

TOPIC: GLOBAL GROWTH AND ECONOMIC DEVELOPMENT

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Global growth and Economic development

International trade influences the economic growth of a country. This increase also leads to the reduction of poverty levels.

Scope of International Business

(1) Exports and Imports

- They include merchandise (tangible or having physical existence) of goods.
- Export merchandise means sending goods to other nations.
- Import merchandise means receiving goods from other nations.
- They include the trade of services.

(2) Service trade

- It is also known as invisible trade.
- It includes the trade of services (intangible or no physical existence).
- There is both export and import of services.
- It includes services like tourism, hotel, transportation, training, research, etc.

(3) Licensing and Franchising

- Under this, permission is given to the organisations of other countries.
- It includes selling the product of a particular company.
- Under its trademark, patents are given in return of some fees. *Example: Pepsi and Coca Cola are produced and sold through different sellers abroad.*
- Franchising is similar to licensing, but franchising is associated with services. *Example: Dominos, Burger King, etc.*

(4) Foreign investment

It includes the investment of available funds in foreign companies to get returns. It can be of two types:

(1) **Direct investment** means investing funds in plant and machinery for marketing and production, also known as a foreign direct investment (FDI). Sometimes, these investments are done jointly and are known as joint ventures.

(2) **Portfolio investment** means one company invests in another company by way of investing in its securities and earning income in the form of interests and dividends.

Advantages of International Business

(1) Income

- It helps in earning foreign exchange to the organisations.
- Forex helps in paying off the cost of imports of capital goods, technologies, fertilisers, etc., from abroad.

(2) Efficient resources

- Under international trade, countries produce what they can produce efficiently and leave the other activities to nations in which they can work efficiently.
- This helps different nations to distribute the activities and work efficiently in their areas.

(3) Growth and employment potentials

- International trade helps in faster growth of organisations as well as countries.
- Sometimes, organisations are not able to create employment in the market as they produce on a small scale.
- Initially, countries like China, Japan, and South Korea took the whole world as a single market for trade.
- This helped them in employment generation across the world.

(4) Standard of living

- People in one country are able to enjoy goods and services of other nations.
This helps them in improving the standard of living.

Advantages and Disadvantages of Licensing and Franchising

Advantages of licensing and franchising

(1) Nature

- Under this system, a licensor/franchisor invests their own money in setting up their business
- There is no cost of investing the funds abroad.
- So, it is less expensive than other modes.

(2) Interventions

- The whole business is owned and managed by local people.
- The government interventions or takeovers do not take place.

(3) Existing contracts

- Since the business under licensing or franchising is managed by local people, its existing contacts become helpful in marketing operations.

Disadvantages of licensing and franchising

(1) Competition

- When the brand becomes popular after licensing or franchising, there is the threat of substitute products having a slight difference.
- So, it increases the competition.

(2) Secrecy

- If the business is not transacted properly, the confidential information can be leaked to competitors in the foreign market due to which the licensor can suffer stiff competition or losses.

(3) Litigations

- It is of no doubt that, conflicts arise among the licensor and the licensee on the factors like maintenance of accounts, payment of royalty, etc.
- This can lead to costly and long litigation.

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