFRC is issued to a merchant exporter or manufacturer exporter for the duty free import of inputs such as raw materials, components, intermediates, consumables, spare parts, including packing materials to be used for export production. Such license is given subject of the fulfillment of time bound export obligation.

**Duty Entitlement Passbook Scheme (DEPB):** Under the DEPB scheme, an exporter may apply for credit as a specified percentage of FOB value of exports, made in freely convertible currency. The credit shall be available against such export products and at such rates as may be specified by the Director General of Foreign Trade (DGFT) by way of public notice issued in this behalf, for import of raw materials, intermediates, components, parts, packaging materials, etc.

**Export Promotion Capital Goods Scheme (EPCG):** EPCG scheme was introduced by the EXIM policy of 1992-97 in order to enable manufacturer exporter to import machinery and other capital goods for export production at concessional or no customs duties at all. This facility is subject to export obligation, i.e., the exporter is required to guarantee exports of certain minimum value, which is in multiple of tit1e value of capital goods imported.

**Duty Drawback (DBK):** The Duty Drawback Scheme is administered by the Directorate of Drawback, Ministry of Finance. Under this scheme, an   exporter is entitled to claim

* Customs duty paid on the import of raw materials, components and consumables
* Central excise duty paid on indigenous raw materials,  components
* Consumables utilized in the manufacture of goods meant for export

**Excise Duty Refund:** Excise duty is a tax imposed by the central government on goods manufactured in India. This duty is collected at source, i.e., before removal of goods from the factory premises. Export goods are totally exempted from central excise duty. However, necessary clearance has to be obtained in one of the following ways

* Export under rebate
* Export under bond

**Octroi Exemption:** Octroi is a duty paid on manufactured goods, when they enter the municipal limits of a city or a town. However, export goods are exempted from Octroi.

1. **DISCUSS THE PROBLEMS FACED BY EXPORTERS IN INDIA**

At present, Indian exporters face a number of problems / difficulties. The problem demotivates the business firms to enter into foreign markets. These problem / difficulties are as follows.

a**) Recession in world market** The world market, faced recession in 2008 and in the first half of 2009. The recession was triggered due to sub-prime crisis of USA in September 2007. Due to recession, the demand for several Indian items such as Gems and Jewellery, Textiles and Clothing and other items were badly hit. During recession, exporters get low orders from overseas markets, and they have to quote lower prices. Therefore, exporter gets law profits or suffers from losses.

b) **Technological differences** The developed countries are equipped with sophisticated technologies capable of transforming raw materials into finished goods on a large scale. Less developed countries, on the other hand, lack technical knowledge and latest equipments. And therefore they have to use their old and outdated technologies. It leads to the lopsided development in the international market.

c**) Reduction in export Incentives** – Over the years, the Govt. of India has reduced export incentives such as reduction in DBK rates, withdrawal of income tax benefits for majority of exporters, etc. The reduction in export incentives demotivates exporters to export in the overseas markets.

d) **Several competitions in global marketing** –

Export marketing is highly competitive. This competition relates to price, quality, production cost and sales promotion techniques used. Indian exporters face three-faced competition while exporting. This includes competition from domestic exporters, local producers where the goods are being exported and finally from producers of competing countries at global level. Such competition is one special problem to the exporters.

e) **Problem of product standards** – Developed countries insist on high product standards from developing countries like India. The products from developing countries like India are subject to product tests in the importing countries. At times, the importing countries do not allow imports of certain items like fruits, textiles and other items on the grounds of excessive toxic content. Therefore Indian exporters lose markets especially in developed countries.

 f**) Fluctuations in Exchange Rate** – Every country has its own currency which is different from international currencies. The dominant international currencies are US dollar or Sterling Pound. From the point of view of Indian exporters we are interested to realize the payment in international currency. Foreign exchange earned by the operators is converted into Indian rupees and paid to the exporters in Indian currency; this exposes the exporters to the dangers of fluctuation in foreign exchange rates.

g) **Problems of Sea Pirates Attacks** – A major risk faced by international trade is attack by pirates in the Gulf of Aden. More than half of India‟s merchandise trade passes through the piracy infested Gulf of Aden. New exporters and importers are facing problem, because of increased pirate attacks as they find it difficult to get insurance cover.

h) **Problem of subsidies by Developed countries** – The developed countries like USA provide huge subsidies to their exporters. For example, in case of agriculture exporters, USA, UK and other provide huge subsidies to their exporters. Therefore, the exporters of developing countries like India find it difficult to face competition in the world markets.

 i**) Problem in preparing Documents** – Export involves a large number of documents. The exporter will have to arrange export documents required in his country and also all the documents as mentioned in the documentary letter of credit. In India, there are as many as 25 documents (16 commercial and a regulatory documents) to be filled in.

 j**) Government restrictions and foreign exchange regulations** –The Government restrictions compel the exporters to follow certain rules and regulations in the form of licenses, quotas, and customs formalities. Due to such restrictions, new problems develop before the exporters. Even trade restrictions in foreign countries create problems before exporters. Indian exporters face this difficulty of government restrictions and foreign exchange regulations even when trade policy is now made substantially liberal.

k**) High risk and Uncertainties** – Export marketing is subject to high risks and uncertainties. The risks may be both political and commercial. Political risks involve government instability, war, civil disturbances, etc. The commercial risks involve insolvency of the buyer, protracted default on the part of the buyer dispute on quality and so on.

 l) **Competition from China** India is facing stiff competition from China in the world markets, especially in the OECD markets.. Some of the Indian exporters have lost their overseas contracts due to cheap Chinese goods and supplies. This is the major problem of exporters.

1. **Functions of Export Oriented Units(EOU)**

**Functions**

1. Formulation of policy for Export Oriented Units (EOUs).
2. Compilation of statistics pertaining to EOUs with the assistance of Special Economic Zones.
3. To service Board of Approval (BoA) for proposals relating to EOUs.
4. To service BoA for proposals relating to grant of Industrial Licence for EOUs and units in Special Economic Zones.
5. Coordinating with other Departments/ Ministries for redressal of grievances of EOUs.
6. The work relating to release of funds for reimbursement of Central Sales Tax/ Duty Drawback (CST/DBK), etc.
7. Handling Court Cases, RTI applications, Parliament Questions, Audit Paras, MP/VIP/PMO references relating to EoU.

**Unit – III**

**2 MARKS**

1. **What is GATT?**

The **General Agreement on Tariffs and Trade** (**GATT**) is a [legal agreement](https://en.wikipedia.org/wiki/Treaty) between many countries, whose overall purpose was to promote international trade by reducing or eliminating trade barriers such as [tariffs](https://en.wikipedia.org/wiki/Tariffs) or [quotas](https://en.wikipedia.org/wiki/Import_quota).

1. **What is WTO?**

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. The WTO is based on agreements signed by the majority of the world’s trading nations.

1. What is GATS?

The **General Agreement on Trade in Services** (**GATS**) is a [treaty](https://en.wikipedia.org/wiki/Treaty) of the [World Trade Organization](https://en.wikipedia.org/wiki/World_Trade_Organization) (WTO) which entered into force in January 1995 as a result of the [Uruguay Round](https://en.wikipedia.org/wiki/Uruguay_Round) negotiations. The treaty was created to extend the multilateral trading system to [service sector](https://en.wikipedia.org/wiki/Tertiary_sector_of_industry), in the same way the [General Agreement on Tariffs and Trade](https://en.wikipedia.org/wiki/General_Agreement_on_Tariffs_and_Trade) (GATT) provides such a system for merchandise trade.

1. What is TRIMS?

This Agreement, negotiated during the Uruguay Round, applies only to measures that affect trade in goods.

1. What is TRIPS?

The **Agreement on Trade-Related Aspects of Intellectual Property Rights** (**TRIPS**) is an [international legal agreement](https://en.wikipedia.org/wiki/International_agreement) between all the member nations of the [World Trade Organization](https://en.wikipedia.org/wiki/World_Trade_Organization) (WTO). It sets down minimum standards for the regulation by national governments of many forms of [intellectual property](https://en.wikipedia.org/wiki/Intellectual_property) (IP) as applied to nationals of other WTO member nations.

1. **WHAT IS FEMA?**

**FEMA-** Foreign Exchange Management Act

The Foreign Exchange Management Act, 1999 (FEMA) is an Act of the Parliament of India "to consolidate and amend the law relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India".

5&10 MARKS

1. **FEATURES OF TRIMS**

**Trade Related Investment Measures (TRIMs)**  
**It refers to certain condition or restrictions imposed by a Government in respect of foreign investment in the country. The TRIM text provides that the foreign capital would not be discriminated by the member Governments.**  
  
**Features of TRIMs**  
**1. Abolition of restriction imposed on foreign capital**  
**2. Offering equal rights to the foreign investor on par with the domestic investor**  
**3. No restrictions on any area of investment**  
**4. No limitation or ceiling on the quantum of foreign investment**  
**5. Granting of permission of without restrictions to import raw material and other components**  
**6. No force on the foreign investors to use the total products and or materials**  
**7. Export of the part of the final product will not be mandatory**  
**8. Restriction on repatriation of dividend interest and royalty will be removed**  
**9. Phased manufacturing programming will be introduced to increase the domestic content of manufacturer**

1. **Explain the organization structure of WTO.**

Organization structure of the WTO consists of

1. Ministerial conference

2. General council,

3. Councils,

4. Committees and Management bodies

1. **Objectives of GATT:**

1. To provide equal opportunities to all countries in international market for trading purpose.

2To increase the effective demand.

3. To provide amicable solution to the disputes related to international trade.

4. To ensure a better living standards in the world as a whole.

1. What are the principles of multilateral trading system as embodied in the WTO agreements?

The following principles form the basis of the WTO/GATT system:

. Non-discrimination in trade among nations

Protection through tariffs only

Maintaining predictability through binding of tariffs

Progressive liberalization of trade through negotiations

Promoting fair competition in trade in the world market

. Encouraging development and economic reforms among members

1. **What are the main functions of WTO ?**
   * To implement rules and provisions related to trade policy review mechanism.
   * To provide a platform to member countries to decide future strategies related to trade and tariff.
   * . To provide facilities for implementation, administration and operation of multilateral and bilateral agreements of the world trade.
   * To administer the rules and processes related to dispute settlement.
   * To ensure the optimum use of world resources.
   * To assist international organizations such as, IMF and IBRD for establishing coherence in Universal Economic Policy determination.
2. **Explain the Limitations of WTO to India**

* **Free Trade benefits developed countries more than developing countries**. It is argued, developing countries need some trade protection to be able to develop new industries; this is important to be able to diversify the economy. It is known as the [infant industry argument.](https://www.economicshelp.org/dictionary/i/infant-industry-argument.html) Many developed economies used a degree of tariff protection in their development phase. Economist Ha Joon Chang argues WTO trade rules are like ‘pulling away the ladder they used themselves to climb up’ [(](https://www.economicshelp.org/dictionary/i/infant-industry-argument.html)[Kicking away the ladder](https://amzn.to/2ApoFWi)[at Amazon)](https://www.economicshelp.org/dictionary/i/infant-industry-argument.html)
* **Most favoured nation principle**. This is a core tenant of WTO rules – countries should trade without discrimination. It means a local firm is not allowed to favour local contractors. It is argued this gives an unfair advantage to multinational companies and can have costs for local firms and the right of developing economies to favour their own emerging industries.
* **Failure to reduce tariffs on agriculture**. Free trade is not equally sought across different industries. Both the US and EU retain high tariffs on agriculture, this hurts farmers in developing economies who face tariff protection
* **Diversification**. Arguably developing countries who specialise in primary products (e.g. agricultural products) need to diversify into other sectors. To diversify they may need some tariff protection, at least in the short term. Many of the existing industrialised nations used tariff protection when they were developing. Therefore, the WTO has been criticised for being unfair and ignoring the needs of developing countries.
* **Environment**. Free trade has often ignored environmental considerations. e.g. Free trade has enabled imports to be made from countries with the least environmental protection. Many criticise the WTO’s philosophy that the most important economic objective is the maximisation of GDP. In an era of global warming and potential environmental disaster, increasing GDP may be the least important. Arguably the WTO should do more to promote environmental considerations.
* **Free trade ignores cultural and social factors**. Arguably a reasonable argument for restricting free trade is that it enables countries to maintain cultural diversity. Some criticise the WTO for enabling the domination of multinational companies which reduce cultural diversity and tend to swamp local industries and firms.
* **The WTO is criticised for being undemocratic**. It is argued that its structure enables the richer countries to win what they desire; arguably they benefit the most.
* **Slow progress**. Trade rounds have been notoriously slow and difficult to reach an agreement.

1. **Describe the Dispute Settlement system under WTO.**

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| --- | --- |
| 60 days | Consultations, mediation, etc |
| 45 days | Panel set up and panellists appointed |
| 6 months | Final panel report to parties |
| 3 weeks | Final panel report to WTO members |
| 60 days | Dispute Settlement Body adopts report (if no appeal) |
| **Total = 1 year** | **(without appeal)** |
| 60-90 days | Appeals report |
| 30 days | Dispute Settlement Body adopts appeals report |
| **Total = 1y 3m** | **(with appeal)** |

Settling disputes is the responsibility of the Dispute Settlement Body (the General Council in another guise), which consists of all WTO members. The Dispute Settlement Body has the sole authority to establish “panels” of experts to consider the case, and to accept or reject the panels’ findings or the results of an appeal. It monitors the implementation of the rulings and recommendations, and has the power to authorize retaliation when a country does not comply with a ruling.

* **First stage:** consultation (up to **60 days**). Before taking any other actions the countries in dispute have to talk to each other to see if they can settle their differences by themselves. If that fails, they can also ask the WTO director-general to mediate or try to help in any other way.
* **Second stage:** the panel (up to **45 days** for a panel to be appointed, plus 6 months for the panel to conclude). If consultations fail, the complaining country can ask for a panel to be appointed. Officially, the panel is helping the Dispute Settlement Body make rulings or recommendations. But because the panel’s report can only be rejected by consensus in the Dispute Settlement Body, its conclusions are difficult to overturn. The panel’s findings have to be based on the agreements cited.

The panel’s final report should normally be given to the parties to the dispute within six months. In cases of urgency, including those concerning perishable goods, the deadline is shortened to three months.

The agreement describes in some detail how the panels are to work. The main stages are:

* **Before the first hearing:** each side in the dispute presents its case in writing to the panel.
* **First hearing: the case for the complaining country and defence:** the complaining country (or countries), the responding country, and those that have announced they have an interest in the dispute, make their case at the panel’s first hearing.
* **Rebuttals:** the countries involved submit written rebuttals and present oral arguments at the panel’s second meeting.
* **Experts:** if one side raises scientific or other technical matters, the panel may consult experts or appoint an expert review group to prepare an advisory report.
* **First draft:** the panel submits the descriptive (factual and argument) sections of its report to the two sides, giving them two weeks to comment. This report does not include findings and conclusions.
* **Interim report:** The panel then submits an interim report, including its findings and conclusions, to the two sides, giving them one week to ask for a review.
* **Review:** The period of review must not exceed two weeks. During that time, the panel may hold additional meetings with the two sides.
* **Final report:** A final report is submitted to the two sides and three weeks later, it is circulated to all WTO members. If the panel decides that the disputed trade measure does break a WTO agreement or an obligation, it recommends that the measure be made to conform with WTO rules. The panel may suggest how this could be done.
* **The report becomes a ruling:** The report becomes the Dispute Settlement Body’s ruling or recommendation within 60 days unless a consensus rejects it. Both sides can appeal the report (and in some cases both sides do).

1. **Features of Uruguay Round**

**i) Agreement on Agriculture:**

The tariffs resulting from transformation of non-tariff barriers, as well as other tariffs on agricultural products are to be reduced on an average by 36 per cent in the case of developed countries over 6 years and 24 per cent in the case of developing countries over 10 years period.

**(ii) Agreement on Trade in Textiles and Clothing**:

This provide for phasing out the import quotas on textiles and clothing in force under the Multi-Fibre Arrangements since 1974, over a span of 10 years, i.e., by the end of the transition period on January 1, 2005.

**iii) Agreement on Market Access**:

The member nations will cut tariff on industrial and farm goods by an average of about 37 per cent.

**iv) Agreement on TRIMs**:

The agreement on Trade Related Investment Measures (TRIMs) calls for introducing national treatment of foreign investments and removal of quantitative restrictions. It identifies 5 investment measures which are inconsistent with the GATT provisions on according national treatment and on general elimination of qualitative restrictions.

**v) Agreements on TRIPs**:

Trade Related Intellectual Property Rights (TRIPs) pertain to patents and copyrights. Whereas earlier on-process patents were granted to food, medicines, drugs and chemical products, the TRIPs agreement now provides for granting product patents also in all these areas. Protection will be available for 20 years for patents and 50 years for copyrights.

**(vii Disputes Settlement Body**:

Settlement of disputes under GATT was a never ending process. There was ample scope for procedural delays, objections could be raised at each stage of the dispute settlement process, and penal reports could be rejected by the offending party.

1. **Differentiate between GATT and WTO.**

| **Basis** | **GATT** | **WTO** |
| --- | --- | --- |
| Meaning | GATT can be described as a set of rules, multilateral trade agreement, that came into force, to encourage international trade and remove cross-country trade barriers. | WTO is an international organization, that came into existence to oversee and liberalize trade between countries. |
| Institution | It does not have any institutional existence, but have a small secretariat. | It has permanent institution along with a secretariat. |
| Participant nations | Contracting parties | Members |
| Commitments | Provisional | Full and Permanent |
| Application | The rules of GATT are only for trade in goods. | The rules of WTO includes services and aspects of intellectual property along with the goods. |
| Agreement | Its agreement are originally multilateral, but plurilateral agreement are added to it later. | Its agreements are purely multilateral. |
| Domestic Legislation | Allowed to continue | Not allowed to continue |
| Dispute Settlement System | Slow and ineffective | Fast and effective |

**16.Expand the following**

**a) PEST- Political, Economic, Social, Technological**

**b) GDP Gross Domestic Product**

**c) GNP Gross National Product**

**d) BPO \_ Business Process Outsourcing**

**e) LPO \_ Legal Process Outsourcing**

**f) KPO \_ Knowledge Process Outsourcing**

**g) FDI Foreign Direct Investment**

**h) LPG Liberalization Privatization Globalization**

**i) NAFTA North American Free Trade Agreement**

**j) MNC Multi National Company**

**k) VER Voluntary Export Restraints**

**l) GATT General Agreement on Tariff and Trade**

**m) WTO World Trade Organization**

**n) PPP Purchasing Power Parity**

**o) IMF International Monitory Fund**

**UNIT – IV**

**2 MARKS**

* 1. **Define MNC.**

A multinational corporation (MNC) has facilities and other assets in at least one country other than its home country. A multinational company generally has offices and/or factories in different countries and a centralized head office where they coordinate global management.

* 1. **Name few MNCs in India**.

IBM. , Nestle. ,Proctor & Gamble.,Coca-Cola,Pepsico,CITI Group,SONY Corporation.

* + 1. **& 10 MARKS**
  1. **Explain the advantages and disadvantages of MNCs**

**Advantages of Multinational Corporations**

**1. Cheaper Labor**

One of the advantages of multinational corporations is the opportunity to operate in countries where labor is not as expensive. This is one of the perks that smaller companies do not enjoy. Multinationals can set up their offices in several countries where demand for their services and products are high while cheaper labor is available.

**2. Broader Market Base**

By opening establishments or offices in several countries, multinationals increase their chances of reaching out to customers on a global scale, a benefit which other companies limited to regional offices and establishments do not have. The access to more customers gives them more opportunities to develop and cater their products and services that will fit the needs of potential customers.

**3. Tax Cuts**

Multinationals can enjoy lower taxes in other countries for exports and imports, an advantage that owners of international corporations can take at any given day. And although not all countries can have lower tariffs, there are those that give tax cuts to investors to attract more international companies to do business in these countries.

**4. Job Creation**

When international companies set up branches in other countries, employees and members of the team are locals. That said, more people are given employment opportunities especially in developing countries.

**Disadvantages of Multinational Corporations**

1**. Potential Abuse of Workers**

Multinational companies often invest in developing countries where they can take advantage of cheaper labor. Some multinational corporations prefer to put up branches in these parts of the world where there are no stringent policies in labor and where people need jobs because these multinationals can demand for cheaper labor and lesser healthcare benefits.

**2. Threat to Local Businesses**

Another disadvantage of multinationals in other countries is their ability to dominate the marker. These giant corporations can dominate the industries they are in because they have better products and they can afford to even offer them at lower prices since they have the financial resources to buy in bulk. This can eat up all the other small businesses offering the same goods and services. Chances are, local businesses will suffer and worse, close down.

**3. Loss of Jobs**

With more companies transferring offices and centering operations in other countries, jobs for the people living in developed countries are threatened. Take the case of multinationals that create offices in developing countries for their technical operations and manufacturing. The jobs given to the locals of the host country should be the jobs enjoyed by the people where the head office is located.

* 1. **Discuss the models of MNCs**

**Models of MNCs.**

* **Transnational Corporation (TNC)**

Because companies ―transcend or operate across national borders, some experts prefer the term transnational corporation, or TNC. The United Nations favour this term and has created a research centre for the study of Transnational Corporations. Multinational Corporation (MNC) The fact that companies operate in multiple countries has led some experts to adopt the term Multinational Corporation, or MNC.

* **Multinational Enterprise (MNE**) Because some of the international giants are state-owned enterprise, rather than corporations, the term multinational enterprise, or MNE, has entered the vocabulary of international trade.
* **Global Corporation** This term became very popular in the 1990s. The term seems to have first been used to describe a small number of companies whose business was conducted in dozens of-perhaps more than 100-nations. Hence, Nestle has long been described as truly because the scope of its operations extends to more than 150 nations around his globe. The term is often applied to companies doing business in several areas of the world (e.g., Europe, Latin America, Asia-pacific, and North America).
  1. **DISCUSS THE ROLE OF MNCs in INDIA.**

Some important roles played by MNCs in India are as follows

* **Transfer of Technology** The most important role that MNCs play in India and across the globe is the transfer of technology. Transfer of state of the art technology to developing countries increases the quality and productivity of the output produced. India has not just received the technology from the MNCs, but has also been the beneficiary of technical know-how which has in turn resulted in the skill enhancement of the workforce.
* **Capital Investment** When MNCs come to India, they are responsible for non-debt creating capital inflows. In the pre-1991 period, the MNCs did not play much role in the Indian economy. The country relied on external commercial borrowing for development of sectors of economy. A whopping balance of payment crisis was created through this unsustainable model. Post the 1991 economic reforms, MNCs contributed towards creating a positive balance of payment. Therefore, when MNCs invest in India it goes into non-debt creating capital receipts. Morever, they contribute towards increasing the GDP of India.
* **The Multiplier Effect** MNCs contribute towards increasing income and increasing employment opportunities. The higher wages that, MNCs like Hindustan Unilever, Goldman Sachs, Toyota, Google etc pay to management and engineering graduates have contributed in increasing the per capita income of India. The Maruti-Suzuki and Hero-Honda collaborations have also contributed towards increasing employment.
* **Increase in Exports** MNCs have greatly contributed towards increasing our exports. As India offers cheap labour and land, it is both economic and profitable for MNCs to invest in India. When the MNCs export their goods to other nations, it benefits us directly.
* **Managerial Practices** MNCs have also brought best managerial practices to India. The human resource management, financial controls, operation and advertising strategies have been emulated by Indian companies to their advantage.
* **Increase in Competition** Entry of MNCs promotes competition in the economy of the host country. This increase in competition results in lowering of prices, which is beneficial to the end user e.g. entry of electronic giants like LG, Sony, Samsung in the Indian market has promoted competition in the electronic segment and led to a decrease in prices of electronic items.
* **Infrastructural Investment** MNCs have also invested in the field of infrastructure. This investments have contributed towards our economic growth and development. Power projects (General Electric), Telecommunication (Vodafone, Telinor), Delhi-Mumbai Industrial Corridor (Japan), have been of immense benefit to India for expanding our horizons.

**UNIT-V**

* 1. **MARKS**

**1.DEFINE STRATEGIC BUSINESS UNITS.**

In business, a strategic business unit (SBU) is a [profit center](https://en.wikipedia.org/wiki/Profit_center) which focuses on product offering and market segment. SBUs typically have a discrete marketing plan, analysis of competition, and [marketing](https://en.wikipedia.org/wiki/Marketing) campaign, even though they may be part of a larger business entity.

1. **WHAT IS LIBERALISATION?**

Liberalisation (or liberalization) is any method of how a state raises limitations on some private individual ventures. Liberalisation befalls when something which was forbidden is no longer forbidden or when government laws are loosened

1. . Definition of Globalization: The worldwide movement toward economic, financial, trade, and communications integration. Globalization implies the opening of local and nationalistic perspectives to a broader outlook of an interconnected and interdependent world with free transfer of capital, goods, and services across national frontiers
2. Privatization: Privatization means transfer of ownership and/or management of an enterprise from the public sector to the private sector. It also means the withdrawal of the State from an industry or sector, partially or fully. Another dimension of privatization is opening up of an industry that has been reserved for the public sector to the private sector
3. **LPG**

stands for Liberalization, Privatization, and Globalization.

**5&10 marks**

### Objectives of Liberalization Policy

* To increase competition amongst domestic industries.
* To encourage foreign trade with other countries with regulated [imports and exports](https://www.toppr.com/guides/business-studies/international-business/importing-and-exporting/).
* Enhancement of foreign capital and technology.
* To expand global market frontiers of the country.
* To diminish the debt burden of the country.

### ****Objectives of Privatization****

* Improve the financial situation of the government.
* Reduce the workload of [public sector companies](https://www.toppr.com/guides/business-studies/private-public-and-global-enterprises/types-of-companies-and-forms-of-organising-public-sector/).
* Raise funds from disinvestment.
* Increase the efficiency of government organizations.
* Provide better and improved goods and services to the consumer.
* Create healthy competition in the society.
* Encouraging foreign direct investments (FDI) in India.

## ****Benefits of Globalization Impacting India****

**Rise in Employment:** With the opening of SEZs or Special Economic Zones, the availability of new jobs has been quite effective. Furthermore, Export Processing Zones or EPZs are also established employing thousands of people. Another factor is cheap labour in India. This has motivated big firms in the west to [outsource](https://www.toppr.com/guides/business-studies/emerging-modes-of-business/outsourcing/) work to companies present in this region. All these factors are causing more employment.

**Surge in Compensation**: After the outburst of globalization, the compensation levels have stayed higher. These figures are impressive as compared to what domestic companies might have presented. Why? The level of knowledge and skill brought by foreign companies is obviously advanced. This has ultimately resulted in modification of the management structure.

**Improved Standard of Living and Better Purchasing Power:** Wealth generation across Indian cities has enhanced since globalization has fully hit the nation. You can notice an improvement in the purchasing power for individuals, especially those working under foreign organizations. Further, domestic organizations are motivated to present higher rewards to their employees. Therefore, a number of cities are experiencing better standards of living together with business development.

1. **FACTORS CAUSING GLOBALIZATION OF BUSINESS**:

More and more companies are seeking to internalize or globalize their economics for a number of reasons.

1. Developing markets have huge markets

2. Many MNC’s are locating their subsidiaries in low wage countries to take advantage of low cost production.

3. Changing demographics also adds to increasing globalization

4. Regional trading blocs are adding to the pace of globalization. WTO, EU, NAFTA, are major alliances among countries. Trading blocs seek to promote international business by removing trade and investment barriers.

5. Declining trade and investment barriers have vastly contributed to globalization.

6. The most powerful instrument that triggered globalization is technology.

10. **IMPACT OF LIBERALISATION IN INDIA**

|  |  |
| --- | --- |
| **Positive impacts of liberalisation in India** | **Negative impacts of liberalisation in India** |
| **Free flow of capital:** Liberalisation has improved flow of capital into the country which makes it inexpensive for the companies to access capital from investors. Lower cost of capital enables to undertake lucrative projects which they may not have been possible with a higher cost of capital pre-liberalization, leading to higher growth rates. | **Destabilization of the economy:** Tremendous redistribution of economic power and political power leads to Destabilizing effects on the entire Indian economy. |
| **Stock Market Performance:** Generally, when a country relaxes its laws, taxes, the stock market values also rise. Stock Markets are platforms on which Corporate Securities can be traded in real time. | **Impact of FDI in Banking sector:** Foreign direct investment allowed in the banking and insurance sectors resulted in decline of government’s stake in banks and insurance firms. |
| **Political Risks Reduced:** Liberalisation policies in the country lessens political risks to investors. The government can attract more foreign investment through liberalisation of economic policies. These are the areas that support and foster a readiness to do business in the country such as a strong legal foundation to settle disputes, fair and enforceable laws. | **Threat from Multinationals:** Prior to 1991 MNC’s did not play much role in the Indian economy. In the pre-reform period, there was domination of public enterprises in the economy. On account of liberalisation, competition has increased for the Indian firms. Multinationals are quite big and operate in several countries which has turned out a threat to local Indian Firms. |
| **Diversification for Investors:** In a liberalised economy, Investors gets benefit by being able to invest a portion of their portfolio into a diversifying asset class. | **Technological Impact:** Rapid increase in technology forces many enterprises and small scale industries in India to either adapt to changes or close their businesses. |
| **Impact on Agriculture:** In the area of agriculture, the cropping patterns has undergone a huge modification, but the impact of liberalisation cannot be properly measured. It is observed that there are still all-pervasive government controls and interventions starting from production to distribution for the produce. | **Mergers and Acquisitions:** Acquisitions and mergers are increasing day-by-day. In cases where small companies are being merged by big companies, the employees of the small companies may require exhaustive re-skilling. Re-skilling duration will lead to non-productivity and would cast a burden on the capital of the company. |