Chapter-1

International Business

I shall be telling this with a sigh

Somewhere ages and ages hence:

Two roads diverged in a wood, and I –

I took the one less travelled by,

And that has made all the difference.

(Robert Frost: The Road not Taken)

To travel is the natural instinct of human beings. Many of them chose to travel through deserts, oceans, mountains, and the roads that were taken and that were not taken. Travel can be driven by a sense of curiosity to see new lands and meet different people. The earliest travellers made valuable contribution to the knowledge about lands and people. For example, Megasthenes (350BC-290BC), the Greek historian, ethnographer and diplomat was the first person to leave a written description of India in his book *Indica* giving an account of Mauryan India (322-184BC). Later, Xuanzang (602-664), a Chinese Buddhist monk and pilgrim translated sacred scriptures of Buddhism from Sanskrit into Chinese, based on his travels in Central Asia and India. Similarly, Faxian (399-414) chronicled his journey through India. Ibn Battuta (1304-1368), an Arab explorer travelled through North and West Africa, India and China and left account of travels in his book Rihlah.

1.1 Origin

1.1.1 The other motivation to travel has its origin in material needs.Evidence of long-distance trade have been found in places of almost all old civilisations, including Indus Valley Civilisation. The Silk Route, established during the period of Roman Empire, was an ancient caravan route that connected Xian in Central China with Eastern Mediterranean. This route brought silk from China to Europe. Subsequently, the Europeans in their quest for spice reached Malabar Coast in South India.

By the 15th century, travelling took the form of exploration leading to colonisation. These explorers and conquistadors included Vasco da Gama (1469-1524), the Portuguese explorer who led the first European expedition round the Cape of Good Hope in 1497, citing and naming Natal on Christmas day and colonising Mozambique before crossing the Indian Ocean and arriving in Calicut (now Kozhikode) in 1498. Similarly, Christopher Columbus (1451-1506), Italy born Spanish explorer was the first European to reach Americas through an expedition to sail across the Atlantic and to prove that the world was round. In 1492, he set sail with three small ships and reached the New World including Caribbean Islands. He also voyaged between 1493 and 1504, reaching the South American mainland in 1498, paving the way for Spanish conquistadors to colonise the South American nations. Later, Captain James Cook (1728-1779), an English explorer, on his first expedition in the Pacific (1768-1771), charted the coasts of New Zealand as well as the East coast of Australia claiming it for Britain.

From Traders to Colonisers

1.1.2 International Business had its origin in man's quest for silk and spices and later precious stones and pearls as also opium. This quest led to the conquest of territories endowed with these commodities. In fact, availability of natural resources or a group of resources in the Asian, African and Latin American regions drew the Europeans particularly from Britain, the Netherlands, Spain and Portugal to these regions. It was a rite of passage that these seekers of natural resources turned into colonisers and absolute despots.

1.1.3 Thereafter, the quest was for sources of energy like coal, petroleum and gas and what is worse the source of energy included human labour in the form of slaves from West African region. The Royal African Company was incorporated in 1672 for bulk delivery of slaves to the plantations in the US and the Caribbean regions. For a whole swathe of territories from the North and South Americas to Africa and Asia, the natural resources including sources of food and energy became the resource curse for these countries attracting the European predators to occupy these lands and impoverish them. All of them, started with trade and it was only a rite of passage that they became the rulers and masters. In fact, the charter of the East India Company included occupying territories. This company was born when Queen Elizabeth I (1533 - 1603 granted on 31st December, 1600, a charter of incorporation to trade in the markets of the east. This charter established the English East India Company, officially named "The Governor and Company of Merchants of London Trading into the East Indies. In 1765, the Mughal emperor Shah Alam granted to this company the *dewani* (revenue collection authority) of Bengal. The East India Company was like a parent company of a multinational enterprise with overseas colonies as subsidiaries and branches. A Dutch company was established shortly after the English East India Company. It was the Dutch East India Company, officially known as the Vereenigde Oostindische Compagnie (VOC). It was founded in 1602, just two years after the English East India Company was established in 1600.The Europeans started with trade and ended with colonising. It is interesting to note the expantion of the European colonisers. In 1492, when Columbus discovered the New World of America, these Europeans politically controlled nine percent of the land surface of the world. By 1935, they controlled eighty-five percent of the land surface.

1.1.4 The Industrial Revolution, characterised by the development of industry started in Britain in the late 18th and the beginning of the 19th century, brought about the introduction of machinery with use of steam power and the factories and mass production of manufactured goods. This industrial process required raw materials from the colonies and the finished goods required vast markets of the colonies. This symbiotic relationship between the imperialists and the colonies resulted in huge profits for the former. The colonies were also the sources of food like grain, fruits, palm oil, tea and coffee, sugar, beef, etc. from the West Indies, South America, the African countries, India as also Indonesia (known as East Indies) and Malaysia. The imperialism was rationalised not merely on economic grounds but also on religious and racial grounds because it was the white man's burden to harvest the heathen souls and to spread Christianity and civilisation.

1.1.5 The European colonisers, particularly Britain, France,the Netherlands, Spain and Portugal set preferential prices, far less than fair market prices for the raw materials and energy sources (coal, oil and gas) including human labour. In fact, the prices were often set in the shadow of the military and maritime advantage. Similarly, their finished products had the outlet of vast markets of the colonies and the prices naturally were monopoly prices. As a result, the national wealth of the colonies progressively diminished and that of the colonisers exponentially increased. Thus, the international trade became an instrument of exploitation and extraction of the natural resources of the colonies. This was also the origin of the planet earth being denuded of resources which cannot be created again leading to the inexorable process of climate change.

1.1.6 Changing Forms of Business organisations

Before the Industrial Revolution, most of the business organisations were either proprietorship or partnership. With the advent of the machines and new sources of energy, the capital requirement of the businesses could not be met by proprietorship or partnership. Neither individuals had the capacity to assume risks nor partnerships of a few individuals were willing to risk their fortunes in large or risky business undertaking. This necessity gave rise to joint stock companies with ownership interests represented by share of stock and limited liability of the corporate directors for acts of the corporation. Stock is a tool of raising funds like issuing shares or borrowing capital or issuing bonds. The joint stock companies with limited liabilities could plan and implement large industrial projects. The world's first billion-dollar company was the United States Steel incorporated in 1901. The Indian Iron and Steel Company in India incorporated in 1907 was one of the earliest joint stock companies. Such a company had a legal identity which was separate from its shareholders or promoters or directors. Unless liquidated, a company could exist for ever. It could sue and be sued.

1.2 The revolution in information, transportation and telecommunication modes

1.2.1 The changing modes of transport and the information and communication technology have facilitated both large and small firms to operate internationally. That apart, there has been a progressive reduction in the cost of both transportation and communication.

1.2.2 As regards modes of transportation, it started with horse carriages, then railroads, then the wide body aircrafts in the 1970s and containerisation. A container is a large metal box of a standard design and size (20 feet by 40 feet)for the transport of goods by road, rail, sea or air. The transportation of bulk cargo by ship as also aircraft or trucks involved huge human labour for loading, stowing and unloading. The introduction of globalised boxes greatly reduced these costs. Large ships that carried substantial number of containers navigating all the seas were enabled to call only on major ports for transshipment of the containers. The cargo is transported to their assigned places by feeder vessels or trucks, that is road transport. This multimodal transportation results in huge savings in freight and in time.

1.2.3 As regards, communication, the first milestone was the post office setup in 1820s in the UK and in 1830s in the USA. The telephone that was invented in 1876 followed by telegraph in 1907 and telex in 1930 and finally, the internet and satellite communication in the 1990s with worldwide webs.

The aforesaid have greatly facilitated the free flow of goods, services, technology, capital, data and ideas across the world. Interestingly, the cost of global communication has been moving downwards and the speed of microprocessor and telecommunication have been increasing. As attributed to Gordon Moor's (the founder of Intel) observation and hence known as Moor's law, the computing power on a microchip roughly doubles every two years. Hence, the speed and capacity of our computers doubles every two years and at the same time the cost is halved over the set time frame.

1.2.4 The electronic information technology has led to the integration of economic activities in different geographical locations.

For example, as per the India-US-Japan-Australia Quadrilateral (Quad) initiative to build vaccination supply chain to address the Covid-19 pandemic and any such situation in the future in the Indo-Pacific region, the vaccines were to be developed in the US, manufactured in India, financed by Japan and US and supported by Australia through logistics for the Indo-Pacific including the island states. Similarly, Barbie dolls had been conceived in the US, its clothes and other accessories were manufactured in Japan and China and it was sold all over the world.

1.2.5 Information technology has changed the organisational structure of the firms and the global economic system. The financial system in the international business comprising transnational trade and investment has also undergone a change beyond anything that could be imagined before the 1990s. For example, the international payment system called the SWIFT, an acronym for the Society for Worldwide Interbank Financial Telecommunication, which is an accepted global mechanism for electronic money transfer among banks and financial institutions, is an interbank payments settlement platform. It is a secure messaging system that facilitated rapid cross-border payments. It is a network of eleven thousand banks and financial institutions in about two hundred countries across the world.

1.3 Globalisation

1.3.1 The process of globalisation connotes integration of national markets and internationalisation of economic activities, co-ordinated production of goods in different geographical locations, dispersal of knowledge and technology and mobility of capital. Globalisation involves closer integration across national, regional and global geographic spaces (UNCTAD 1994:118). Globalisation enables a firm to reduce its costs by producing in countries where the inputs are cheaper and the available skill sets are optimally cost effective, finding the relevant markets around the world, reducing the transaction cost. In the contemporary world, national economies are not circumscribed by the national border. For international trade and investment, the time zones, the country-specific regulations and the different languages and cultures do not act as barriers to global flow of goods, services, capital and technology.

1.3.2 Thus, an international economic order has resulted in structural changes linking discrete national markets through cross-border network of trade and investments. This integration has been enabled by information technology.

1.3.3 However**,** globalisation has also exacerbated inequality in the society, in the different regions of the countries as also between the north and south of the world. There are winners and losers in the process of globalisation. The winners are the educated and the skilled and the losers are the less educated and skilled or those whose skills are outdated and have not upskilled themselves. The technology in every industry is changing so fast that periodically a thriving industry becomes a sunset industry throwing up a number of unemployed people. Periodically, the existing industries and jobs therein undergo creative destruction. When the winners have to contend with the discontent of the losers. For example, in December, 1999, more than forty thousand protestors assembled in Seattle (USA) disrupting the meeting of the World Trade Organisation (WTO). They were protesting against job losses resulting from reorganisation of certain MNEs, the reduction in wages of the workers whose skills had become outdated because of the introduction of the new technology, of job losses of such workers, the environmental effects leading to degradation of natural capital like air, water, seas, forests as also the cultural invasion by the multinationals.Even after more than two decades, such protests and opposition to globalisation continue in different forms such as protectionism and nationalism.

1.4 Emergence of MNEs post-World War II

1.4.1 The emergence of MNEs (or transnational corporations as named by the UNCTAD) is the most significant phenomenon in the landscape of international business and the global economic order. The cross-border trade in silk, spices, precious stones and opium existed centuries back. The revolution in information, communication and transportation technologies as also the institution of the limited liability companies facilitated the emergence of MNEs.

1.4.2 As described in UN Practical Manual on Transfer Pricing for Developing, Countries, 2021, MNEs are firms that conduct integrated business operations in more than one country. That they exploit integration opportunities in the cross-border production of goods and provision of services through a ''value chain'' (or ''value added chain''). That the value chain refers to the process for activities by which a company adds value to goods or service, including production, marketing, and the provision of after-sale service. That they generally operate across international borders through locally incorporated subsidiaries and permanent establishments. That they have integrated a global supply chain that is collection of suppliers required to create one specific product or service for a company *(pages 1 to 3).*

In the Model legislation related to Country-by-Country Reporting as included in the OECD Transfer Pricing Guidelines *(page-563)*, the term "MNE Group" means any Group that (i) includes two or more enterprises the tax residence for which is in different jurisdictions or includes an enterprise that is resident for tax purposes in one jurisdiction and is subject to tax with respect to the business carried out through a permanent establishment in another jurisdiction, and (ii) is not an excluded MNE group.

1.4.3 Further, that the term "group" means a collection of enterprises related through ownership or control such that it is either required to prepare consolidated Financial Statements for financial reporting purposes under applicable accounting principles or would be so required if equity interests in any of the enterprises were traded on a public securities exchange.

1.4.4 That the term "Constituent Entity" means: (i) any separate business unit of an MNE Group that is included in the Consolidated Financial Statements of the MNE Group for financial reporting purposes, or would be so included if equity interests in such business unit of an MNE Group were traded on a public securities exchange; (ii) any such business unit that is excluded from the MNE Group's Consolidated Financial Statements solely on size or materiality grounds; and (iii) any permanent establishment of any separate business unit prepares a separate financial business unit of the MNE Group included in (i) or (ii) above provided the business unit prepares a separate financial statements for such permanent establishment for financial reporting, regulatory, tax reporting, or internal management control purposes.

1.4.5 That the term "Ultimate Parent Entity" means a constituent Entity of an MNE Group that meets the following criteria:

(i) It owns directly or indirectly a sufficient interest in one or more other Constituent Entities of such MNE Group such that it is required to prepare Consolidated Financial Statements under accounting principles generally applied in its jurisdiction of tax residence, or would be so required if its equity interests were traded on a public securities exchange in its jurisdiction of tax residence; and

(ii) there is no other Constituent Entity of such MNE Group that owns directly or indirectly an interest described in Clause (i) above in the first mentioned Constituent Entity.

1.4.6 In India, section 286(9) of the Income-tax Act, defines the terms "constituent entity", "group", consolidated financial statement and "international group" in clauses (d), (e), (f) and (g) respectively on similar lines with suitable modifications. For example, the term "group" as per clause (e) includes a parent entity and all the entities in respect of which, for the reason of ownership or control, a consolidated financial statement for financial reporting purposes—

(i) is required to be prepared under any law for the time being in force or the accounting standards of the country or territory of which the parent entity is resident; or

(ii) would have been required to be prepared had the equity shares of any of the enterprises were listed on a stock exchange in the country or territory of which the parent entity is resident;

As per clause (f), "consolidated financial statement" means the financial statement of an international group in which the assets, liabilities, income, expenses and cash flows of the parent entity and the constituent entities are presented as those of a single economic entity.

1.4.7 The characteristics of an MNE have been comprehensively delineated in an expert opinion in the case of CAMECO CORPORATION, and HER MAJESTY THE QUEEN (2018 TCC 195) decided by the Toronto Court of Appeal (pages 192 to 194) which is as under:—

> *"[1] MNEs carry on business in more than one country. The parent company typically has subsidiaries formed in various jurisdictions (i.e., countries other than the country in which the parent company was formed or has its head office). 85% of the comparators in the Benchmarking Study disclosed that they had foreign subsidiaries in 2006, as did Cameco.*
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> *[2] The decision to carry on aspects of a business by a subsidiary (whether domestic or foreign) as well as the jurisdiction of incorporation of the subsidiary can be driven by a variety of considerations, including tax, accounting, legal regulatory, liability and compensation as well as proximity to customers, suppliers, financial markets and the necessary work force.*
>
> *[3] it is not unusual for a parent to incorporate subsidiaries in favourable tax jurisdictions where that choice is available.*
>
> *[4] The fact that CEL's business was confined to one stage in the process that ultimately culminated in the sale of uranium to a customer is consistent with the commercial integration referred to by the Organisation for Economic Co-operation and Development and Export Development Canada ("EDC").*
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> *[5] It is common in an MNE for administrative functions to be centralised and shared across the enterprise.*
>
> *[6) It is common for entities in an MNE to document the basis on which they share services.*
>
> *[7] It is common for entities within an MNE to provide financing for other members of the MNE or for one to guarantee the obligations of another.*
>
> *[8] The fact that Cameco, Ireland made financial arrangements available to CESA and CEL, including by way of a revolving credit facility, and that Cameco provided guarantees for its subsidiaries'*

obligations (including the obligations of CESA) and CEL to suppliers) is consistent with the financial interdependence across an MNE reflected in the Benchmarking Study.

[9] The composition of the board of directors and management team of a subsidiary can be driven by a number of factors, including local requirements, the significance of where the directing mind of the organisation is located, and the availability of management and oversight functions in other parts of the global family. It is common for boards of directors of subsidiaries to include individuals who have been board members or members of management in other parts of the MNE. Those individuals are conversant with the business, values and culture of the organisation and have the confidence of other decision makers across the MNE.

[10] There are not always clear lines of responsibility between a board of directors and the CEO. In the absence of detailed mandates and position description, it is generally accepted that the CEO operates the business in the ordinary course and the board oversees the CEO's discharge of his responsibilities. In addition, the board takes any other action that is required of it by law, such as the approval of the financial statements.

[11] It is not unusual to appoint an individual as an officer of a corporation for the purposes of facilitating the executing of documents.

[12] It is not unusual for a board of directors that was aware of an agreement that the corporation was planning to sign, to ratify the execution and delivery of that agreement, after the date of execution.

[13] The integration and interdependence of entities within an MNE is reflected in both financial reporting and disclosure requirements under Canadian securities laws.

[14] A parent company and its subsidiaries are viewed as a single economic entity for financial reporting purposes. A parent company is required to issue consolidated financial statements, combining its own financial statements and the financial statements of its subsidiaries. The parent exercises its control and influence over the

subsidiary in order to be confident about the quality of financial information presented in the consolidated financial statements.

[15] A parent company elects the subsidiary's board of directors. The board of directors (and the management team) then manage the business. While this is the legal structure, commercial integration across the MNE and the accountability of the parent company to investors and regulators requires cooperation and coordination across the entities forming the MNE. This cooperation and coordination is not inconsistent with the legal structure.

[16] A commercially normal relationship between a parent corporation and a subsidiary corporation within a large, complex MNE during the Relevant period would have involved common goals, coordinated efforts, commercial interdependence and governance integration."(italics mine)

1.4.8 Generally, in an MNE, there are branches, affiliates and subsidiaries. A branch is an unincorporated entity. In the same jurisdiction or an overseas jurisdiction where it is a projection of the main entity. It is a division or office of the main entity.In an associate or an affiliate, a particular company has between ten and fifty percent shareholding or voting power of a particular company.In a subsidiary, it is more than fifty percent ownership by the holding company.

The decisions whether to have a business unit in the host country or should be organised as a branch or a subsidiary is dependent on many factors one of them being the tax factor. If the foreign tax rate in the host country exceeds the home country's tax rate and the excess tax cannot be used in the home country as a credit for adjusting tax liability, then a branch is preferable to a subsidiary. In the reverse case, a subsidiary may be incorporated in the post country.

As regards joint ventures and alliances, in business activities involving a very large financial investment or advanced technologies like aerospace or pharmaceuticals, there are inter-firm collaborations for developing a product or service. Some alliances are for a specified limited period.

1.4.9 Both the UN Practical Manual on Transfer Pricing *(para 2.5.5)* and the OECD Transfer Pricing Guidelines *(para 1.177)* underscore the MNE Group Synergies. As pointed out in the UN Manual, MNE groups and the associated enterprises comprising such groups may benefit from interactions or synergies among group members which are not generally available to independent enterprises. MNE groups minimise their costs which are not available to independent enterprises. That, such synergies arise as a result of streamlined management, elimination of duplication of efforts, economies of scale and purchasing and borrowing power. The OECD Guidelines also point out the combined purchasing power or economies of scale, combined and integrated computer and communication systems, integrated management, elimination of duplication, increased borrowing capacity, etc. The OECD Guidelines also mention negative synergies when the size of the corporate operation create bureaucratic barriers not faced by smaller and more nimble enterprise.

1.4.10 Usually, MNEs have a centralised procurement, technological development and service centres that reduces the costs and increases the efficiency. Their purchasing and borrowing power make them more competitive. Their centralised R&D efforts result in innovation in their products and services. Their pooling of finances and centralised treasury functions improve their creditworthiness resulting in the saving of interest costs.

1.4.11 The MNEs find it advantageous to have their economic activities in different geographical locations because of the following reasons:—

- Access to natural resources.
- Access to the customers.
- Availability of the appropriate skill sets.
- Availability of information and transportation infrastructure.
- Access to appropriate technology.
- Presence of cluster of firms in the related business such as components or other elements of supply chain.

1.4.12 The multinationality or the dispersal value chain as also the intra-group transactions, which are a significant proportion of international business contribute to the following:—

- Centralized economic activities in dispersed locations such as R&D in one country, designing the products and services in another country, procurement services in another, manufacturing in yet another country, financing control in yet another country and distributing worldwide contribute to efficiency, innovation in products and services and reduction in cost.
- Access to security market and in worldwide capital market at optimal cost.
- The intra-group transfer of technology and know-how secures the organisational knowledge and skill to remain in the group and not become public knowledge of the competitors outside the group.
- The global access to resources, skills sets, finances and technology make the group competitive, increasing markets share and returns to the stakeholders.

1.4.13 As regards, the choice of entry mode in a jurisdiction, an MNE follows the modes as under in increasing degree of participation in a national economy:—

(i) Export to or import from that country

(ii) Setting up a liaison office

(iii) Licensing or franchising a local company to produce its product or/and provide its service

(iv) Setting up a branch in that country

(v) Entering into a joint venture with a local firm to produce in that country

(vi) Setting up a wholly-owned subsidiary in that country

1.4.14 Finally, while the MNEs have been great instruments for development of technology and innovations in product and services, it is the MNEs which put a strain on the international tax rules designed in the 20s of the last century. Those rules in the form of domestic tax legislation of different countries and the network of tax treaties created opportunities for base erosion and profit shifting. This resulted in making tax avoidance a thriving industry adversely affecting the mobilisation of tax resources for the welfare measures relating to health, education and other physical infrastructure (like roads, ports, etc.), particularly of the developing countries. Such a global problem required global cooperation for solution in a mission mode. This problem had such menacing dimensions that in June 2012, following a request by G20 leaders, the OECD/G20 Base Erosion and Profit Shifting Project (BEPS) was launched. This request was to identify the key issues that led to BEPS. The release of the report on Addressing BEPS in February, 2013, by OECD and G20 countries adopting the 15-point Action Plan was a landmark event.

1.4.15 Organised around three pillars, the objectives of the BEPS project were as follows:—

(i) Reinforce the coherence of corporate income-tax rules at the international level.

(ii) Realign taxation with the substance of the economic activities.

(iii) Improve transparency.

1.4.16 As a result of an ambitious work programme that was completed in only two years, the BEPS package of 15 measures was delivered in October 2015. In 2016, the inclusive Framework on BEPS was established with a broad mandate to ensure the consistent, widespread and effective implementation of the BEPS package that had been released in October 2015. About 120 countries and jurisdictions have joined the Inclusive Frame Work on BEPS and are taking action to close the loopholes and address the mismatches in international taxation. This is being done by amending the domestic laws on agreed lines and the tax treaties as per the Multilateral Instrument (MLI). These changes adhere to the minimum standards organised around the following three pillars:—

Better aligning taxation with value creation, which includes the substantial activity requirement for preferential regimes and measures to prevent treaty shopping.

Improving transparency, which includes Country-by-Country Reporting and exchange of information on certain tax rulings.

Ensuring greater certainty, which includes measures to enhance the effectiveness of dispute resolution.

1.4.17 The aforesaid brings out the dominant role of the MNEs in the national economies in general and in international business in particular.

1.5 Digitisation

The process of digitisation which is converting a picture or sound or data into a digital form that can be processed by a computer has been making far-reaching changes since the 1990s. The information revolution has brought increasing speed in data processing and progressive decline in the unit cost of such processing. The business model and the process of value creation is rapidly evolving in some enterprises. As explained in the OECD/BEPS Project on Tax Challenges Arising from Digitisation-Interim Report 2018 *(paras 32 to 35)*, the common characteristics of digitised business include *cross-jurisdictional scale without mass, reliance on intangible assets including IP and data, user participation and their synergies with IP.*That, the term 'mass' refers to physical presence in the location of the user or the customers. That, the digitised enterprises or characterised by the growing importance of investment in intangible particulars IP assets such as software and algorithms supporting their platforms, websites and many other crucial functions central to their business models. That the role user participation can play is seen in the case of social network where without data, network effects and user generated contents, the business would not exist.

1.5.1 In the above report, the three concepts of value creation affecting the business model because of digitisation have been explained *(section 2.3).* These are the value chain, the value network and the value shop. That, as developed by Michael Porter in the mid-1980s, the value chain is a standard to analyse a firm's competitive advantages. That value chain analysis divides a firm into discrete activities so as to create superior value by offering differentiated products justifying a premium price or reduced costs. The value chain concept was expended to the concept of global value chain underlying the coordinated business activities across geographies. The Porter's concept of value chain was a linear production process beginning with row materials and ending with finish product was expended to the concept of value network where is created by linking users, suppliers and customers using a mediating technology like a multi sided platform. That, the value is created by converting inputs into outputs through discrete but related sequential activities comprising primary activities and support activities.The primary activities start with inbound logistics such as material handling warehousing, inventory control, vehicle schedule and return to supplier. The operations are activities associated with transforming inputs into final products, such as machining, packaging, assembly, equipment maintenance, printing and facility operation. Then comes outbound logistics, namely collecting, storing and physically distributing the product to buyers. The next is marketing and sales and finally, the services which are activities to enhance or maintain the value of the products.

1.5.2 The primary activities are sustained by support activities such as procurement, human resource management such as recruiting, hiring, training and deciding compensation structure, technology development to improve the products and processes from basic research and product design to media research and finally firm infrastructure such as planning, finance and accounting, legal quality management and general management.

1.5.3 The internet-enabled value networks bring individuals together to link customers interested in engaging in a transaction or relationship. Such networks include social networks that bring individuals together in a social capacity and allow advertiser to target specific user groups. That search engines fulfil a similar function by providing certain web-based applications for free while generating revenues from targeted advertising and monetising user data. That, a critical determinant of value any particulars user is the set, or network, of other users that are connected. Such a network value is created through the action of linking the organisation and facilitation of exchange between users. The primary activities of such network comprise network promotion and contract management, service provisioning and infrastructure operation. The support activities comprise infrastructure, human resource management and technology development. That, the value shop operates in single-sided markets where interaction takes place with one specific type of user or customer. The technology is applied to solve a specific customer demand or problem, for example medical technology to diagnose and treat a patient's ailment or a vertically integrated professional service firm.That Amazon's retail business is a value chain whereas its Amazon Market place linking buyers and sellers for them to trade is a value network and Amazon Web Services is a value shop.

1.5.4 The common characteristics of digitised business models have been outlined in para 2.5 of the above report. That whereas globalisation has allowed businesses to locate various activities of their activities or production process across different countries with access to a greater number of customer across globe, the digitisation intensifies this trend. That many digitised businesses can be heavily involved in the economic life of different jurisdictions without any or any significant presence. Thus, achieving operational scale without mass, namely the firms' physical presence in the location of the user or the customer market. That digitisation is also driving a process of de-materialisation in many of the business models.

1.5.5 The second characteristic of such business is their reliance upon intangible assets such as industrial designs, patents, trademarks and utility models.

1.5.6 The third characteristic is the data and user participation as an increasingly important part of business models. Due to economies of scale, more varied the information a dataset contains, the more insight it provides. That many businesses monetise customer data directly by selling targeted online advertisement to customers on a different market side. That processing, interpreting and analysing the data generate economic value. The knowledge accumulated through analytical activities becomes the basis for the economic value generated throughout the value cycle.

1.5.7 That data and data analysis are becoming fundamental assets in business design making. The internal data containing sales, inventories and production, optimises the business processes and enables more efficient decisions. That user plays a significant role by the analysis of their data being used to gain insights about markets and demand trends. This information can be used for making strategic inventory of product or services placement design by creating new products and brands. That the analysis of customer data allows businesses to acquire competitive advantage by improvement and customisation of user experience.

1.5.8 In the background of the above scenario, one of the leading economists Paul M Romer, through his writings, namely, "Economic Growth" (1993) and "Beyond the Knowledge Worker" (1995), brought out a new paradigm in the production process. He emphasised that the term "factors of production" such as land, building raw materials, labour and capital was relevant only in the context of industrial economy and factories. That in the context of the contemporary knowledge economy, a more appropriate way to see economic activity is through a computer terminology that is hardware, software and 'wetware'. The hardware includes the physical inputs such as land, building, tools, machinery and equipment as also capital investments. The software is codified knowledge such as the programs and other operating information used by a computer. The wetware includes a person's knowledge, skills and abilities to carry out a function or an economic activity. This is also known as know-how, namely, the skills and abilities to executed task. Its sources are the mind of the knowledge worker. In an MNE, once a knowledge or skill is developed, it becomes a public knowledge within the constituent entities of the group. Arguably, the monopoly or the oligopoly of the big five, namely, Amazon, Microsoft, Meta Platforms, Inc. (FB), Alphabet and its subsidiary Google and Apple, as also Oracle, Cisco and companies like Netflix, Nvidia Corporation (NVDA) derived their market power because of the following:—

Large R&D investments in algorithms, platforms and software while falling costs per unit of sales capturing the market share.

The products and services with increasing utility for a network of customers who generate user data which itself becomes a valuable asset that influences the market behaviour of the network.

The dedicated customers of products like Microsoft Windows, the Amazon Market place or the Apple i-Phones.

1.5.9 The high technology knowledge industries of the above category are sustained by the educational institutions, laboratories, the talent pool from Europe, China and India, the venture capitalists, particularly, in the Silicon Valley.

1.5.10 In the landscape of digitisation, the recent disruptive innovation is the Artificial Intelligence (AI) powered by the generative models such as Chat GPT that is capable of supervised learning on large data sets that enables it to write essays, computer course, search answers to questions, create computer applications, etc. This happens because of the exponential increase in the computing power of the specialist chips known as graphics processing units (GPUs). This development of a humanoid kind of intelligence is fraught with possibilities the extent of which is difficult to fathom at the moment. It is, however, certain that the cost advantage and efficiency of international business will undergo a sea change, and the winners will be those who harness the potentials of generative AI.

1.6 Theories of Transnational Trade

1.6.1 The earliest trade theory was the doctrine of mercantilism advocated in the 16th and 17th centuries. This theory had its origin in Britain in the mid-16th century when gold and silver were the currency of trade. This doctrine emphasised that countries should encourage exports and discourage imports. The logic was that the export earns gold whereas imports imply outflow of gold. Therefore, the government policy should be directed at increasing export by incentives like subsidies and at the same time decrease imports by levying high duties and quotas. The purpose should be to achieve trade surplus and avoid trade deficits. This was a protectionist policy on the assumption that international trade is a zero-sum game