

8 Most Important & Common Forms of International Business

There are 8 forms of international business described below in detail:

Forms of international business

1. Exporting

Exporting means producing/procuring in the home market and selling in the foreign market. Exporting is not an activity just for large multinational enterprises; small firms can also make money by exporting. In recent days, exporting has become easier though it remains a challenge for many firms.

2. Licensing

A licensing is an agreement whereby a licensor grants the rights to intangible property (patents, inventions, formulas, processes, designs, copyrights, and trademarks) to another entity (licensee) for a specified period and in return, the licensor receives a royalty/fee from the licensee.

3. Franchising

Franchising is basically a specialized form of licensing in which the franchiser not only sells the intangible property to the franchisee but also insists that the franchisee agrees to abide by strict rules as to how it does business.

4. Joint venture

A joint venture entails establishing a firm that is jointly owned by two or more independent firms. Some [joint venture examples](#)



5. Management Contracts

A firm in one country agrees to operate facilities or provide other management services to a firm in another country for an agreed-upon fee.

6. Turnkey projects

In a turnkey project, the contractor agrees to handle every detail of the project for a foreign client, including the training of operating personnel. At completing the contract the foreign client handles the 'key' of a plant that is ready for full operation

7. Strategic international alliances

A strategic international alliance is a business relationship established by two or more companies to cooperate out of mutual need and to share risk in achieving a common objective.

8. Direct foreign investment

Direct foreign investment is another important form of international business. Companies may manufacture locally

- to capitalize on low-cost labor,
- to avoid high import taxes,
- to reduce the high cost of transportation to market,
- to gain access to raw materials, or
- to gain market entry.

Advantages and Disadvantages of International Business

Though international [business](#) is most important for a country's economy there are some advantages and disadvantages of international business which are described in detail below:

The following are the advantages of international business:

Advantages of International Business

1. Earning valuable foreign currency: A country is able to earn valuable foreign currency by exporting its goods to other countries.

2. Division of labour: International business leads to specialization in the production of goods. Thus, quality goods for which it has a maximum advantage.

3. Optimum utilization of available resources: International business reduces the waste of national resources. It helps each country to make optimum use of its natural resources. Every country produces those goods for which it has the maximum advantage.

4. An increase in the standard of living of people: The sale of surplus production from one country to another country leads to an increase in the incomes and savings of the people of the former country. This raises the standard of living of the people of the exporting country.

5. Benefits to consumers: Consumers are also benefited from international business. A variety of goods of better quality is available to them at reasonable prices. Hence, consumers of importing countries are benefited as they have a good scope of choice of products.

6. Encouragement to industrialization: Exchange of technological know-how enables underdeveloped and developing countries to establish new industries with the assistance of foreign aid. Thus, international business helps in the development of the industry.

7. International peace and harmony: International business removes rivalry between different countries and promotes international peace and harmony. It creates dependence on each other, and improves mutual confidence and good faith.

8. Cultural development: International business fosters the exchange of culture and ideas between countries having greater diversities. A better way of life, dress, food, etc. can be adopted from other countries.

advantages of international business

Earning valuable foreign currency

Division of labor

Optimum utilization of available resources

Increase in the standard of living of people

Benefits to consumers

Encouragement to industrialization

International peace and harmony

Cultural development

Economies of large-scale production

Stability in prices of products

Widening the market for products

Advantageous in emergencies

Creating employment opportunities

Increase in Government revenue

9. Economies of large-scale production: International business leads to production on a large scale because of extensive demand. All the countries of the world can obtain the advantages of large-scale production.

10. Stability in prices of products: International business irons out wide fluctuations in the prices of products. It leads to the stabilization of the prices of products throughout the world.

11. Widening the market for products: International business widens the market for products all over the world. With the increase in the scale of operation, the profit of the business increases.

12. Advantageous in emergencies: International business enables us to face emergencies. In the case of natural calamity, goods can be imported to meet necessities.

13. Creating employment opportunities: International business boosts employment opportunities in an export-oriented market. It raises the standard of living of the countries dealing with international business.

14. Increase in Government revenue: The Government imposes import and export duties for this trade. Thus, the Government is able to earn a great deal of revenue from international business.

Other Advantages of International Business

- Effective business education
- Improvement in production systems.
- Elimination of monopolies, etc.

The flowchart given above will give a glance idea of the advantages of international business.

Disadvantages of International Business

Many people think that international business only has advantages but actually there are some advantages and disadvantages of international business. We mention 12 major and common disadvantages of international business.

1. Adverse effects on the economy: One country affects the economy of another country through international business. Moreover, large-scale exports discourage the industrial development of importing countries. Consequently, the economy of the importing country suffers.

2. Competition with developed countries: Developing countries are unable to compete with developed countries. It hampers the growth and development of developing countries unless international business is controlled.

3. Rivalry among nations: Intense competition and eagerness to export more commodities may lead to rivalry among nations. As a consequence, international peace may be hampered.

4. Colonization: Sometimes, the importing country is reduced to a colony due to economic and political dependence and industrial backwardness.

5. Exploitation: International business leads to the exploitation of developing countries the developed countries. Prosperous and dominant countries regulate the economy of poor nations.

6. Legal problems: Varied laws regulations and customs formalities followed by different countries, have a direct bearing on their [export](#) and [import trade](#).

7. Publicity of undesirable fashions: Cultural values and heritages are not identical in all countries. There are many aspects, which may not be suitable for our atmosphere, culture, tradition, etc. This indecency is often found to be created in the name of cultural exchange.

Disadvantages of international business

Adverse effects on economy

Competition with developed countries

Rivalry among nations

Colonization

Exploitation

Legal problems

Publicity of undesirable fashions

Language problems

Dumping policy

Complicated technical procedure

Shortage of goods in the exporting country

Adverse effects on home industry

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8. Language problems: Different languages in different countries create barriers to establishing trade relations between various countries.

9. Dumping policy: Developed countries often sell their products to developing countries below the cost of production. As a result, industries in developing countries the closedown. Learn more about the dumping policy.

10. Complicated technical procedure: International business is highly technical and it has a complicated procedures. It involves various uses of important documents. It required expert services to cope with complicated procedures at different stages.

11. Shortage of goods in the exporting country: Sometimes, traders prefer to sell their goods to other countries instead of in their own country in order to earn more profits. This results in a shortage of goods within the home country.

12. Adverse effects on the home industry: International business poses a threat to the survival of the infant and nascent industries. Due to foreign competition and unrestricted imports upcoming industries in the home country may collapse.

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Reference: [Advantages and Disadvantages of International Business \(bankofinfo.com\)](http://bankofinfo.com)