

Ques 8 • There are Some reasons for Growth in International business :- ①

- 1) Saturation of Domestic Markets - In most of the Countries due to continuous production of similar products over the years has led to the saturation of domestic markets.
- 2) Opportunities in Foreign Markets - As domestic markets in some Countries have saturated, there are many developing Countries where these markets are blooming.
- 3) Availability of low Cost Labor - When we Compare labor Cost in developed Countries with respect to developing Countries they are very high as result Organizations find it cheaper to shift production in these Countries.
- 4) Competitive Reasons - Either to stem the increased presence of foreign Companies in their expansion of their domestic markets more and more organizations are expanding their operations abroad.
- 5) Increased Demands - Consumers in Countries that did not have the purchasing power to acquire high-quality products are now purchasing them due to improved economic conditions.
- 6) Diversification - To Counter Cyclical patterns of business in different parts of the world, most of the Companies expand and diversify their business, to attain profitability and uncover new markets.
- 7) Reduction of Trade Barriers - Most of the developing economies are now relaxing their trade barriers and opening doors to foreign multinationals and allowing their Companies to set-up their organizations abroad.

• The importance on gains from international trade are :- ②

- 1) Make use of abundant raw materials - A theoretical model for this was developed by Eli Heckscher and Bertil Ohlin. Known as the Heckscher-Ohlin model (H-O Model) it states Countries will specialise in producing and exports goods which use abundant local factor endowments. Countries will import those goods, where resources are scarce.
- 2) Comparative advantage - The theory of Comparative advantage states that Countries should specialise in those goods where they have a relatively lower opportunity cost. Even if one Country can produce two goods at a lower absolute cost - doesn't mean they should produce everything.
- 3) Greater Choice for Consumers - New trade theory places less emphasis on Comparative advantage and relative input costs.
- 4) Specialisation and economies of scale - greater efficiency - Another aspect of new trade theory is that it doesn't really matter what Countries specialise in, the important thing is to pursue specialisation and this enables Companies to benefit from economies of scale which outweigh most other factors.
- 5) Service Sector trade - Trade tends to conjure images of physical goods import bananas, export Cars, But, increasingly the service sector economy means more trade is of intangibles services, such as insurance, IT Services and banking.