# INTERNATIONAL BUSINESS

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## ABSTRACT

Abstract—International business encompasses to the trade of goods, services, people, resources, 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 which economic resources include capital, skills, and people for the purpose of the international production of physical goods and services such as finance, banking, insurance, and construction. International business is also known as globalization.

To conduct business overseas, multinational companies need to bridge separate national markets into one global marketplace. All countries need goods and services to satisfy

their people. Production of goods and services requires resources. Every country has limited resources; therefore, a country solely cannot produce all the goods and services that it requires. Required goods which cannot be produced or the amount is insufficient as required, need to be provided from other countries. Similarly, countries sell their products to others also when the production of goods comes in surplus quantities than demanded in the country.

Keywords— transactions; trade; market; globalization

## INTRODUCTION

In the present age, daily life pattern changes due to the development of innovation and technology. Modern economic conditions, technology development, improvement of transportation and communication methods causes many companies to operate from different places, such as in their country and in other nation. Each company that performs an exchange of goods, services or international transactions outside their country, is a participant in the international market either directly or indirectly.

International business is consisted of devised transactions in advance, which are implemented through national borders, in order to satisfy the needs of individuals, companies and other entities of businesses. International business actually links all countries, institutions and individuals. Enterprises should identify goals and objectives to be placed on the international market. It means to determine the target countries and the possibilities of selling products and services in these countries and of course to assess what profit to gain from selling of its products and services on the markets in to which they choose or selected countries.

## LITERATURE & THEORY

For the success of a business, it is important to understand the key types of international trade theories. The concept of international business is not limited to just sending and receiving products and services and gaining the profits in the basket. In fact, there are lists of views explaining that the theory of international trade does explain why firms or such organization move abroad to employ, possibly due to the reason that trade is one of the modes of international business; and in addition, the strategy of multinational company is substantially influenced by the tariff and non-tariff barriers. There are some views that would be a great assistance in the process since most part of these framework of international trade still hold right. In this article, we will look through each theory and view some details.

**Types of International Trade Theory**

Mercantilism

The oldest of all international trade theories, dated back to 1630. At that time, Thomas Mun stated that economic strength of any country depends on the amount of silver and gold holdings. Greater are the holdings, more economical independent a country is.

Moreover, the idea of favoring a greater export and promoting efforts to minimize imports also belongs to the same theory. The thinking behind this belief is evident since you pay for the imports from the reward you get from exports. Thus, if a country has a lot to pay for the imported products then it will get from exported products, its economy will get inclined towards rebuff.

Absolute Advantage

This theory is based on the idea of increasing the efficiencies in the production process. Adam Smith, in 1776 proposed the theory that manufacturing a product with a high productivity as compared to any other country on earth is highly advantageous. A two- country, two- commodity and one-factor model.

If Country A produces rice and or bales of cloth per unit of work per day, and if Country B produces more bales of clothing per unit of work per day, the former has an absolute advantage in the production of rice, while Country B has an absolute advantage over country A in the production of cloth. This means one country shall specialize in the production of rice and shall export to the other country while B Country shall export cloth to country A.

Comparative Advantage

As put forward by David Ricardo in 1817, the concept of Comparative Cost Advantage favors relative productivity. A country with maximum absolute advantage in the creation of more than one product as compared to the other can still transact with the other country with less logical ways to design a product.

To expound this concept, let’s say that I have the ability in two fields like web designing and writing, where designing lets me earn huge amount more than writing. Putting in mind that I can work on only one side at a time, I almost likely

To employ a writer, and we both will work in a comparative environment.

Heckscher-Ohlin Theory

Both Absolute and Comparative international trade theories assume that the choice of the product that can prove itself to be of great advantage is led by free and open market instead of using the assets available inland. This Causes Bertil Ohlin and Eli Heckscher to put forward the idea of determination of the prices that depends on the differences in supply and demand.

If the supply of a certain product grows greater than it is in the market demand, its price falls and vice versa. Therefore, export of a country should contain of products that’s abundantly available, and imports should calculate the products that are high in demand. Since this concept ensures utilization of labor, land and funding sources of a country for the purpose of product manufacturing, this is also known as “factor proportion theory.”

Product Life Cycle Theory

According to the theory of Raymond Vernon, year 1970, who introduced the notion of using a product’s life cycle to explain and observed pattern of international trade. As the demand for a newly launched or created product grows, the origin country starts to export it to other nations. Where when demand grows, local manufacturing plants are open to meet the demands and the scene covers the whole from time to time making the product a standardization.

For instance, the first smart phone was created by IBM and was released for purchase in 1994. Now a days, new smartphone is released to the market. Due to previous models of this device being released into the market, consumers anticipation is greatly high. The result is instant sales from the day of launch, fast moving the product into growth. Stage. Demand continues to kick off for the latest smartphone as more citizens begin to use it. Competitors now study its latest features and start planning their own gadgets that can upgrade the model. Maturity stage as the smartphone has lost some of the early excitement that followed the launch and sales have stabilized.

Customers continue to purchase the product, yet they are also increasingly looking at another alternative. Eventually, this newest smartphone model is seen as outdated or old fashion. Rivalry has found a way to produce better products and client wants the latest version or model. The original phone's company may even have developed a newer version of their creation, replacing it in for trade. The company keeps selling its older unit until demand drop off completely.

Global Strategic Rivalry Theory

Global strategic rivalry theory emerged in the 1980s and was based on the work of economists Paul Krugman and Kelvin Lancaster. Their theory focused on MNCs and their efforts to gain a competitive advantage against other global firms in their industry. They introduced the concept of strategies, based on global level rivalries, attacking multinational corporations and the struggle in achieving higher advantages as compared to other international companies.

A new firm needs to set up few factors that will direct the brand in overcoming all the barricade to succeed and gain influential recognition in the global market. With these factors, a detailed research and time developmental steps are crucial. Considering having the complete ownership rights of intellectual properties too is necessary. Moreover, the introduction of unique and useful methods for manufacturing so as controlling the access to raw material will also come useful along the way.

National Competitive Advantage Theory

In the 1990's, Michael Porter suggested that the success of any business in international trade depends on upgradable and innovational capabilities of the industry as well as four other factors which determines how firm is going to perform in this international level of event. The main idea behind the theory gives the feel of holding factor proportion as well as many other international trade theories.

One factor is the availability of resources in the local market and their prices which are essential for providing a sustainable environment for the trade to expand. Also, the ability of the firm to face its competitors and their capacity to develop or upgrade determines the success rate of their brand.

## METHODS

**Method of Conducting International Business**

1. Exporting and Importing

Exporting indicates selling of goods and services from the home country to a foreign or to another country. Likewise importing refers to purchasing of products from another nation and bringing them into home country.

2. Contract Manufacturing (or) Outsourcing

It signifies a type of international business where a firm enters into a contract with one or a few local manufacturers in a foreign country in order to obtain certain unit of goods produced according to its identification. It is also known as outsourcing or contract manufacturing.

3. Licensing and Franchising

Licensing is contractual agreement wherein one firm permits entry to its plants, trade secrets or technology to another firm in a foreign country, for a fee called royalty, e.g. McDonald, Pizza Hut, etc., The firm which grants such permission is called Licensor or Franchisor and other companies to whom the license is granted is called Licensee or Franchisee.

4. Joint Venture

A Joint venture is a business agreement wherein parties agree to develop a new entity and assets supporting to equity shares and thereby exercising control over business or firm and accordingly sharing revenues, expenses and the assets. It can be established under three different ways namely

- Foreign Investors buying an interest in local company
- Local firm acquiring an interest in the existing foreign firm
- Both the foreign and local firms jointly forming a new enterprise.

5. Foreign Direct Investment (FDI)

FDI means financing or funding made by a company or an individual in a foreign country in the business interest in the form of either establishing new business operations or acquiring business assets in other country.

## RESULTS

**Conclusion and Recommendation**

The process of location of foreign operation in a new country must be carried out attentively. Firm and businesses which aim to invest in foreign country need to make analysis of capital development, economic, political, culture, and legal stability not to make analysis on the risk involved in country. Most of countries have risk and threat in past. The investment of international firm bring changes in the situation and country becomes economically stable. A Country with risk has no competitor in the area and with a place of international business it makes positive impact. Generate more employment, which increases consumption power of people. International business has high rate of profit. As the international business makes contribution toward the economy of a country the government of a host country gives international business some relaxation in law and ensure all kind of security as business need to carry out and execute their operation.

In order to reduce the risk in overseas operations, international business needs to inter into new county as trader (exporter-importer) or most commonly inter as joint venture with same size in local company.

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