

International Business: Scope, Trends, Challenges and Opportunities

Scope

International business is much broader than international trade. It includes not only international trade (i.e., export and import of goods and services), but also a wide variety of other ways in which the firms operate internationally. International Management professionals are familiar with the language, culture, economic and political environment, and business practices of countries in which multinational firms actively trade and invest.

Major forms of business operations that constitute international business are as follows.

(i) Merchandise exports and imports: Merchandise means goods that are tangible, i.e., those that can be seen and touched. When viewed from this perceptive, it is clear that while merchandise exports means sending tangible goods abroad, merchandise imports means bringing tangible goods from a foreign country to one's own country.

(ii) Service exports and imports: Service exports and imports involve trade in intangibles. It is because of the intangible aspect of services that trade in services is also known as invisible trade.

(iii) Licensing and franchising: Permitting another party in a foreign country to produce and sell goods under your trademarks, patents or copy rights in lieu of some fee is another way of entering into international business. It is under the licensing system that Pepsi and CocaCola are produced and sold all over the world by local bottlers in foreign countries.

(iv) Foreign investments: Foreign investment is another important form of international business. Foreign investment involves investments of funds abroad in exchange for financial return. Foreign investment can be of two types: direct and portfolio investments.

Trends

As the economy grows slowly at home, your business may have to look at selling internationally to remain profitable. Before examining foreign markets, you have to be aware of the major trends in international business so you can take advantage of those that might favor your company. International markets are evolving rapidly, and you can take advantage of the changing environment to create a niche for your company.

Growing Emerging Markets

Developing countries will see the highest economic growth as they come closer to the standards of living of the developed world. If you want your business to grow rapidly, consider selling into one of these emerging markets. Language, financial stability, economic system and local cultural factors can influence which markets you should favor.

Demographic Shifts

The population of the industrialized world is aging while many developing countries still have very youthful populations. Businesses catering to well-off pensioners can profit from a focus on developed countries, while those targeting young families, mothers and children can look in Latin America, Africa and the Far East for growth.

Speed of Innovation

The pace of innovation is increasing as many new companies develop new products and improved versions of traditional items. Western companies no longer can expect to be automatically at the forefront of technical development, and this trend will intensify as more businesses in developing countries acquire the expertise to innovate successfully.

More Informed Buyers

More intense and more rapid communications allow customers everywhere to purchase products made anywhere around the globe and to access information about what to buy. As pricing and quality information become available across all markets, businesses will lose pricing power, especially the power to set different prices in different markets.

Increased Competition

As more businesses enter international markets, Western companies will see increased competition. Because companies based in developing markets often have lower labor costs, the challenge for Western firms is to keep ahead with faster and more effective innovation as well as a high degree of automation.

Slower Growth

The motor of rapid growth has been the Western economies and the largest of the emerging markets, such as China and Brazil. Western economies are stagnating, and emerging market growth has slowed, so economic growth over the next several years

will be slower. International businesses must plan for profitability in the face of more slowly growing demand.

Clean Technology

Environmental factors are already a major influence in the West and will become more so worldwide. Businesses must take into account the environmental impact of their normal operations. They can try to market environmentally friendly technologies internationally. The advantage of this market is that it is expected to grow more rapidly than the overall economy.

Challenges and Opportunities

Inevitably such challenges and opportunities vary between companies and sectors but some frequently cited opportunities and challenges include:

Opportunities	Challenges
Access to customers in new countries	New competition for existing customers in domestic markets
Learning about customers in new markets	Adjusting products to local tastes and cultural peculiarities
Access to new, cheaper sources of finance	Global financial contagion
Government incentives to relocate	Costs of meeting a multitude of local/national laws and regulations
Access to regional trading agreements/avoidance of trade barriers	Exchange rate fluctuations
Economies of scale	Managing long supply chains
Access to new resources (e.g. cheap of skilled labour, natural resources)	New competition for local resources (e.g. more demand for labour pushing up local wage costs)

	Cross-cultural communication e.g. language barriers, differing body language and etiquette
	Corporate social responsibility issues
	Capricious political environments/political risk /bias in favour of domestic companies