SUBJECT HANDLED BY

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INTERNATIONAL BUSINESS ENVIRONMENT

UNIT I - V

INTERNATIONAL BUSINESS ENVIRONMENT

SUBJECT CODE : 18KP1CO04

UNIT I : INTRODUCTION

International Business and its Environment: Significance – Nature and Scope of International Business –Environment of International Business.

UNIT II : INTERNATIONAL ECONOMIC INSTITUTIONS

International Economic Institutions - International Monetary Fund – World Bank – Asian Development Bank – UNCTAD – UNIDO - WTO – GATT.

UNIT –III : INTERNATIONAL TRADE AND PAYMENTS

International Trade and Payments – Government influence on Trade –EXIM Policy –Global Trade in Merchandise – Global Sourcing – Balance of Payments.

UNIT IV : MULTINATIONAL CORPORATIONS

International Investment and Multinational Corporations – Types of Foreign Investment – Foreign Investment in India – Foreign Investment by Indian companies – Importance and Dominance of MNCs – Transfer of Technology.

UNIT –V : GLOBALIZATIONS

Globalization of Business – Features – Stages – Essential Conditions – Pros and Cons.

BOOKS FOR REFERENCES :

1.Francis Cherunilam : International Business Environment, Himalaya Publications, Mumbai
2.S .Sankaran : International Business Environment , Margham Publications ,Chennai
3.D.M.Mithani (Unit I,II,IV & V) : International Economics, Himalaya Publications, Mumbai
4.S.S.M.Desai (Unit III,IV) : International Economics, Himalaya Publications, Mumbai.
5.S.Sankaran (Unit I & V) : Money Banking and International Trade, Margham Publications, Chennai.

Question paper pattern

Maximum Marks = 75 **Exam Duration Hours : 3 Hours**

Part A : 10 x 2 = 20 (Two Questions from Each Unit)
Par B : 5 x 5 = 25 (Either or type - One question from Each Unit)
Part C : 3 x 10 = 30 (One Question from Each Unit)

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BUSINESS

LOCAL BUSINESS

Any company that provides goods or services to a local population is considered a local business. Often denoted by the phrase, " brick and mortar," a local business can be a locally owned business or a corporate business with multiple locations operating in a specific area.

NATIONAL BUSINESS

A national business understands the wants and needs of its consumers, and it provides products and services that will satisfy customer demand. A national business also has access to a larger market as it is selling its products and services across the country, instead of in just one city.

INTERNATIONAL BUSINESS

International business comprises all commercial transactions that take place between two or more regions, countries and nations beyond their political boundaries. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons.

INTRODUCTION OF INTERNATIONAL BUSINESS:

All countries need goods and services to satisfy wants of their people. Production of goods and services requires resources. Every country has only limited resources. No country can produce all the goods and services that it requires. It has to buy from other countries what it cannot produce or can produce less than its requirements. Similarly, it sells to other countries the goods which it has in surplus quantities. India too, buys from and sells to other countries various types of goods and services.

Generally no country is self-sufficient. It has to depend upon other countries for importing the goods which are either non-available with it or are available in insufficient quantities. Similarly, it can export goods, which are in excess quantity with it and are in high demand outside.

International trade means trade between the two or more countries. International trade involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries. Thus, International trade is more complex

International or Foreign trade is recognized as the most significant determinants of economic development of a country, all over the world. The foreign trade of a country consists of inward (import) and outward (export) movement of goods and services, which results into. outflow and inflow of foreign exchange. Thus it is also called EXIM Trade.

Reasons takes place on account of International trade

- Human wants and countries' resources do not totally coincide. Hence, there tends to be interdependence on a large scale.
- Factor endowments in different countries differ.
- Technological advancement of different countries differs. Thus, some countries are better placed in one kind of production and some others superior in some other kind of production.
- Labour and entrepreneurial skills differ in different countries.
- Factors of production are the outcome of territorial division of labour and slightly immobile between countries

MEANING:

International business comprises all commercial transactions that take place between two or more regions, countries and nations beyond their political boundaries. Usually, private companies undertake such transactions for profit; governments undertake them for profit and for political reasons.

The transaction can be of anything that has value, examples include :

1. Physical Goods
2. Services such as banking, insurance, construction,
3. Technology such as software, arms, and ammunition, satellite technology, etc.
4. Capital
5. Knowledge

DEFINITION. "According to **International Business Journal**, 'International business is a commercial enterprise that performs economical activity beyond the bounds of its location, has branches in two or more foreign countries and makes use of economic, cultural, political, legal and other differences between countries."..

INTERNATIONAL BUSINESS ENVIRONMENT

The (IBE) International Business Environment is multidimensional including the political risks, cultural differences, exchange risks, legal & taxation issues. Therefore (IBE) International Business Environment comprises the **political, economic, regulatory,** tax, **social & cultural, legal, & technological environments**

The Difference – Business Environment and International Business

International business is an exchange of goods and services that conducts its operations across national borders, between two or more countries. International business is also known as Globalization

Business Environment is the surrounding in which the international companies operate.

Forms of Business Environment

- Import & Export
- Licensing
- Franchising
- Joint venture
- Foreign Direct Investment

For providing, regulating and creating necessary environment for its orderly growth, several Acts have been put in place. The foreign trade of India is governed by the Foreign Trade (Development & Regulation) Act, 1992 and the rules and orders issued there under. Payments for import and export transactions are governed by Foreign Exchange Management Act, 1999. Customs Act, 1962 governs the physical movement of goods and services through various modes of transportation

Benefits of International Business

International Business is important to both Nation and Business organizations. It offers them various benefits.

Benefits to Nation

- It encourages a nation to obtain foreign exchange that can be utilized to import merchandise from the global market.
- It prompts specialization of a country in the *production* of merchandise which it creates in the best and affordable way.
- Also, it helps a country in enhancing its development prospects and furthermore make opportunity for employment.
- International business makes it comfortable for individuals to utilise commodities and services produced in other nations which help in improving their standard of life.

Benefits to Firms

- It helps in improving profits of the organizations by selling products in the nations where costs are high.
- It helps the organization in utilizing their surplus resources and increasing profitability of their activities.
- Also, it helps firms in enhancing their development prospects.
- International business also goes as one of the methods for accomplishing development in the firms confronting extreme market conditions in the local market.
- And it enhances business vision as it makes firms more aggressive, and diversified.

Importance of International Business / Benefits of International Business

1. Market expansion.
2. Non-availability of product in new market.
3. Cost advantage.
4. Product Differentiation.
5. Economic recession in one's own country.
6. Loss of Domestic market share.
7. Growth in Demand in other markets.
8. Excess capacity of Production.
9. Economies of Scale.
10. Purchasing Power.

1) Market expansion

Everyone wants to expand their market share and to sell more and more products. The importance of International business lies in the fact that you get a new market to enter and to expand in. No matter what was your position in the old market, the new market is a new playing field for any company.

2) Non-availability of product in new market

A major advantage the company can have is that the product it produces is not available in the international market which the company is targeting. The firm, therefore, has a "production advantage" which it can use to maximum benefit. As a result, it is one of the benefits of the International business that the firm can establish a monopoly or a duopoly in the target market, thereby generating a lot of revenue.

3) Cost advantage

Many times, there is a cost advantage of exporting products to a different country. This cost advantage is apparent in the way China is operating in today's business environment. The benefits of International business are huge to Chinese companies because their cost of production is very low. One of the major contributors is their low Labour cost due to which Chinese equipment's are able to match any rates in the International market.

4) Product Differentiation

If your products are differentiated and the differentiation is possible only in one's own country, then a company should definitely expand to International markets , Furthermore, if a company is capable of product design and implementation as well as establishing new products and services, then this company has various benefits of International business already available. Expanding to international market sounds logical if you can differentiate your products from existing market products.

5) Economic recession in one's own country

The Importance of International business is fourfold if a company is afraid of the recession in their own country. Companies like Mitsubishi, Daikin, Blue Star and others have presence across multiple countries and regions. This is so that they can mitigate the effects of a slow economy in their home country.

6) Loss of Domestic market share

Even if the external business environment is not down, there are other worse things that can happen to the company which increases the importance of International business. A company could be losing its domestic market share and it could find solace in a new international market. This will revive the company in a big way and give fresh revenue to the company which can help it fight in the local market as well.

There are 2 main reasons that such loss can happen in domestic market share.

- Due to Competition increasing and market becoming saturated.
- Due to the product of the company becoming obsolete in current market but being attractive in a new market

7) Growth in Demand in other markets

When South Africa belonged to the primitives and native tribes, there was no business being conducted. However, with globalization, we can see the growth and development of Ghana and Nigeria as well as other African cities. The growth of these cities and the flourishing commerce is another proof of the importance of International business.

8) Excess capacity of Production

One reason for large companies to look towards international business is to utilize the excess production capacity of their manufacturing plants. Companies like Ultratech Blue Star, Garment manufacturers, Chocolate manufacturers have huge production capacity. When you have such production potential, utilizing that potential is important.

As a result, many companies take the benefits of International business by utilizing their manufacturing potential and starting the sale of their brand in International markets. This helps the brand generate revenue and also push huge volumes out of their large factories.

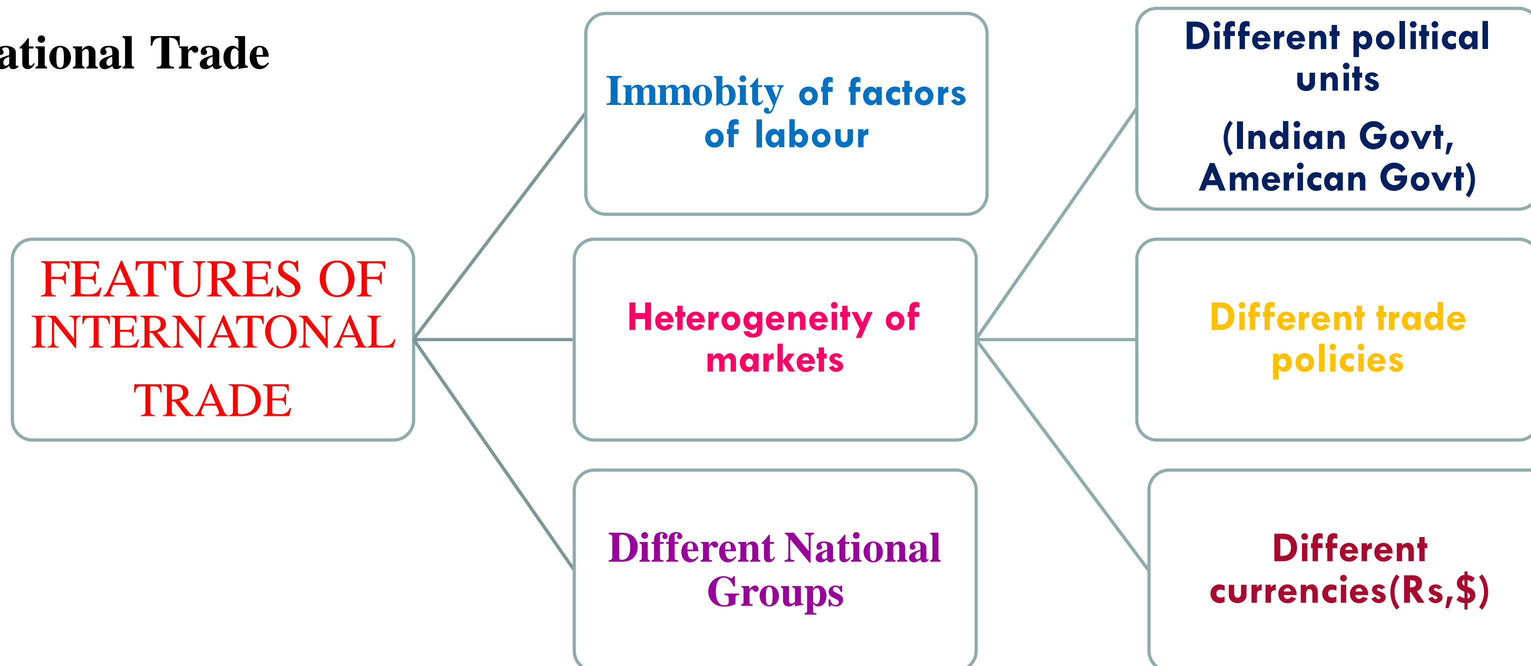
9) Economies of Scale

Business growing increasing company fixed costs, the concept of economies of scale sets in. Basically, the fixed cost goes down when the manufacturing goes up from the same assets. This benefits the company because the company gets a cost advantage over competitors. It also improves its own scale of operations.

10) Purchasing Power

One last reason for the Importance of doing International business is the purchasing power rising in target markets. The best example of this is Dubai which as a country has grown exponentially in the last several years and today is a huge tourist market. The purchasing power in Dubai is great and you will find showrooms of all top brands present in Dubai markets.

Salient Features of International Trade



❖ Immobility of Factors

The degree of immobility of factors like labour and capital is generally greater between countries than within a country. Immigration laws, citizenship, qualifications, etc. often restrict the international mobility of labour

International capital flows are prohibited or severely limited by different governments. Consequently, the economic significance of such mobility of factors tends to equality within but not between countries. For instance, wages may be equal in Mumbai and Pune but not in Bombay and London.

❖ Different National Groups

International trade takes place between differently cohered groups. The socio-economic environment differs greatly among different nations.

❖ Different Political Units

International trade is a phenomenon which occurs amongst different political units.

❖ Different National Policies and Government Intervention

Economic and political policies differ from one country to another. Policies pertaining to trade, commerce, export and import, taxation, etc., also differ widely among countries though they are more or less uniform within the country. Tariff policy, import quota system, subsidies and other controls adopted by governments interfere with the course of normal trade between one country and another.

❖ Different Currencies

Another notable feature of international trade is that it involves the use of different types of currencies. So, each country has its own policy in regard to exchange rates and foreign exchange.

Scope of international trade

International business involving several activities like International marketing, international investment. management of foreign exchange, procuring international business ,managing international human resources, managing production and distribution channels in different countries, with different political hues and cultural diversities.

1. Importing and exporting of commodities and manufactured goods.
2. Investment of capital in abroad in agricultural, extractive and manufacturing industries, including telecommunications.
3. Investment in international services like banking, tourism, advertising , retailing and construction
4. Transactions involving copyrights, patents, trade mark and process of technology
5. Outsourcing part of production from and to other countries
6. Supervising employees' in the different countries

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

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 mean sending tangible goods abroad, merchandise imports means bringing tangible goods from a foreign country to one's own country.

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

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.

Monopoly Power

It might arrive from patent rights, technological advantages, product segregation etc. Another reason for internationalization is limited market information

Benefiting from currency exchange

Those who add an international business to their assortment may also advantage from currency fluctuations. For example, when the U.S. dollar is down, you might be able to export more as foreign customers benefit from the favorable currency exchange rate.

Foreign investments

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Increased revenues

One of the top advantages of international business is that you may be capable to enlarge your number of probable clients. Each country you add to your list can open up a new path to business growth and increased revenues.

Growth opportunities

Foreign markets both developed country and developing country provide considerable expansion opportunities for the firms from a developing country. MNCs are interested in no. of developing countries due to initially increasing in their income and population of the predictable 1 billion increases in world population during 2000 to 2015; only about 3% will be in the high-income countries, foreign markets, both developed and developing countries after ample opportunities for developing country firms also.

Opportunity to specialize

International markets can open up avenues for a new line of service or products. It can also give you an opportunity to specialize in a different area to serve that market.

Differences between Internal Trade and International Trade

- **Specific Terms**

Exports and Imports. Internal trade is the exchange of domestic output within the political boundaries of a nation, while international trade is the trade between two or more nations. Thus, unlike internal trade, the terms "export" and "import" are used in foreign trade. To export means to sell goods to a foreign country. To import goods means to buy goods from a foreign country.

- **Heterogeneous Group**

An obvious difference between home trade and foreign trade is that trade within a country is **trade among the same** group of people, whereas trade between countries takes place between **differently cohered groups**. The socio-economic environment differs greatly between nations, while it is more or less uniform within a country. Frederick List, therefore, put that: "Domestic trade is among us, international trade is between us and them."

- **Political Differences**

International trade occurs between different political units, while domestic trade occurs within the **same political unit.** The government in each country is keen about the welfare of its own nationals against that of the people of other countries. Hence, in international trade policy, each government tries to see its own interest at the cost of the other country.

- **Different Rules**

National rules, laws and policies relating to trade, commerce, industry, taxation, etc. are more or less uniform within a country, but differ widely between countries.

Tariff policy, import quota system, subsidies and other controls adopted by a government interfere with the course of normal trade between it and other countries. Thus, state interference causes different problems in international trade while the value of theory, in its pure form, which is laissez faire, cannot be applied in toto to the international trade theory.

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5. Different Currencies

Perhaps the principal difference between domestic and international trade is that the latter involves the use of different types of currencies and each country follows different foreign exchange policies. That is why there is the problem of exchange rates and foreign exchange. Thus, one has to study not only the factors which determine the value of each country's monetary unit, but also the divergent practices and types of exchange resorted to.

6. Heterogeneous World Markets

In a way, home trade has a homogeneous market. In foreign trade, however, the world markets lack homogeneity on account of differences in climate, language, preferences, habits, customs, weights and measures etc.

The behavior of international buyers in each case would, therefore, be different. For instance, Indians have right-hand drive cars, while Americans have left-hand driven cars. Hence, the markets for automobiles are effectively separated. Thus, one peculiarity of international trade is that it involves heterogeneous national markets.

7. Factor Immobility

Another major difference between internal and international trade is the degree of immobility of factors of production like labour and capital which is generally greater between countries than within the country. Immigration laws, citizenship qualifications, etc., often restrict international mobility of labour. International capital flows are prohibited or severely limited by different governments.

Advantages of International Trade

- **Optimum Allocation**

International specialization and geographical division of labour leads to the optimum allocation of world's resources, making it possible to make the most efficient use of them.

- **Gains of Specialization**

Each trading country gains when the total output increases as a result of division of labour and specialisation. These gains are in the form of more aggregate production, larger number of varieties and greater diversity of qualities of goods that become available for consumption in each country as a result of international trade.

- **Enhanced Wealth**

Increase in the exchangeable value of possessions, means of enjoyment and wealth of each trading country.

- **Larger Output**

Enlargement of world's aggregate output.

- **Welfare Contour**

Increase in the world's prosperity and economic welfare of each trading nation.

- **Cultural Values**

Cultural exchange and ties among different countries develop when they enter into mutual trading.

- **Better International Politics**

International trade relations help in harmonising international political relations.

- **Dealing with Scarcity**

A country can easily solve its problem of scarcity of raw materials or food through imports.

- **Advantageous Competition**

Competition from foreign goods in the domestic market tends to induce home producers to become more efficient to improve and maintain the quality of their products.

- **Larger size of Market**

Because of foreign trade, when a country's size of market expands, domestic producers can operate on a larger scale of production which results in further economies of scale and thus can promote development. Synchronised application of investment to many industries simultaneously become possible. This helps industrialisation of the country along with balanced growth.

Disadvantages of International Trade

- **Exhaustion of Resources**

When a country has larger and continuous exports, her essential raw materials and minerals may get exhausted, unless new resources are tapped or developed (e.g., the near-exhausting oil resources of the oil-producing countries).

- **Blow to Infant Industry**

Foreign competition may adversely affect new and developing infant industries at home.

- **Dumping**

Dumping tactics resorted to by advanced countries may harm the development of poor countries.

- **Diversification of Savings**

A high propensity to import may cause reduction in the domestic savings of a country. This may adversely affect her rate of capital formation and the process of growth.

- **Declining Domestic Employment**

Under foreign trade, when a country tends to specialize in a few products, job opportunities available to people are curtailed.

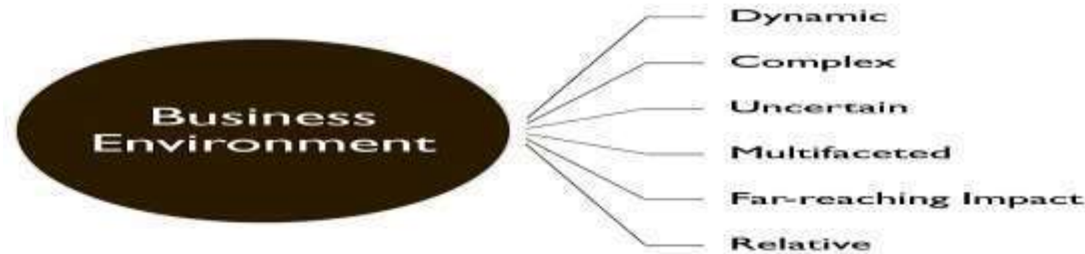
- **Over Interdependence**

Foreign trade discourages self-sufficiency and self-reliance in an economy. When countries tend to be interdependent, their economic independence is jeopardised. For instance, for these reasons, there is no free trade in the world. Each country puts some restrictions on its foreign trade under its commercial and political policies.

INTERNATIONAL BUSINESS ENVIRONMENT

DEFINITION

According to Arthur M. Weimer, business environment encompasses the 'climate' or set of conditions, economic, social, political or institutional in which business operations are conducted



The salient features of the business environment ,

Dynamic :The environment in which the business operates changes continuously because there is a wide variety of factors that exist in the environment, causing it to change its shape and character.

Complex : There are many forces, events and conditions that constitute business environment, arising from various sources. So, it is a bit difficult to understand the relative influence of a particular factor, on the operation of the organisation.

Uncertain: Uncertainty is an inherent characteristic of the business environment because no one can predict what is going to happen in future.

Multi-faceted: A single change in the business environment, can be viewed differently by different observers because their perceptions vary.

Far-reaching Impact: The survival, growth and profitability, of a business enterprise, depends largely on the environment in which it exists. A small change in the environment has a far-reaching impact on the organisation in different ways.

Relative: The notion of a business environment is relative since it varies from one location to another

CLASSIFICATION OF BUSINESS ENVIRONMENT

Internal Environment

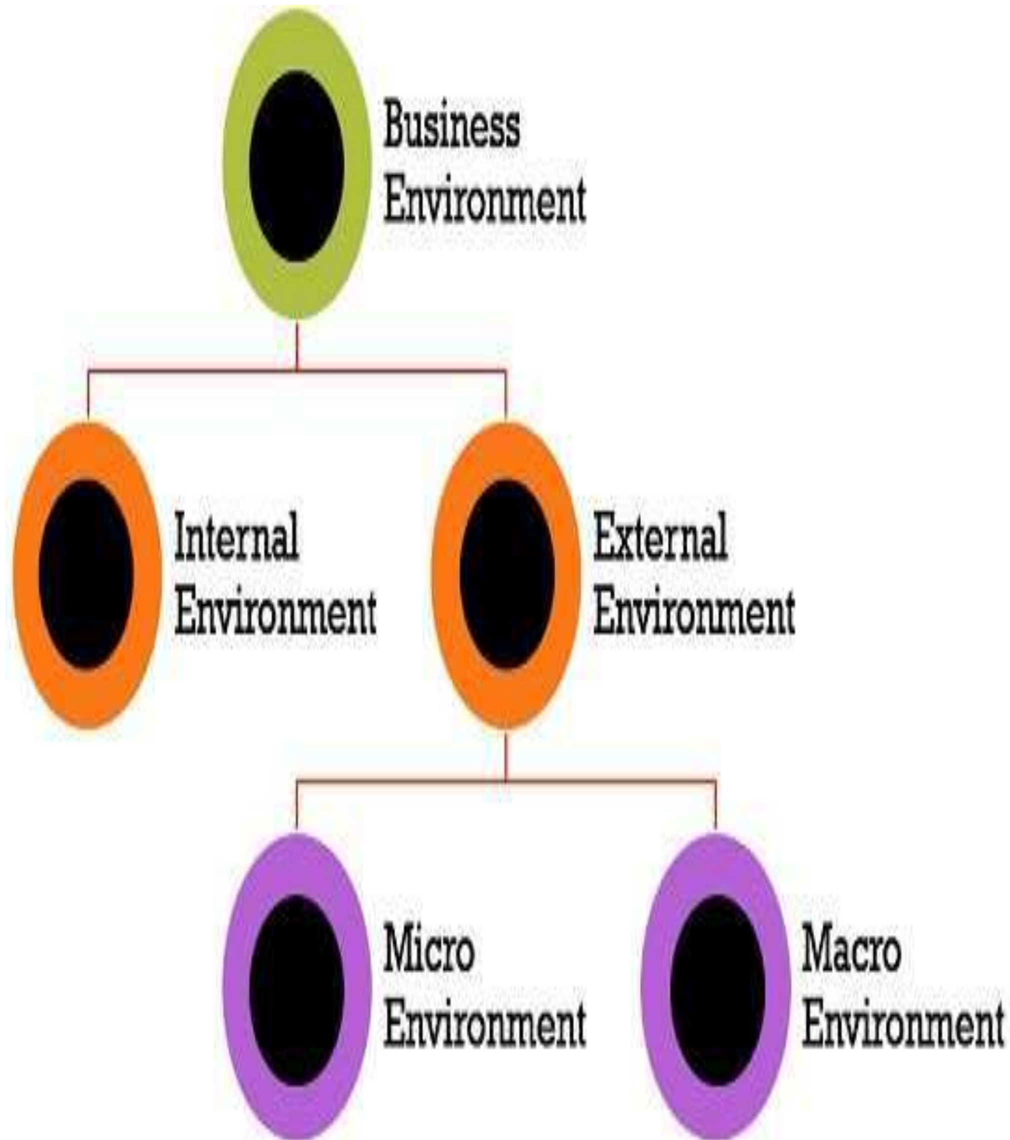
Survival of a business depends upon its strengths and adaptability to the environment. The internal strengths represent its internal environment. It consists of financial, physical, human and technological resources.

- Financial resources represent financial strength of the company. Funds are allocated over activities that maximise output at minimum cost, that is, optimum allocation of financial resources.
- Physical resources represent physical assets such as plant, machinery, building etc. that convert inputs into outputs. Human resources represent the manpower with specialised knowledge that performs the business activities.
- Technological capabilities of a firm determine its competitive strength, which is an important factor determining its efficiency and unit cost of production. R and D capabilities of a company determine its ability to introduce innovations which enhance productivity of workers.

External Environment

The external environment consists of legal, political, socio-cultural, demographic factors etc. These are uncontrollable factors and firms adapt to this environment. They adjust internal environment with the external environment to take advantage of the environmental opportunities and strive against environmental threats. Business decisions are affected by both internal and external environment.

COMPONENTS OF BUSINESS ENVIRONMENT



1. **Internal Environment**: The factors which exist within the organisation imparting strength or causing weakness to the organisation, comes under internal environment. It includes:
    1. Value System
    2. Vision and Mission
    3. Objectives
    4. Corporate Culture
    5. Human Resources
    6. Labor Union

2.External Environment: External Environment consists of those factors which provide an opportunity or pose threats to the business. It is further classified as:

1. **Micro Environment:** The immediate periphery of the business that has a continuous and direct impact on it is called Micro Environment. It includes suppliers, customers, competitors, market, intermediaries, etc. which are specific to the business.
2. **Macro Environment**: Macro Environment, is one such environment that influences the functioning and performance of every business organisation, in general. It comprises of the demographic, socio-cultural, legal, political, technological, and global environment.

PEST Analysis

Political	• Political stability • Regulation and de-regulation • Statutes, laws, codes of conduct • Government funding, subsidies, support for specific industries • Fiscal/ monetary policy • Tax rates • Trade agreements
Economic	• Economic trends • Economic stability – inflation, wages growth, GDP, GNP • Exchange rates • Trade agreements • Seasonality and economic cycles • Consumer confidence • Consumer purchasing power- discretionary incomes
Social	• Demographic changes – population growth, age distribution, population density, geographic distribution • Consumer attitudes - tastes and preferences • Social influencers- role models, opinion leaders • Shopping habits –preferred channels, channel switching, online & offline shopping
Technological	• Innovation, breakthroughs or technological developments • New product materials or ingredients, new packaging solutions • Improved production processes or business models • New ways of transacting business • New machinery or software

The External environment consists of

1. **Micro environment**
2. **Macro environment**

1. Micro Environment

The micro environment consists of factors in the company's immediate environment". These factors affect the performance of a company and its ability to serve the customers. Micro environment consists of customers, suppliers, competitors, public and market intermediaries

(i) Customers

Customers constitute important segment of the micro environment. Business exists to serve its customers. Unless there are customers, business has no meaning. A company can have different types of customers like, households, producers, retailers, Government and foreign buyers.

(ii) Suppliers

They supply inputs (money, raw material, fuel, power and other factors of production) and help in smooth conduct of the business. Firms should remain aware of the policies of suppliers as increase in prices of inputs will affect their sales and profits. Shortage of supplies also affects the production schedules. Firms should have more than one supplier so that change in policies of one supplier does not affect their production schedules.

(iii) Competitors

Competitors form important part of the micro environment. Firms compete to capture big share of the market. They constantly watch competitors' policies and adjust their policies to gain customer confidence.

iv) Public

"A public is any group that has an actual or potential interest in or impact on an organisation's ability to achieve its interest". Public can promote or demote company's efforts to serve the market. The term 'public' consists of financial public (banks, financial institutions etc.), media public (newspapers, radio, television etc.), Government public, customer organisations, internal public (workers and managers), local public (neighbourhood or community residents) and general public (buyers at large). Companies observe the behaviour of these groups to make functional policies.

(v) Market intermediaries

They are the links that help to promote, sell and distribute the products to final consumers. They are the physical distribution firms (transport firm), service agencies (media firms), financial intermediaries (banks, insurance companies) etc. that help in producing, marketing and insuring the goods against loss of theft, fire etc. Firms maintain good relations with them to carry their activities smoothly. All these factors are largely controllable by the firms but they operate in the larger macro environment beyond their control.

2. Macro Environment

The macro environment consists of the economic and non- economic variables that provide opportunities and threats to firms. This is largely uncontrollable and, therefore, firms adjust their operations to these environmental factors.

The economic environment consists of economic forces that affect business activities. Industrial production, agriculture, infrastructure, national income, per capita income, money supply, price level, monetary and fiscal policies, population, business cycles, economic policies, infrastructural facilities, financial facilities etc. constitute the economic environment.

Economic environment influences the activities of business enterprises

- **In the capitalist economies,** firms have the freedom to choose the occupation. The economic decisions to invest, produce and sell are guided by profit motives. The factors of production are privately owned and production activities are initiated by the private entrepreneurs.
- **In socialist economies**, these decisions are taken by the public sector which is guided more by social welfare than profit maximisation. The economy is controlled by the central master plan prepared by the State. In a mixed economy, public and private sectors co-exist and singly or jointly own the factors of production.
- **Scarce economic resources ,** are allocated over various business activities.
- **Decisions regarding allocation of resources,** which respect to what to produce, how to produce and for whom to produce; nature of technology and the techniques of production, timing of production etc. differ in different economies. This constitutes economic environment of the economy.

Economic environment affects business

(i) Complete capitalisation or socialism does not exist. Free market economy and centralised planning exist together, though in varying degrees. In the world of liberalisation and globalization, state planning is combined with free pricing to make macro-economic decisions for business entrepreneurs and welfare of society.

"The economy in which a business operates is not exclusively a free enterprise economy using prices and markets, but to some extent directed or in-directed by a system of planning, control, regulation and coordination."

(ii) State controls the economy (or the business enterprises) through planning and regulation. It enforces upon business enterprises the responsibility of social responsiveness (responsibility towards society) by welfare-state principles enacted through legislation that enforce minimum wages, commodity control, fair trade practices etc. Legislative machinery promotes economic growth, efficiency and equity. Social responsibility is the outcome of business interaction with economic environment.

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(iii) Some business firms are positively affected by the Government policy while others are negatively affected. A restrictive import policy, for example, protects home industries but liberal import policy can harm the domestic industries

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(v) By providing incentives in the priority sector that produce essential goods for the economy, the Government promotes industrial sector of the economy.

(vi) Modern economies are open systems. The economic environment of one country affects the economic environment of another country. Multinational corporations operate world-wide and provide a number of benefits to host countries and home countries. This has developed science and technology and unified the world economy.

Non-Economic Environment

It consists of socio-cultural, demographic, natural, physical, technological, political and legal environment that influence and are influenced by the economic environment. A large number of variables affect the non-economic environment

(i) Political-legal environment

(i) It is the legislative, executive and judicial environment of the country that shapes and controls business activities. The legislature describes the laws and courses of action to be followed by firms, the executive implements the decisions taken by the legislature (Parliament) and the judiciary ensures that legislature and executive function in the interest of the society. A stable political environment is conducive to business growth.

(ii) The political-legal environment provides a host of laws and regulations that affect the business affairs. It provides opportunities, threats and challenges for the business enterprises. The Government interacts with business enterprises at the local level, State level and the Central level and regulates their functions through various rulings. It regulates the affairs of the business by promoting activities in certain areas and restricting in others

.

Role of political and legal environment

(a) Promotion role

It stimulates business enterprises by providing incentives either to small-scale sector in terms of reserving goods for them which cannot be produced by large-scale business houses, big industrial houses to set up in backward areas, providing development facilities to industries (industrial estates, financing facility etc.).

(b) Restraining role

Business organisations have to work within the legal framework of the country. Laws have to be obeyed and judicial interpretations have to be followed.

Government interacts with the business in the following ways

- **As a regulator**

  It regulates the affairs of the business by promoting activities in certain areas and restricting in others. These regulations prevent unhealthy competition amongst firms and protect consumers' interests against false advertising and unfair trade practices.

- **As a supplier**

  It supplies resources to business concerns.

- **As a competitor**

  It competes with private entrepreneurs in areas like telecommunication, electricity, construction etc.

- **As a customer**

  It supports business houses by buying their products.

Firms should have healthy interaction with the Government. They should indulge in activities that promote economic growth and know the legal system.

Some of the laws that exist in the country for smooth operation of business enterprises:

- Economic Laws [Air (Prevention and Control of Pollution) Act, 1981
- Consumer Protection Act, 1986
- Essential Commodities Act, 1955
- Foreign Exchange Management Act, 1999
- Foreign Trade (Development & Regulation) Act, 1992
- Industries (Development & Regulation) Act, 1951
- Patents Act, 1970
- Standards of Weights and Measures Act, 1976
- Trade Marks Act, 1999]

Socio-cultural environment

It represents the values, culture, beliefs, norms and ethics of the society in which business enterprises operate. People are important to organisations both as human resource and customers. Their buying habits, buying capacities, tastes, preferences and education affect business enterprises.

Firms change their production and marketing plans according to consumer demand. The social environment consists of the social values; concern for social problems like protection of environment against pollution, providing employment opportunities, health care for the aged and old etc.; consumerism, that is, indulging in fair trade practices to satisfy human wants.

The cultural environment represents values and beliefs of the society. These beliefs mould the attitudes of people and help business enterprises determine their need perception. The socio-cultural environment helps firms support the social and cultural values of society by encouraging fine arts projects, sports, communication media, donations to educational, religious and charitable institutions, counseling centers, vocational and technical training centres etc.

Affects of socio-cultural environment

(a) Business objectives

Social objectives are framed along with economic objectives as the society demands business organisations to look after their interests.

(b) Organisational processes

Various organisational processes like motivation, leadership, control policies etc. are framed within the constraints of cultural system of the country. Workforce diversity is promoted, participative decision-making is encouraged, democratic leadership style is adopted as the employees demand so to promote their commitment towards the organisation.

(c) Goods and services to be produced

Though business houses produce goods that earn them profits, it is equally important that these goods are desired by the society. Socially acceptable goods promote both business image and profits

Technical environment

- Technology refers to application of scientific and organised knowledge to organisational tasks. It includes inventions and innovations regarding techniques of production. Technology is changing at a fast pace and technical environment is dramatically affecting the business environment either because of easy import policies or because of technology upgradation as a result of research and development within the country
- The technological advances have introduced products like robots, telecommunication facilities, medicines, equipment's etc. Business firms adapt to the fast changing technical environment. Though technological changes can produce harmful effects also for the enterprises, firms try to reduce these effects and use technological changes in the best interest of firms and society.
- Not adopting technological changes is not possible; technical threats have to be converted into opportunities and gainfully employed in business operations

Following is the **list of cultural factors affecting business** in large way:

Creativity of people

- Dominant communication technology in social groups
- Fashion trends
- Lifestyle
- Participation in cultural events
- Popular actors, music styles, design forms, etc.
- Relative population of local (folk) artists vs. global imported culture,
- Social media influence (blogging, etc) vs traditional media (press, TV, radio),
- Various other determinants of culture. Cultural factors affect any business in the following ways:

Changing consumer preferences is one of the major factors that influence any business. What was in demand 10 years before may not exist today or 5 years down the line. Various styles and significances can destabilize long successful goods and services.. **Demographics Cultural factors** also affect the demography of a particular region. Any slight change in demographics is a significant factor in the business world. As populations grow old, markets for fashions and consumer electronics may shrink while markets for health and luxury goods may rise. Moreover, changes in the proportion of genders and various racial, religious and cultural groups within a society may also have a substantial effect on the way an organization does its business. **Advertising Techniques Advertising** is also one of the areas of business which is affected directly by the forces of cultural changes. You must have noticed that due to change in societal values, the advertisement of few products such as alcoholic and smoking products which were never talked on Indian television have become very common which sometimes we find difficult to watch with family members.

Changes in values and morals are main reasons for this drastic change. Internal Environment Internal environment of an organization such as internal decision-making process and hierarchical changes are also affected by the changes in the cultural environment.

The technical environment helps in answering questions like:

a) What type of technology is available in the environment and what type of technology is needed by the firm?
b) If the technology available is not suitable for the firm's operations, does it need to import the technology or upgrade the indigenous technology?
c) At what rate are changes taking place in technology and how fast are they likely to result in technological obsolescence?
d) What is the firm's financial strength in keeping itself updated regarding technological changes?

Natural environment

- The natural environment consists of the renewable and nonrenewable resources used in the production processes. The renewable resources are air, water and solar energy which can be replenished and non-renewable resources are oil, coal, wood etc. which cannot be replenished.
- Though air, water and solar energy can be replenished, firms are harming these resources by dumping industrial wastes in water and polluting the air and affecting the ozone layer. Increasing industrialization is affecting the natural environment by disposing off chemical wastes in land, air and water. It also affects the food supply which can be harmful on consumption. "The environment damage to water, earth and air caused by industrial activity of mankind is harmful for future generations."
- Business enterprises should use these resources wisely and adopt methods to restrict environmental pollution. Legislative measures are also enforced by the Government (Pollution Control Board) to protect the natural environment. Even the renewable resources should be used wisely so that rate of consumption does not exceed the rate of replenishment

The natural environment helps in answering questions like:

(a) Are business activities conducive to natural environment?
(b) If not, are suitable measures taken to protect the environment?
(c) How far can the business follow the legislative measures in protecting the natural environment, etc.

International environment

It represents the global environment characterised by the "**borderless world".** The Indian economy entered the global world in 1991 through its liberalisation policies. There have been significant economic and political changes and increasing role for the private sector to play since then.

The global business environment is significantly influenced by the principles and agreements of World Trade Organisation (WTO). WTO monitors and regulates the business transacted in the international environment.

Significant impact of International environment

1. Liberalisation of imports.
2. Opportunities for Indian firms to enter into foreign markets through exports and investments.
3. Seek foreign equity participation and foreign technology in Indian firms to expand business and improve competitiveness.
4. Facilitate global sourcing by Indian firms.
5. Benefit from global sourcing by foreign firms.
6. Improve efficiency and dynamism of the firms to survive in the global competition. Inefficient firms have to leave the market.

CONCLUSION

Living in a continuously changing world, the power is to those who better and faster know to adapt, to the entrepreneurs with a great flexibility and fast response reaction to the newest and most sophisticated needs and tastes. Rooting back in the '86, there was given a framework for doing business, by the introduction of the Single Market which eased the movement with the Union and gave incentives for new business plan. The importance of entrepreneurship and innovation also applies to companies that change how they produce products and services. The latter companies can use innovative practices and entrepreneurship to establish their brand name and to be market leaders in doing things that create shared value for society and their companies and also, over time, contribute to changes in practices in their industry.

INTERNATIONAL BUSINESS ENVIRONMENT

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Reference : International Business & Environment ,S.Sankaran,Margham Publications, Chennai – 17.

UNIT – II

INTERNATIONAL ECONOMIC INSTITUTIONS :

International Economic Institutions – International Monetary Fund – World Bank – Asian Development Bank – UNCTAD – UNIDO – WTO – GATT

International economic institutions refer to organized international bodies whose aim is to stabilize economic relationships between and among member countries through monetary, fiscal, financial and trade integration. These institutions may operate on world-wide or at regional levels. These institutions are usually classified into two: institutions for economic integration and international financial institutions.

Purpose. The role of international organizations is helping to set the international agenda, mediating political bargaining, providing a place for political initiatives and acting as catalysts for the coalition- formation. They facilitate cooperation and coordination among member nations

- Every country exports and imports products to benefit from the growing international trade.
- The growth of international trade can be increased, if the countries follow a common set of rules, regulations, and standards related to import and export.
- These common rules and regulations are set by various international economic institutions. These institutions aim to provide a level playing field for all the countries and develop economic cooperation.
- These institutions also help in solving the currency issues among countries related to stabilizing the exchange rates. There are three major international economic institutions, namely, WTO, IMF, and UNCTAD.

World Trade Organization:

WTO was formed in 1995 to replace the General Agreement on Tariffs and Trade (GATT), which was started in 1948. GATT was replaced by WTO because GATT was biased in favor of developed countries. WTO was formed as a global international organization dealing with the rules of international trade among countries.

The main objective of WTO is to help the global organizations to conduct their businesses. WTO, headquartered at Geneva, Switzerland, consists of 153 members and represents more than 97% of world's trade.

World Trade Organization, as an institution was established in 1995. It replaced General Agreement on Trade and Tariffs (GATT) which was in place since 1946. In pursuance of World War II, western countries came out with their version of development, which is moored in promotion of free trade and homogenization of world economy on western lines. This version claims that development will take place only if there is seamless trade among all the countries and there are minimal tariff and non- tariff barriers.

That time along with two Bretton wood institutions – IMF and World Bank, an International Trade Organization (ITO) was conceived. ITO was successfully negotiated and agreed upon by almost all countries. It was supposed to work as a specialized arm of United Nation, towards promotion of free trade. However, United States along with many other major countries failed to get this treaty ratified in their respective legislatures and hence it became a dead letter.

Consequently, GATT became de-facto platform for issues related to international trade. It has to its credit some major successes in reduction of tariffs (custom duty) among the member countries. Measures against dumping of goods like imposition of Anti-Dumping Duty in victim countries, had also been agreed upon. It was signed in Geneva by only 23 countries and by 1986, when Uruguay round started (which was concluded in 1995 and led to creation of WTO in Marrakesh, Morocco), 123 countries were already its member. India has been member of GATT since 1948; hence it was party to Uruguay Round and a founding member of WTO. China joined WTO only in 2001 and Russia had to wait till 2012.

The main objectives of WTO are as follows:

- Raising the standard of living of people, promoting full employment, expanding production and trade, and utilizing the world's resources optimally
- Ensuring that developing and less developed countries have better share of growth in the world trade
- Introducing sustainable development in which balanced growth of trade and environment goes together

The main functions of WTO are as follows:

- Setting the framework for trade policies
- Reviewing the trade policies of different countries
- Providing technical cooperation to less developed and developing countries
- Setting a forum for addressing trade-related disputes among different countries
- Reducing the barriers to international trade
- Facilitating the implementation, administration, and operation of agreements
- Setting a negotiation forum for multilateral trade agreements
- Cooperating with the international institutions, such as IMF and World Bank for making global economic policies
- Ensuring the transparency of trade policies
- Conducting economic research and analysis

WTO has the following advantages:

(a) Promoting peace within nations:

Leads to less trade disputes. WTO helps in creating international cooperation, peace, and prosperity among nations.

(b) Handling the disputes constructively:

Helps in lesser trade conflicts. When the international trade expands, the chances of disputes also increase. WTO helps in reducing these trade disputes and tensions among nations.

(c) Helping consumers by providing choices:

Implies that by promoting international trade, WTO helps consumers in gaining access to a large number of products.

(d) Encouraging good governance:

Accelerates the growth of a country. The rules formulated by WTO encourage good governance and discourage the unwise policies that lead to corruption in a country.

(e) Stimulating economic growth:

Leads to more jobs and increase in income. The policies of WTO focus on reducing trade barriers among nations to increase the quantum of import and export.

IMF and World Bank:

- The Great Depression of 1930s led to failure of several economies as a result the gold standard for valuation of currencies(where currencies were back by gold) dissipated.
- Nations raised trade barriers, and devalued their currencies to compete against each other, in the export markets.
- These factors led to a decline in world trade, which caused high unemployment, and sharp drop in living standards across many countries.
- The Bretton Woods Conference after World War II in 1944, established a new international monetary system. C.D. Deshmukh was an Indian civil servant who represented India at the Bretton Woods Conference in 1944. Also remember that he was the first Indian Governor of Reserve Bank of India(RBI).
- The international Bank for Reconstruction and Development(now called the World Bank) and the International Monetary Fund (IMF) were established with different mandates.
- Both these IMF and World Bank are also known as 'Bretton Woods Twins'.

International Monetary Fund:

IMF, established in 1945, consists of 187 member countries. It works to secure financial stability, develop global monetary cooperation, facilitate international trade, and reduce poverty and maintain sustainable economic growth around the world. Its headquarters are in Washington, D.C., United States.

Structure and Size of IMF:

- 188 countries member.
- Headquarters: Washington, D.C.
- It has 2,300 staff members.

Functions of IMF

- The IMF is basically a lending institution which gives advances to members in need.
- It is the mentor of its members monetary and exchange rate policies.
- To maintain the stability in Exchange rate system around the World.

The objectives of IMF are as follows:

- Helping in increasing employment and real income of people.
- Solving the international monetary problems that distort the economic development of different nations.
- Maintaining stability in the international exchange rates.
- Strengthening the economic integrity of the nations.
- Providing funds to the member nations as and when required.
- Monitoring the financial and economic policies of member nations.
- Assisting low developed countries in effectively managing their economies.

- Eliminate exchange restrictions and provide for world-wide convertibility of currencies so that multilateral trade based on international specialization would be encouraged.
- Seek reduction of both duration and magnitude of payment imbalances.
- Stabilize exchange rate so as to reduce or eliminate short-term fluctuations in a nation's economy These fluctuations may be caused by changes in imports, exports or speculative capital movements.
- Ensure that changes in a country's exchange rate occur only with IMF approval and only after such a country has experienced a prolonged deflict or surplus in its balance of payment.
- Make financial resources available to member states on a temporary basis with the aim of correcting their balance of payments imbalances with
- Facilitate balanced growth of international trade and by so doing contribute to high levels of employment, real income and productive capabilities of member states.
- Promote international cooperation amongst member nations on international monetary issues.
- Foster multilateral system of payments for current transactions.

The International Monetary Fund operations :

- It primarily urges its members to allow their currencies to be exchanged without any restriction for the currencies of other member countries of IMF.
- The IMF supervises economic policies that influence the balance of payments in member's economies. This provides an opportunity for early warning of any exchange rate or balance of payments problem in its member nations.
- It provides short- and medium-term financial assistance to its member nations which run into any temporary balance of payments difficulties. This financial assistance involves the option of convertible currencies to alter the affected member's troubled foreign exchange reserves. It is done only in return for that government's promise to reform their economic policies that have caused the said balance of payments problem.

Functions of IMF

As a Regulator –

- The IMF regulates and promotes orderliness in the exchange arrangements with the aim of obtaining a stable system of exchange rate.
- It oversees the international monetary system and ensures its effective operation surveillance over the exchange rate policies of member states.
- The Fund is also obliged to call on member states to intervene in their foreign exchange markets when necessary so as to avert disorderly conditions that may cause disruptive short-term movements in their currencies' exchange rates.
- The Fund encourages member states to desist from discriminatory currency practices and restrictions on currency payment including multiple currency practices.
- Furthermore, the Fund prepares annual reports on restrictions maintained by member states and these are contained in the Annual Report on Exchange Arrangements and Exchange Restrictions.
- The Fund is a consultant to member nations and through its consultations it collects data needed for its surveillance exercises over exchange rate policies.
- The Fund is also in charge of periodic reviews of world economic conditions and forecasts of anticipated economic developments.

As a financial assistant:

- The IMF provides financial assistances to member states by selling currencies and special drawing rights to these States in exchange for their domestic currencies. The currencies sold to member states are especially those of member countries with satisfactory payments records and foreign reserve positions.
- The Fund provides balance of payment assistances by selling the currencies of other member countries or SDRs to member states in exchange for their own domestic currency.
- The Fund pays remuneration (of about 80% to 100% of the full SDR interest rate) to member states whose currencies it uses.
- The IMF ensures that member states who use the Fund's resources to cushion their BoP problems fulfil the conditionality's associated with their loans.
- The IMF provides structural adjustment loans to member states and ensures that that the adjustment program is well developed and implemented under its supervision.

As a Service Provider – In addition to supervision and provision of financial supports to member states, the IMF also provides its members with educational facilities and information on current knowledge and practices. These come through

- Trainings for finance ministries of member states
- Trainings for central banks and other financial agencies of member states
- Provision of technical assistances in the field of fiscal, monetary and balance of payment policies
- Trainings on banking, trade and exchange systems
- Field assignments by staff members and outside experts
- Publications which include International Financial Statistics, The IMF Survey, finance and Development, etc.

ADB - Asian Development Bank (ADB) was set up to fight poverty in Asia and the Pacific. ADB is a multilateral development finance institution dedicated to reducing poverty in Asia and the Pacific. Established in 1966, ADB is now owned by 63 members, mostly from the region. The headquarters is in Manila with 24 other offices around the world.

Functions of The Asian Development Bank:

- Extends loans and equity investments to its developing member countries (DMCs) for their economic and social development
- Provides technical assistance for the planning and execution of development projects and for advisory services
- Promotes and facilitates investment of public and private capital for development
- Responds to requests for assistance in coordinating development policies and plans of its developing member countries

United Nations Conference on Trade and Development:

UNCTAD, established in 1964, is the principal organ of United Nations General Assembly. It provides a forum where the developing countries can discuss the problems related to economic development. UNCTAD is headquartered in Geneva, Switzerland and has 193 member countries.

The UNCTAD has been set up as a permanent organ of the UN General Assembly. It has its own structure of subsidiary bodies and a full time Secretariat. It has instituted a Trade and Development Board and takes policy decisions when the conference is not in session. It is composed of 55 members, elected by the conference from among its members on the basis of equitable geographical distribution. The meeting of the Board takes place twice a year.

The conference of these member countries is held after every four years. UNCTAD was created because the existing institutions, such as GATT, IMF, and World Bank were not concerned with the problem of developing countries. UNCTAD's main objective is to formulate the policies related to areas of development, such as trade, finance, transport, and technology.

The main objectives of UNCTAD are as follows:

- Eliminating trade barriers that act as constraints for developing countries
- Promoting international trade for speeding up the economic development
- Formulating principles and policies related to international trade
- Negotiating the multinational trade agreements
- Providing technical assistance to developing countries specially low developed countries

The Trade and Development Board is assisted in its functions by four subsidiary committees.

These include:

(i) The committee on commodities,

(ii) The committee on manufactures,

(iii) The committee on shipping; and

(iv) The committee on invisible items and financing related to trade.

The meeting of these committees generally takes place once a year but the special session of committees can be convened to deal with the matters of urgent nature. All the members of the United Nations are eligible for the membership of the UNCTAD.

Functions:

The essential purpose of instituting UNCTAD was to promote accelerated development of the less developed regions of the world by dealing properly with the problem of slow expansion of exports, persistently increasing BOP deficits, burden of external debts etc. confronting the LDC's.

The main functions of the UNCTAD are as follows:

(i) To promote international trade between the developed and under-developed countries having diverse socio-economic organisations with special emphasis upon the accelerated development of the under-developed countries.

(ii) To formulate the principles and policies concerning international trade and related problems of economic development.

(iii) To make proposals for putting the said principles and policies into effect and to adopt measures that may be relevant to this end.

(iv) To generally review and facilitate the coordination of activities of other institutions within the fold of the United Nations related to international trade and economic development.

(v) To be available as a centre for harmonious trade-related policies of governments and the regional economic groupings in pursuance of Article 7 of the Charter of the United Nations.

Basic Principles:

The UNCTAD I held in 1964 specified that action programmes and priorities of the UNCTAD would be based upon the following basic principles:

(i) Sovereign right of each member country to dispose of freely its natural resources in the interest of its development, well-being of its population and furtherance of its trade with other countries.

(ii) International economic and trade relations shall be based on such principles as respect for sovereign equality of states, self-determination and non-interference in the internal affairs of the others.

(iii) No discrimination among member countries on account of differences in socio-economic system and independent pursuit of economic and other policies.

(iv) Extension of preferential concessions.

(v) Greater market access for the products of the less developed countries.

(vi) Reduction in tariff and non-tariff restrictions on trade.

(vii) Unconstrained flow of international aid.

UNIDO

United Nations Industrial Development Organisation (UNIDO)

The UNIDO is the specialized agency of the United Nations that promotes industrial development for poverty reduction, inclusive globalization and environmental sustainability. The mandate of UNIDO is to promote and accelerate sustainable industrial development in developing countries and economies in transition. The organization draws on four mutually reinforcing categories of services: technical cooperation, analytical and policy advisory services, standard setting and compliance, and a convening function for knowledge transfer and networking.

UNIDO mobilizes knowledge, skills, information and technology to promote productive employment, a competitive economy and a sound environment. Furthermore, the Organization enhances cooperation at global, regional, national and sectoral levels.

UNIDO was established in 1966 and became a specialized agency of the United Nations in 1985. As a specialized agency, UNIDO has its own constitution, its own member states, its own policymaking organs, its own executive head and its own regular budget. Moreover, UNIDO disposes of voluntary contributions to finance developmental activities.

UNIDO holds a special place in the United Nations system as it is the only organization promoting the creation of wealth and tackling poverty alleviation through manufacturing.

The Organization focuses on three inter-related areas of priorities:

i. Poverty Reduction through Productive Activities

ii. Trade Capacity-Building

iii. Energy and Environment

To improve standards of living through industries that are both internationally competitive and environmentally sustainable, the Organization has created the largest portfolio of projects related to trade capacity building in the United Nations system. The main focus is on promoting growth in the small and medium enterprise sector, the key generator of wealth in most developing countries. UNIDO plays a leading role in, among others, the implementation of the Montreal Protocol for the elimination of Ozone Depleting Substances (ODS) and the Stockholm Convention for the elimination of Persistent Organic Pollutants (POPs).

Functions:

1. Undertake and manage independent evaluations to determine the relevance, efficiency, effectiveness, sustainability and impact of technical cooperation programmes and projects;
2. Undertake and manage independent evaluations of global forum activities to determine their relevance and effectiveness;
3. Monitor and track the implementation of recommendations by those in UNIDO who are responsible for the evaluation or Global Forum activity;
4. Undertake strategic and thematic evaluations on cross-programmatic or institutional issues;
5. Promote the wider use of evaluation findings, lessons learned and recommendations in policy and programme formulation and implementation;
6. Develop evaluation guidelines, methodological and training tools to support managers at UNIDO Headquarters and in the field in ensuring that quality standards in the whole technical cooperation cycle are met with particular focus on evaluation and results management;
7. Maintain dialogue with staff at Headquarters and in the field as well as stakeholders to strengthen the application of evaluation standards and ensure transparency and stakeholder participation in all stages of the evaluation process;
8. Prepare reports on evaluation for submission to the Governing Bodies;
9. Maintain and develop partnerships with United Nations system organizations within the context of the United Nations Evaluation Group (UNEG), on evaluation-related work to ensure that UNIDO is fully abreast of developments in the evaluation field and able to implement good and best practices in evaluation.

Questions :

1. Explain Briefly the uses on International Economic Institutions.
2. Briefly State the objectives of GATT.
3. Analyze the principles of WTO in Briefly.
4. Account for functions of UNCTAD.
5. List out the services offered by UNIDO.
6. State the objectives of IMF.
7. Elucidate in detail the various functions operate by IMF.
8. Describe the Objectives and functions of WTO.
9. Discuss in detail about the functions of GATT.
10. Enumerate the objectives and functions of IBRD.
11. Discuss elaborately about the objectives and functions of ADB.

UNIT – 3

International trade and Payments

International trade

International trade is the exchange of goods and services among countries. Total trade equals exports plus imports. In 2018, total world trade was $39.7 trillion. That's $20.8 trillion in exports and $18.9 trillion in imports. Trade drives 46% of the $86 trillion global economy.

International trade, economic transactions that are made between countries. Among the items commonly traded are consumer goods, such as television sets and clothing; capital goods, such as machinery; and raw materials and food. Other transactions involve services, such as travel services and payments for foreign patents. International trade transactions are facilitated by international financial payments, in which the private banking system and the central banks of the trading nations play important roles.

International payments

International payments, also known as cross border payments or global payments, are transactions that involve more than just banks. They connect companies, individuals, banks, and settlement institutions operating in at least two different countries with different currencies that need to be paid.

International payments consist of outgoing and incoming payments in that currency out of and into that country, as well as offshore payments in that currency, between two parties outside that country. Broadly speaking then, a national or domestic payment system refers to an entire scheme consisting of institutions, arrangements, and rules facilitating monetary payments in the currency adopted by a country.

PAYMENT METHODS IN INTERNATIONAL TRADE FOR EXPORTS AND IMPORTS

In order to become successful in today's global marketplace, exporters should provide their customers with appealing sales terms supported by suitable payment methods. The ultimate goal is getting paid in full and on-time for each export sale. An applicable payment method must be chosen carefully to reduce the payment risk while also fulfilling the needs of the buyer.

There are a variety of ways that payments can be made, including a different level risk for collection. We will try to explain these methods from most secure to least secure for exporters.

1. CASH-IN-ADVANCE

Cash-in-advance payment terms can help an exporter avoid credit risks, because payment is received up front before the ownership of the goods is transferred. For international sales, wire transfers and credit cards are the most common used cash-in-advance options available for importers. This presents the least risk to a seller while having the most risk to the buyer.

However, requiring payment in advance is the least favorite option for the buyer, because it generates an unfavorable cash flow. Especially when traders do not know each other, buyers are concerned that the goods may not be sent if payment is made in advance. Also, exporters who insist on this payment method as their sole manner of doing business may lose to competitors who offer more attractive payment terms.

2. LETTERS OF CREDIT

A letter of credit, or “credit letter” is one of the most secure payment methods available to international traders. It is a letter from a bank guaranteeing that a buyer’s payment to a seller will be received on time and for the correct amount and it is one of the most secure payment methods available to international traders. The buyer sets up credit and pays his or her bank for this service. A Letter of Credit is useful when well-founded credit information about a foreign buyer does not exist or is difficult to secure, but the exporter is satisfied with the creditworthiness of the buyer’s foreign bank. A Letter of Credit also protects the buyer as they do not need to make a payment until the goods have been shipped as promised.

3. DOCUMENTARY COLLECTIONS

In a documentary collection process, the seller instructs their bank to forward documents related to the export of goods to a buyer’s bank with an instruction to present these documents to the buyer for payment, pointing when and on what circumstances these documents can be released to the buyer. Funds are received from the importer and transferred to the exporter through the banks involved in the collection in exchange for those documents. Documentary Collections involve using a draft that requires the importer to pay the face amount either at sight (document against payment) or on a specified date (document against acceptance). The collection letter gives instructions that specify the documents required for the transfer of title to the goods.

Although banks do act as facilitators for their clients, Documentary Collections offer no verification process and limited recourse in the event of non-payment. They do not provide the same level of security as Letters of Credit, but, as a result, the costs are lower. Unlike Letters of Credit, for a Documentary Collection, the bank acts as a channel for the documents but does not issue any payment covenants (does not guarantee payment). The bank that has received a Documentary Collection may debit the buyer’s account and make payment only if authorized by the buyer.

4. OPEN ACCOUNT

An open account transaction is a sale where the goods are shipped and delivered before payment is due, which in international sales is typically in 30, 60 or 90 days. Obviously, this method is based on the trustworthiness between the two parties and this is one of the most advantageous options to the importer in terms of cash flow and cost, but is consequently one of the highest risk options for an exporter.

Because of high competition in export markets, foreign buyers often press exporters for open account terms since the extension of credit by the seller to the buyer is more common abroad. Therefore, exporters who are not willing to extend credit may lose a sale to their competitors. Exporters can offer competitive open account terms while substantially mitigating the risk of non-payment by using one or more of the appropriate trade finance techniques covered later in this guide. When exporters offer open account terms, they can also use export credit insurance for extra protection.

5. CONSIGNMENT

Consignment is another method of an open account in which payment is sent to the exporter only after the goods are sold by the foreign distributor to the end customer. An international consignment transaction is based on a contractual arrangement in which the foreign distributor receives, manages, and sells the goods for the exporter who retains title to the goods until they are sold. Clearly, exporting on consignment contains high risks as the exporter may not receive any payment and its goods are in a foreign country in the hands of an independent distributor or agent.

Consignment increases the chances of exporters to become more competitive on the basis of better availability and faster delivery of goods. Selling on consignment can also help exporters reduce the direct costs of storing and managing inventory. The key to success in exporting on consignment is to partner with a reputable and trustworthy foreign distributor or a third-party logistics provider. Appropriate insurance should be in place to cover consigned goods in transit or in possession of a foreign distributor as well as to mitigate the risk of non-payment.

Governmental Influence on Trade

Protectionism

The governmental restrictions and incentives to trade are known as protectionism. Governments want to protect their own industries. Governments also want to promote exports at the same time. After 70s, India changed from Import substitution to export oriented. Governmental measures may limit your ability to sell abroad, such as by prohibiting the export of certain products to certain countries, or by making it difficult for you to buy what you need from foreign suppliers. Governments routinely influence the flow of imports and exports. Also governments directly or indirectly subsidize domestic industries to help them engage foreign producers at home or challenge them abroad.

All nations interfere with international trade to varying degrees. Governments intervene in trade to attain economic, social or political objectives. Governments pursue political rationality when trying to regulate trade. Governmental officials apply trade policies that they reason have the best chance to benefit the nation and its citizen and in some case their personal political longevity.

Role of Government

- Interest articulation: since different interest groups co-exist, so different interests need to be put forward.
- Interest aggregation: take all stakeholders view into account
- Policy making
- Implementation and adjudication

The Economic Rationales for governmental intervention

1.Unemployment

One of the social objectives of government is to prevent unemployment. The government can do that through import restriction. One difficulty with restricting imports to create jobs is that other countries normally retaliate with their own restrictions. Two factors can ease the effects of retaliation

Small trading countries are less important in the retaliation process.

Retaliation that decreases employment in a capital-intensive industry may not affect employment as much as the value of the trade loss would imply.

If import restrictions do increase domestic employment, then fellow citizens will have to bear the cost of higher prices or higher taxes. Government officials should compare the costs of higher prices with the costs of unemployment and displaced production that would result from freer trade. In addition, they must consider the costs of policies to ease the plight of displaced employees, such as for unemployment benefits or retraining. The employment issue can slow trade liberalization because displaced workers are often the ones who are least able to find alternative work at a comparable salary. So persistent unemployment pushes many groups to call for protectionism. However, evidence suggests that efforts to reduce unemployment through import restrictions are usually ineffective. Unemployment, in and of itself, is better dealt with through fiscal and monetary policies.

2.Infant industry protection

In 1792, Alexander Hamilton presented infant industry argument. This theory holds that a government should shield an emerging industry from foreign competition by guaranteeing it a large share of the domestic market until it is able to compete on its own. Government protects these industries through subsidies. So the companies of those industries will become major exporters. They become strong in the home market also. Govt. needs to protect its potential stars. The infant industry argument presumes that the initial output costs for a small scale industry in given country may be so high as to make its output non competitive in world markets. Once the infant industry becomes globally competitive, the government can then recoup the costs of trade protection through benefits like higher domestic employment, lower social costs and higher tax revenues.

It is reasonable to expect production costs to decrease over time, but they may never fall enough to create internationally competitive products. So there are two risks for protecting an infant industry.

Governments must identify those industries that have a high probability of success.

Even if policy makers can determine those infant industries likely to succeed, it does not necessarily follow that companies in those industries should receive governmental assistance.

Infant industry protection requires some segment of the economy to incur the higher cost of inefficient local production. Typically either consumers or tax payers take the burden. Ultimately the validity of the infant industry argument rests on the expectation that the future benefits of an internationally competitive industry will exceed the costs of the associated protectionism.

3. Promote Industrialization

Countries with a large manufacturing base generally have higher per capita incomes than those that do not. Hence many emerging economies try to develop an industrial base by largely regulating imports from foreign producers using trade protection to spur local industrialization.

The following are the effects of promoting industrialization

- Use of surplus workers.
- Promoting investment inflows.
- Diversification
- Greater growth for manufactured products
- Import substitution versus export promotion
- Nation building
- Use of surplus workers

Promoting investment inflows

Inflows of foreign investment in the industrial area promote sustainable growth. Import restrictions, applied to spur industrialization, may also increase foreign direct investment. Foreign investment inflows may also add to local employment, which is attractive to policymakers.

Diversification

Prices and sales of agricultural products and raw materials fluctuate very much, which is a detriment to economies that depend on few of them. Price variations due to uncontrollable factors, such as weather affecting supply or business cycles abroad affecting demand, can wreak havoc on economies that depend on the export of primary products. A greater dependence on manufacturing does not either guarantee diversification of export earnings.

Greater growth of manufactured products

Markets for industrial products grow faster than markets for agricultural products. The terms of trade are the quantity of imports that a given quantity of a country’s exports can buy. The prices of raw materials and agricultural commodities do not rise as fast as the prices of finished products. Hence, overtime it takes more low priced primary products to buy the same amount of high priced manufactured goods. So, emerging nations that depend on primary products have become increasingly poorer relative to industrial countries.

Import substitution versus export promotion

Traditionally emerging economies promoted industrialization by restricting imports in order to boost local production for local consumption. Some countries have achieved rapid economic growth by promoting the development of industries that export their output. This approach is known as export led development. Industrialization may result initially in import substitution, yet export development of the same products may be feasible later.

Nation Building

Industrial activity helps the nation building process. The performance of free markets suggests a strong relationship between industrialization and aspects of the nation building process. Industrialization helps countries to build infrastructure, advance rural development, enhance rural peoples' social life and boost the skills of the workforce.

Use of surplus workers

Surplus workers can more easily increase manufacturing output than agricultural output. Since agricultural output per person is low, so many people can migrate from agricultural sectors to industrial sectors and in turn increase industrial output. The industrialization argument presumes that the unregulated importation of lower priced products prevents the development of a domestic industry. However the industrialization rationale asserts that the industrial output will increase, even if the prices are not globally competitive, because local consumers must buy local goods from local producers.

4. Increasing country's economic power relative to other countries

Countries monitor their absolute economic welfare as well as track how their performance compares to other countries. Governments impose trade restrictions to improve their relative trade positions. They also try to charge higher export and lower import prices. To remain competitive and perform better economically, the countries adopt the following five methods.

- Improving Balance of payments (BOP) through Balance of Trade
- Restrictions as a Negotiating tool
- Price control on exports
- Fair access/Reciprocity
- Optimal tariff theory

Improving Balance of payments through BOT

Governments can improve BOP by improving their balance of trade. If BOP difficulties arise and persist, a government may restrict imports or encourage exports to balance its trade account. One way to do this is to devalue the currency of the country, which makes all the products cheaper in relation to foreign products.

Restrictions as a Negotiating tool

The imposition of import restriction may be used as a means to persuade other countries to lower their import barriers. To successfully use restriction as a bargaining tool required careful consideration of what products to target. Basically the restrictions need to be believable and important to the influential parties in the other country. Believable implies that there are either alternative sources to buy the same product or that consumers are willing to do without it.

Price control on exports

Countries sometimes withhold goods from international markets in an effort to raise prices abroad. This policy may also encourage other countries to develop technology that will provide either substitute products or different ways of producing the same product. A country may limit exports of a product that is in short supply worldwide in order to favor domestic consumers. Companies sometimes export below cost or below their home country price, a practice called dumping. Companies do dumping to build a market abroad.

Fair access/Reciprocity

Companies and industries often argue that they are entitled to the same access to foreign markets as foreign industries and companies have to their markets. Economic theory supports this idea, reasoning that producers operating in industries where increased production leads to steep cost decreases, but which lack equal access to a competitor's market will struggle to gain enough sales to be cost competitive.

Optimal tariff theory

This theory states that a foreign producer will lower its prices if the importing country places a tax on its products. If this occurs, benefits shift to the importing country because the foreign producer lowers its profits on the export sales.

EXIM Policy

Indian **EXIM Policy** contains various policy related decisions taken by the government in the sphere of Foreign Trade, i.e., with respect to imports and exports from the country and more especially export promotion measures, policies and procedures related thereto. Trade Policy is prepared and announced by the Central Government (Ministry of Commerce). India's Export Import Policy also know as Foreign Trade Policy, in general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favorable balance of payments position.

Objectives of The EXIM Policy : -

Government control import of non-essential items through the **EXIM Policy**. At the same time, all-out efforts are made to promote exports. Thus, there are two aspects of EXIM Policy; the import policy which is concerned with regulation and management of imports and the export policy which is concerned with exports not only promotion but also regulation. The main objective of the Government's EXIM Policy is to promote exports to the maximum extent. Exports should be promoted in such a manner that the economy of the country is not affected by unregulated **exportable items** specially needed within the country. Export control is, therefore, exercised in respect of a limited number of items whose supply position demands that their exports should be regulated in the larger interests of the country. In other words, the main objective of the EXIM Policy is:

- To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.
- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.
- To enhance the techno local strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
- To generate new employment.
- Opportunities and encourage the attainment of internationally accepted standards of quality.
- To provide quality consumer products at reasonable prices.

Global trade in merchandise

Merchandise trade as a share of GDP is the sum of merchandise exports and imports divided by the value of GDP, all in current U.S. dollars. Merchandise trade (% of GDP) in India was 30.76 as of 2018. Its highest value over the past 58 years was 43.03 in 2012, while its lowest value was 6.54 in 1972.

Global merchandise trade volumes declined by 14.3% in the second quarter of 2020 compared to the previous period as COVID-19 containment measures affected economies around the world according to data released on 23 September. The latest trade contraction is sharper than the 10.2% drop recorded during the financial crisis between the third quarter of 2008 and first quarter of 2009. In the latest data, the steepest declines were recorded in Europe (-21%) and North America (-20%) while Asia was relatively less affected (-7%).

The nominal dollar value of merchandise trade also plunged in the second quarter, falling by 21% year-on-year. In comparison, the decline in merchandise trade values during the financial crisis was deeper with a 33% drop recorded in the second quarter of 2009.

Global sourcing

Global sourcing refers to buying the raw materials, components, or services from companies outside the home country. In a flat world, raw materials are sourced from wherever they can be obtained for the cheapest price (including transportation costs) and the highest comparable quality. It is the process of sourcing goods and services from the international market across geopolitical boundaries. It aims to exploit global efficiencies such as lower cost skilled labor, cheaper raw materials and other economic factors like tax breaks and low trade tariffs. Examples are call centers in the Philippines, clothing and shoes manufactured in China and Thailand

Starting a global sourcing initiative

Many companies use an outsource solution, especially in the beginning when they are inexperienced. International procurement organizations (or IPOs) are often used as agents to source from “low cost” countries. They can and do identify and develop key suppliers across many sourcing categories in large and complex countries such as China or Brazil.

- **Advantages of Global Sourcing:**

(i) Low cost manufacturing

(ii) Tapping skills and resources that are not available in the home nation

(iii) Seeking the benefit of alternate suppliers

(iv) Utilizing an efficient supply chain management systems

(v) Learning global business skills

(vi) Meeting competition prudently and efficiently

- **Disadvantages of Global Sourcing:**

(i) No exposure of international culture, traditions and beliefs

(ii) Hidden costs related to different time zones and languages

(iii) Financial and political risks associated with emerging economies

(iv) Risk of losing intellectual properties, patents and copyrights

(v) Long lead times

(vi) Labor problems and labor related issues

(vii) Unnecessary shutdowns and supply interruptions

(viii) Difficulty in supervision

(ix) Difficulty of monitoring goods and services quality

Balance of payments

Balance Of Payment (BOP) is a statement which records all the monetary transactions made between residents of a country and the rest of the world during any given period. This statement includes all the transactions made by/to individuals, corporate and the government and helps in monitoring the flow of funds to develop the economy. When all the elements are correctly included in the BOP, it should sum up to zero in a perfect scenario. This means the inflows and outflows of funds should balance out. However, this does not ideally happen in most cases.

Elements of balance of payment

- There are three components of balance of payment viz current account, capital account, and financial account. The total of the current account must balance with the total of capital and financial accounts in ideal situations.

  Current accounts measure international trade, net income on investments, and direct payments.

  The financial account describes the change in international ownership of assets.

  The capital account includes any other financial transactions that don't affect the nation's economic output.

Current Account

- The current account is used to monitor the inflow and outflow of goods and services between countries. This account covers all the receipts and payments made with respect to raw materials and manufactured goods. It also includes receipts from engineering, tourism, transportation, business services, stocks, and royalties from patents and copyrights. When all the goods and services are combined, together they make up to a country's Balance Of Trade (BOT).
- There are various categories of trade and transfers which happen across countries. It could be visible or invisible trading, unilateral transfers or other payments/receipts. Trading in goods between countries are referred to as visible items and import/export of services (banking, information technology etc) are referred to as invisible items. Unilateral transfers refer to money sent as gifts or donations to residents of foreign countries. This can also be personal transfers like – money sent by relatives to their family located in another country.

Capital Account

- All capital transactions between the countries are monitored through the capital account. Capital transactions include the purchase and sale of assets (non-financial) like land and properties. The capital account also includes the flow of taxes, purchase and sale of fixed assets etc by migrants moving out/in to a different country. The deficit or surplus in the current account is managed through the finance from capital account and vice versa.
- There are 3 major elements of capital account:
- Loans & borrowings – It includes all types of loans from both the private and public sectors located in foreign countries.
- Investments – These are funds invested in the corporate stocks by non-residents.
- Foreign exchange reserves – Foreign exchange reserves held by the central bank of a country to monitor and control the exchange rate does impact the capital account.

Financial Account

- The flow of funds from and to foreign countries through various investments in real estates, business ventures, foreign direct investments etc is monitored through the financial account. This account measures the changes in the foreign ownership of domestic assets and domestic ownership of foreign assets. On analyzing these changes, it can be understood if the country is selling or acquiring more assets (like gold, stocks, equity etc).

UNIT – 4

Multi National Corporations

International Investments

International Investments are those investments that are made outside the domestic markets and offer portfolio diversification and opportunities for risk minimization. An investor can make international investments, thereby broadening his portfolio and expanding his horizon of returns. International investments also serve as a means of adding different financial instruments to the list when domestic markets are confined and limited by their variety.

Investors in one part of the world may find a variety of combinations of equity and debt instruments being traded in some other part of the world. International investments aim to assure investors of two probabilities; the counter of domestic market risks and the opportunities in foreign markets.

Multinational Corporation (MNC)

- A multinational corporation (MNC) is a company that operates in its home country, as well as in other countries around the world. It maintains a central office located in one country, which coordinates the management of all its other offices, such as administrative branches or factories. It isn’t enough to call a company that exports its products to more than one country a multinational company. They need to maintain actual business operations in other countries and must make a foreign direct investment there.

Characteristics of a Multinational Corporation

The following are the common characteristics of multinational corporations:

1. Very high assets and turnover

To become a multinational corporation, the business must be large and must own a huge amount of assets, both physical and financial. The company's targets are high, and they are able to generate substantial profits.

2. Network of branches

Multinational companies maintain production and marketing operations in different countries. In each country, the business may oversee multiple offices that function through several branches and subsidiaries.

3. Control

In relation to the previous point, the management of offices in other countries is controlled by one head office located in the home country. Therefore, the source of command is found in the home country.

4. Continued growth

Multinational corporations keep growing. Even as they operate in other countries, they strive to grow their economic size by constantly upgrading and by conducting mergers and acquisitions.

5. Sophisticated technology

When a company goes global, they need to make sure that their investment will grow substantially. In order to achieve substantial growth, they need to make use of capital-intensive technology, especially in their production and marketing activities.

6. Right skills

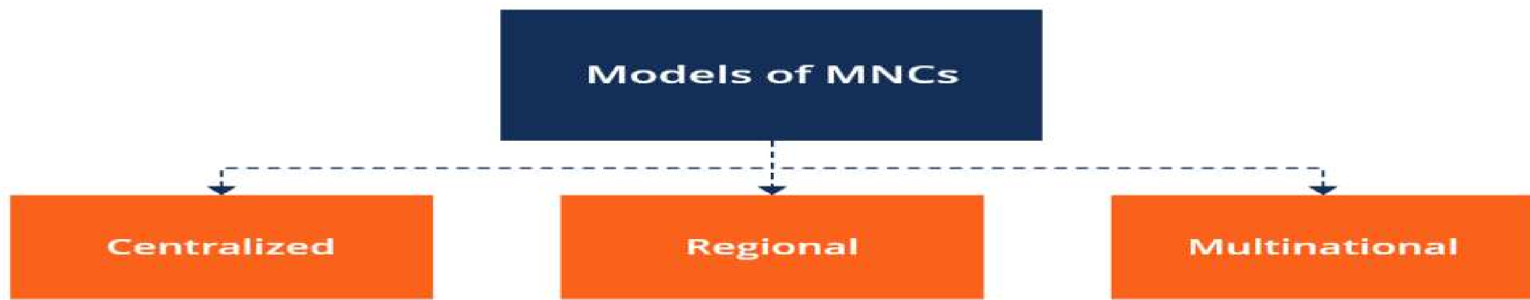
Multinational companies aim to employ only the best managers, those who are capable of handling large amounts of funds, using advanced technology, managing workers, and running a huge business entity.

7. Forceful marketing and advertising

One of the most effective survival strategies of multinational corporations is spending a great deal of money on marketing and advertising. This is how they are able to sell every product or brand they make.

8. Good quality products

Because they use capital-intensive technology, they are able to produce top-of-the-line products.



The following are the different models of multinational corporations:

1. Centralized

In the centralized model, companies put up an executive headquarters in their home country and then build various manufacturing plants and production facilities in other countries. Its most important advantage is being able to avoid tariffs and import quotas and take advantage of lower production costs.

2. Regional

The regionalized model states that a company keeps its headquarters in one country that supervises a collection of offices that are located in other countries. Unlike the centralized model, the regionalized model includes subsidiaries and affiliates that all report to the headquarters.

3. Multinational

In the multinational model, a parent company operates in the home country and puts up subsidiaries in different countries. The difference is that the subsidiaries and affiliates are more independent in their operations.

Advantages of Being a Multinational Corporation

There are many benefits of being a multinational corporation including:

1. Efficiency

In terms of efficiency, multinational companies are able to reach their target markets more easily because they manufacture in the countries where the target markets are. Also, they can easily access raw materials and cheaper labor costs.

2. Development

In terms of development, multinational corporations pay better than domestic companies, making them more attractive to the local labor force. They are usually favored by the local government because of the substantial amount of local taxes they pay, which helps boost the country's economy.

3. Employment

In terms of employment, multinational corporations hire local workers who know the culture of their place and are thus able to give helpful insider feedback on what the locals want.

4. Innovation

As multinational corporations employ both locals and foreign workers, they are able to come up with products that are more creative and innovative.

Types of International Investments

International investments types can be broadly classified into the following categories:

- **Government Funds/Aids :** These are funds that flow from one economy to the other with the purpose of aid or assistance to the economy as a whole. These transactions are carried out between the governments.
- **Cross Border Loans :** A loan arrangement where a government or institution seeks loan financing from a foreign bank is known as cross border loans. Cross-border financing became a popular financing vehicle because of its easier accessibility and fewer collateral restrictions.
- **Foreign Portfolio Investment :** When investors express investment interests in foreign companies, they are known as FPIs. These investors may not have long-term interests necessarily but can be traded easily through exchanges.
- **Foreign Direct Investment :** FDIs are investments made by foreign multinational companies in an economy. Foreign direct investment is more of a long-term concern and takes any form of investing from equities and debts to property and assets.

Types of foreign investment

There are various types of foreign investments.

Governments classify foreign investors for better regulation and monitoring.

Foreign investment can be broadly classified into two

Foreign Direct Investment (FDI) and Foreign Institutional Investor (FII).

Any institution incorporated in a foreign country that proposes to invest in Indian securities can be termed as FII. FIIs are allowed to invest in initial public offerings as well as securities that are already trading on the exchanges. There is a difference between FDI and FII. The proportion of ownership in a company decides the classification of foreign investment. As per the internationally-accepted definition, an investment that leads to over 10% ownership of common shares or voting rights is called as FDI. In India, FIIs are allowed to invest up to 10% of the paid capital of a company. The classification of FDI and FII is clarified in Schedule 1 and 2 of the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations 2000.

1) FOREIGN DIRECT INVESTMENT

Foreign direct investment (FDI) is when a foreign company or individual makes an investment in India that involves either

(i) establishing new business operations (known as **green-field FD**I) or

(ii) acquiring business assets, including controlling interests, in an already existing Indian company. (known as **brown-field FDI**)

FDI is distinguished from FII in the sense it establishes a long-term relationship and involves substantial control over the decision making of the company.

Inward FDI is when foreign companies or individuals invest in India.

Outward FDI is when Indian companies or individuals invest in foreign countries

As per the Companies Act 2013, if a foreign investor owns more than 10 % shares in a listed company, it will be treated as FDI. The rationale behind the rule is that the higher equity ownership will result in substantial control over the decision-making of the company.

2) FOREIGN INSTITUTIONAL INVESTMENT

FII is when foreign institutional investors invest in the shares of an Indian company, or in bonds offered by an Indian company. So, if a foreign investor buys shares in Reliance, it is an FII.

Only institutional investors like Investment companies, Insurance funds, etc. are allowed to invest in the Indian stock market directly. Hence the term foreign institutional investor. These investors have to get a license from SEBI.

However, if foreign individuals want to invest in India's markets, they have to get themselves registered as a sub-account of an FII. The FII will buy shares/ bonds from the Indian markets on their behalf.

India allows only wealthy foreign individuals or high net worth individuals (HNIs) who have a minimum net worth of $50 million to be registered as a sub-account of a foreign institutional investor (FII).

Foreign institutional investors are also known as **'hot money'** because it is not stable in nature. The FIIs can pull out money from a country's stock market/ bond market overnight.

3) QUALIFIED FOREIGN INVESTMENT

- As we know, foreign individuals cannot invest directly in India's markets without sub-accounts with an FII.
- As an alternative, QFI was introduced in the year 2002. A Qualified Foreign Investor can invest in India without sub-account.
- However, they have to open a Demat account and Trade account with a depository participant in India.

4) FOREIGN PORTFOLIO INVESTMENT

- In the Indian context, FIIs (along with sub-accounts with FIIs) and QFIs can be collectively classified as Foreign Portfolio Investment (FPI).

FOREIGN INVESTMENT BY INDIAN COMPANY- IV UNIT

STATE-WISE FOREIGN DIRECT INVESTMENT

Proposals approved during August 1991 to January 2004, Rs. Million

State	No. of Approvals	Amount of FDI approved
Maharashtra	4763	508329
Delhi	2594	351425
Tamil Nadu	2583	250560
Karnataka	2411	240024
Gujarat	1192	188337
Andhra	1200	134068
M. P.	241	92714
West Bengal	663	93050
Orissa	140	82293
Uttar Pradesh	793	49146
Haryana	854	38654
Rajasthan	339	30121
Punjab	195	24287
Kerala	322	15460
Pondicherry	128	12631
Himachal	98	11740
Goa	235	9901
Bihar	49	7397
Chhattisgarh	45	6328
Jharkhand	89	1445
Uttaranchal	51	1257
Chandigarh	72	1961
DNH	72	1240
Daman & Diu	43	555
Others	49	997
State(s) not specified	6000	759313

TOP 10 FOREIGN INVESTORS IN INDIA

Foreign Direct Investment approved during 1991-Jan, 2004 Rs. Million

Country	Amount
USA	582008
Mauritius	357820
UK	237053
Japan	117562
South Korea	98885
Netherlands	95536
Germany	93848
Australia	68088
France	65870
Malaysia	60955

Source: SIA Newsletter (Ministry of Commerce & Industry)

INDIA

FDI

KBK

Introduction FDl

International trade play a key role in the process of integration of the world economy. Many firm consider FDI as an important strategy to enter in to the international business are as the mobility of factors of production across countries have enhanced. As far as developing countries are concerned, FDI is a powerful source of external finance. At present, inward stock of FDI amounts to one third of the developing country's GDP, compared to merely 10 percent in 1980. FDI often promotes the development of the host economies.

FDI also helps the host countries to enhance the competitiveness of the domestic economy through transferring technology, strengthening infrastructure, raising productivity and generating new employment opportunities.

The United Nations Conference on Trade and Development (UNCTAD) said that, India was among the top 10 recipients of Foreign Direct Investment (FDI) in 2019, attracting $49 billion in inflows, a 16% increase from the previous year, driving the FDI growth in South Asia. The majority went into services industries, including information technology.

Benefits of FDI :

1. Access to superior technology

Foreign firms bring superior technology to the host countries while investing The benefits depends upon the technology spill over to other firms based in the host country

2. Increased competition

The investing foreign firm increasing industry output resulting in overall domestic prices, improved product or service quality, and more availability of intensifies competition in host economies resulting in the improvement in consumer welfare.

3. Increase in domestic investment.

It is found that capital flows in the form of FDI increase domestic investment so as to survive and effectively respond to the increasing competition.

4. Bridging host country's foreign exchange gap

In most developing countries, the levels of domestic savings are offen insufficient to capital accumulation and to achieve growth targets. Besides, the level of support be insufficient to purchase imported inputs. Under such situations , the FDl help may 's in making foreign exchange for imports.

Negative impacts of FDI

In most countries, public opinion towards FDI is not favorable and FDI is feared due to its impact on domestic firms, the economy and culture. The major concerns about the negative aspects of FDI are as follows;

1. **Market monopoly**

MNCs are far more advanced than domestic enterprises, owing to their large size and financial power. In some sectors, this is leading to MNE monopolies, thus impeding the entry of domestic enterprises in marketing, and advertising and R&D activities differentiate their products and makes the entry of new firms far more difficult as they are unable to make similar investments in R&D and marketing strategies.

2. **Crowding out and unemployment effects**

FDI tends to discourage entry and stimulates exit of domestic enterprises often termed as the crowding out effect. As FDI enterprises are less labour intensive, their entry results in higher unemployment and increased social instability.

3. **Technology dependence**

MNBs often function in a way that doesn't result in technology transfer or technology sharing, thereby making local firms technologically dependent or technologically less self-reliant.

4. **Profit outflow**

Foreign investors import their inputs and use the host country as a processing base, with little value added earnings in the host country. A large proportion of their profits may be repatriated.

5. **Corruption**

Many foreign investors often bribe government officials, to get their desires satisfied.

6. **National security**

With MNCs holding a dominant position in sensitive industries like telecommunications, and the supply of core equipment and software for the IT industry, there is a danger that the strategic interests of the host country may be compromised.

The Determinants of FDI Location

Market demand

The flows of FDI are positively influenced by the size of a country's market demand as measured by GDP per capita.

Growth rate.

FDI flows to where fast economic growth has been recorded. A vicious circle is observed here- at the same time that FDI contributes significantly to economic growth, faster economic growth attracts more FDI because it increases foreign investors' confidence in the economy, which in turn pushes the growth rate even higher. In the least developed countries, studies have shown that FDI in fact follows, not proceeds, some initial growth or at least the promise of growth.

Political stability.

Political riots or armed conflicts may exert a negative influence on foreign companies investment decisions. Indeed, frequent changes of governments and the resultant policy changes can reduce an investor's assets to zero overnight.

Macroeconomic stability

A Country's overall macroeconomic performance, such as low inflation rate and balanced fiscal account is a consistently significant factor in shaping the decision making of foreign investors when assessing investment locations.

Infrastructure

FDP encompasses both physical (e.g. roads and power) and social health and education) concepts. It has been repeatedly shown around the world that a well developed infrastructure network and a well-trained labor force are major elements of attractiveness to foreign investors.

FDI. The role of FDI in Economic Development

FDI increases capital stock, boosts human capital accumulation (though usually unmeasured in labor stock), and speeds up technological advances in host countries. Nevertheless, the most direct impacts of FDI on host economies are through its role in the accumulation of investment capital and the growth of Total Factor Product (TFP) of the recipients.

1. FDI and Productivity Growth

2. The technology transfer arising from FDI may assist productivity growth. In fact, the most important benefit of FDI is, along with providing financial resources it gives access to the whole range of technological, organizational and skill assets, as well as the markets of the parent company

FDI as a mechanism for social advancement

FDI serves as a catalyst for rapid economic growth and also helps in improving social norms. Here , FDI plays, a major role in the development schedule of the host countries. Here two of main social aspects of development viz. employment and environment .

a) **FDI s effect on host country Employment and Labor Standard** .One of the main objectives of developing countries is to achieve a employment condition. It is a most important way to get an equitable distribution of income and higher standard of living for its population.

There are three ways for FDI to generate employment in the host countries

First, foreign affiliates employ people in their domestic operations.

Second, through backward and forward linkages, employment is created in enterprise that are suppliers,. Subcontractors, or service providers to them.

Third, as FDI-related industries expand and the local economy grows created in sectors and activities that are not even indirectly linked to the original FDP

b) **FDI's effect on host country's Environmental Standards .** Evidences are unavailable to prove that FDI is imposing pressure on developing countries to lower their environmental standards. It can be narrated as follows:

- Environmental resources are an essential input in the production process.
- Production efficiency of firms is closely related to the environmental sustainability of a particular country.
- Environmental damage will be more in low productivity operations that employ obsolete technology, outdated work methods, poor human resource management techniques, and inefficient energy use.

On this base, with stronger technological and management base, it can be said that FDI is actually upholding the environmental standards in a host country than their domestic affiliates.

FDI in India

FDI is an important monetary source for India's economic development. Economic liberalisation started in India in the wake of the 1991 crisis and since then, FDI has steadily increased in the country. India, today is a part of top 100-club on Ease of Doing Business (EoDB) and globally ranks number 1 in the greenfield FDI ranking.

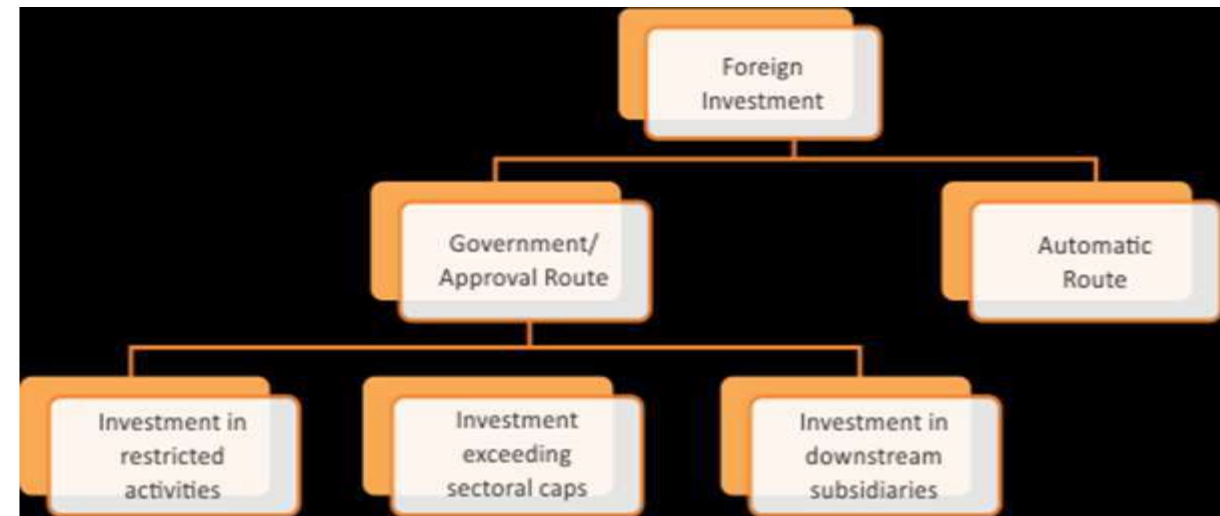
Routes through which India gets FDI

Automatic route: The non-resident or Indian company does not require prior nod of the RBI or government of India for FDI.

Govt route: The government's approval is mandatory. The company will have to file an application through Foreign Investment Facilitation Portal, which facilitates single-window clearance. The application is then forwarded to the respective ministry, which will approve/reject the application in consultation with the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce. DPIIT will issue the Standard Operating Procedure (SOP) for processing of applications under the existing FDI policy.

Sectors which come under up to 100% Automatic Route' category

- Infrastructure Company in the Securities Market: 49%
- Insurance: up to 49%
- Medical Devices: up to 100%
- Pension: 49%
- Petroleum Refining (By PSUs): 49%
- Power Exchanges: 49%



Government route

Sectors which come under the 'up to 100% Government Route' category

- Banking & Public sector: 20%
- Broadcasting Content Services: 49%
- Core Investment Company: 100%
- Food Products Retail Trading: 100%
- Mining & Minerals separations of titanium bearing minerals and ores: 100%
- Multi-Brand Retail Trading: 51%
- Print Media (publications/ printing of scientific and technical magazines/ specialty journals/ periodicals and facsimile edition of foreign newspapers): 100%
- Print Media (publishing of newspaper, periodicals and Indian editions of foreign magazines dealing with news & current affairs): 26%
- Satellite (Establishment and operations): 100%

FDI prohibition

There are a few industries where FDI is strictly prohibited under any route. These industries are

- Atomic Energy Generation
- Any Gambling or Betting businesses
- Lotteries (online, private, government, etc.)
- Investment in Chit Funds
- Nidhi Company
- Agricultural or Plantation Activities (although there are many exceptions like horticulture, fisheries, tea plantations, Pisciculture, animal husbandry, etc.)
- Housing and Real Estate (except townships, commercial projects, etc.)
- Trading in TDR’s
- Cigars, Cigarettes, or any related tobacco industry

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Features of Multinational Corporations (MNCs

Huge Assets and Turnover

Because of operations on a global basis, MNCs have huge physical and financial assets. This also results in huge turnover (sales) of MNCs. In fact, in terms of assets and turnover, many MNCs are bigger than national economies of several countries.

International Operations Through a Network of Branches

MNCs have production and marketing operations in several countries; operating through a network of branches, subsidiaries and affiliates in host countries.

Unity of Control

MNCs are characterized by unity of control. MNCs control business activities of their branches in foreign countries through head office located in the home country. Managements of branches operate within the policy framework of the parent corporation.

Mighty Economic Power

MNCs are powerful economic entities. They keep on adding to their economic power through constant mergers and acquisitions of companies, in host countries.

Advanced and Sophisticated Technology

Generally, a MNC has at its command advanced and sophisticated technology. It employs capital intensive technology in manufacturing and marketing.

Professional Management

A MNC employs professionally trained managers to handle huge funds, advanced technology and international business operations.

Aggressive Advertising and Marketing

MNCs spend huge sums of money on advertising and marketing to secure international business. This is, perhaps, the biggest strategy of success of MNCs. Because of this strategy, they are able to sell whatever products/services, they produce/generate.

Better Quality of Products

A MNC has to compete on the world level. It, therefore, has to pay special attention to the quality of its products.

Doorway in India for foreign companies:

Foreign companies, which commence business activities in India or invest in Indian businesses, need to comply with certain Indian laws. For example, while making investment in India, the foreign company has to abide by Indian laws and regulation, further more Foreign Exchange Management Act (**FEMA**). Post earning from business activities, the company also has to pay tax and comply with each law pertaining to them. Here we are discussing how to register a foreign company in India.

Foreign nationals and companies can enter Indian market as foreign direct investment up to 100% is allowed in private limited company or limited company, wherein no Central Government permission is required. In gist, opening a private limited company or a foreign company or a joint venture is cheapest, easiest and fastest for foreign nationals or foreign company.

Definition: As per section 2 (42) of Companies act 2013, "foreign company" is any company or body corporate which is situated outside India but;

- It has a registered place in India either by physical or electronic mode or owned by company itself or through representative, agent or manager.
- Does any kind of permitted business in India.

Meaning of MNCs :

A multinational company is one which is incorporated in one country (called the home country); but whose operations extend beyond the home country and which carries on business in other countries (called the host countries) in addition to the home country

Merits In 1973, the United Nations took note of the growing size of the multinationals and recommended an in-depth study of the rise of multinationals and its impact on trade and development of other countries.

A group of **eminent persons led by Mr. L.K. Jha** submitted a report on the subject in 1974. Important points made in the report are as follows:

1. International corporations are organizations largely beyond the control of any single government.
2. Their overall goal is worldwide profits without regard for what is best for an individual country.
3. The interests of the country where a subsidiary is established for the development of export markets are subjected to the market interests of the parent company.
4. Parent companies do not make the most modern technology available to their subsidiaries.
5. International corporations prevent the growth of locally owned enterprises by aggressive and unfair competition.

Merits Of Mncs According to Heidenreich, (2012) and ILO (2010) the main merits and demerits of MNCs are:

- Help to increase investment, income and employment in host country.
- Transfer technology to developing countries.
- Make a commendable contribution to inventions and innovations

Disadvantages of MNCs for the Host Country

Laws :

One of the major disadvantage is the strict and stringent laws applicable in the country. MNCs are subject to more laws and regulations than other companies. It is seen that certain countries do not allow companies to run its operations as it has been doing in other countries, which result in a conflict within the country and results in problems in the organization.

Intellectual Property :

Multinational companies also face issues pertaining to the intellectual property that is not always applicable in case of purely domestic firms

Political Risks :

As the operations of the MNCs is wide spread across national boundaries of several countries they may result in a threat to the economic and political sovereignty of host countries

Loss to Local Businesses

MNCs products sometimes lead to the killing of the domestic company operations. The MNCs establishes their monopoly in the country where they operate thus killing the local businesses which exists in the country.

Loss of Natural Resources

MNCs use natural resources of the home country in order to make huge profit which results in the depletion of the resources thus causing a loss of natural resources for the economy

Money flows

As MNCs operate in different countries a large sum of money flows to foreign countries as payment towards profit which results in less efficiency for the host country where the MNCs operations are based.

Transfer of capital

This takes place from the home country to the foreign ground which is unfavorable for the economy.

WORLD'S TOP 10 MNCs

1. Microsoft
2. Nokia
3. Toyota
4. Intel
5. Coca-Cola
6. Sony
7. IBM
8. General Electric
9. Nike
10. Citigroup

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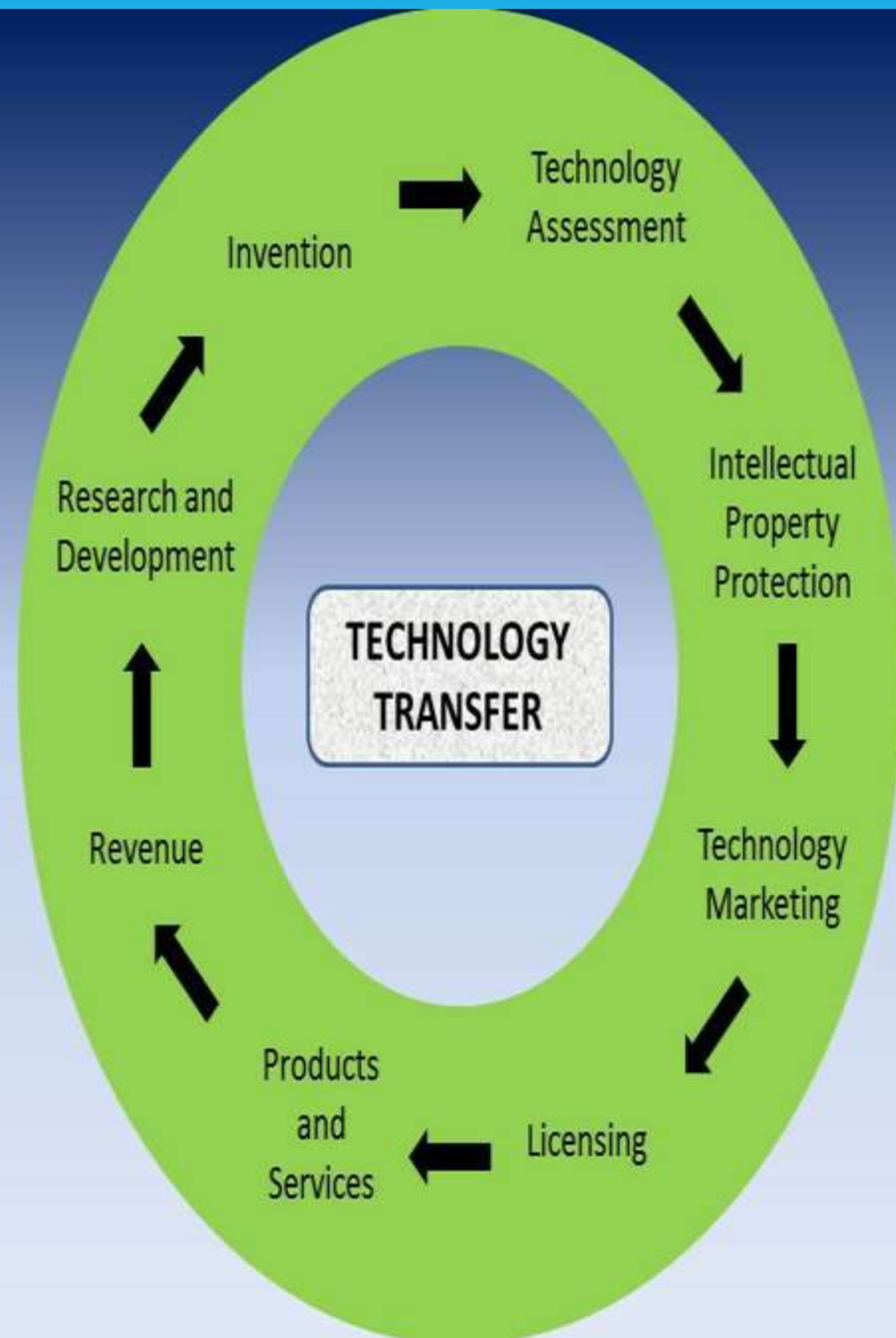

Technology means scientific knowledge for the manufacture of a product or rendering of a service. **Science produces** knowledge, technology helps to produce wealth.

- Technology gives its owner temporary advantage over his competitors. That is why the owner of technology protects his technique from others through registration as patent and charges money from those who want to use it.
- The acquisition of technology from external sources is known as technology transfer.
- Technology may be considered as improving something already being done, satisfying a long pending need and creating the possibility of a new need. There may be invention or innovation in this process. In its early stage of development technical change in a country is mainly the result of advanced technology imported from industrially and technologically advanced countries. That is to say technical progress is an agent of technology transfer.

Technology transfer coves various activities, including

- The internal transfer of technology from the R&D or engineering department to the manufacturing of a firm based in a country.
- It also includes the same transfer of technology from a department laboratory or operations of MNCs in one country to its laboratory to another country.
- Finally, it includes the transfer of technology operations in consortium supported by many firms to one of the members.

Technology **transfer comprises six** categories:

1. **International Technology Transfer**

   In which the transfer is across national boundaries. Generally, such transfers take place between developed and developing countries.

2. **Regional Technology Transfer**

   In which technology is transferred from one another.

3. **Cross-Industry or Cross-sector Technology Transfer**

   In which technology is transferred from one industrial sector to another.

4. **Inter firm Technology Transfer**

   In which technology is transferred from one company to another.

5. **Intra-firm Technology Transfer**

   In which technology is transferred within a firm, from one location to another. Intra firm transfers can also be made from one department to another within the same facility.

6. **Pirating or Reverse-Engineering**

   Whereby access to technology is obtained at the expense of the property rights of the owners of technology.

Barriers to Technology Transfers

The problems encountered in transfer of technology are:

- A limited general understanding of the concept of technology, and the lack of a consistent framework for its study.
- Lack of systematic planning for technology transfer in developing countries or misunderstanding of its underlying philosophy.
- Lack of bilateral scientific/technology advantages in the process of technology ? transfer (mutual benefits).
- Lack of systematic and integrated engineering and socio-economic approach to the technology transfer process.
- Lack of a relevant quantitative framework/approach to the analysis and evaluation of technology transfer to developing countries.

VARIOUS SOURCES OF TECNOLOGY TRANSFER

1. **Projects :** Foreign direct investment; turn-key construction and coproduction.
2. **Trade :** Sale of equipment, tools and end-products.
3. **Contractors and Development** : Licensing of patents, trademarks, management and equipment, maintenance, risk contracts for oil drilling.
4. **Research and Development :** Location of R&D operations in foreign countries; joint R&D projects.
5. **Personnel Exchanges :** Development assistance under bilateral and multilateral aid programmes, international executive corps, employment of foreign technicians.
6. **Publications :** Professional and scientific literature, technical publications.
7. **Conferences :** Professional and scientific meetings, academic preferences, technical societies, and trade associations.
8. **Teaching and Training :** Foreign study in regular undergraduate and graduate programmes, training programmes of United Nations and other international agencies, internal training programmes of business firms etc.
9. **Others :** Transfers through international tender invitations, acquisition of companies, Government-to-Government agreements etc.

Methods of technology transfer Transfer of technology can be achieved:

(i) by improving and updating technologies
(ii) by adopting and absorbing newer technologies
(iii) by innovating and improving the technology imported
(iv) by better using technology in production
(v) by producing new kinds of products
(vi) through improved systems and improved organizations and the effective use of technology

Business Technology Trends in India As organisations enter the evolution from 'Transactional Systems' to 'Engagement Systems', a shift is happening. And engagement requires a way different design point and business model for success. These shifts have massive impacts on the societal, technological, economical, environmental and political landscapes.

According to Constellation Research analysis, the following trends are visible in Technology Environment business environment technology:

- If consumerization of IT is not enterprise class, the businesses has failed.
- Organizations that master data visualization gain the advantage of speed.
- New growth comes from monetizing the complete ownership life cycle.
- Successful organizations are emphasizing on social shifts from B2B/B2C to P2P networks.
- The corporate digital divide is growing larger.
- Market leaders know how to manage innovation.

Recent Technological Developments in India

1.Digital ticket: After the convenience of booking cinema tickets online, comes the ease of buying tickets on your cellphone. And also paying for it through the phone. Bangalore-based Jigharak is believed to be working on the software application. Not only this, you will be able to book tickets using your personal digital assistant (PDA) or any hand held.

2**. Movies on Demand:** With Tata Sky Direct to Home (DTH) services consumers have much more choice. Not to mention better picture and sound quality, thanks to set-top boxes.

3. Robots: AIBO has a cult following in the United States and Japan. Of course, American AIBO buyers tend to be computer geeks who want to hack the robotic dog's programming. Japanese consumers, on the other hand, treat this Sony robot as a pet.. With labour cheap in India, will domestic robots become popular? Not likely in the coming years. However, robots have other uses in our country. Many Indian auto, auto-ancillary majors and machine tool players are using robots to meet global precision standards. Robots have also been used in cardiac surgeries

4. RFID: Radio Frequency Identification (RFID) technology is no longer only about the US and Wal-Mart. more than 45 colleges in Pune have Technology Environment NOTES Self-Instructional 174 Material introduced student identity RFID cards that allow students access to hostels and monitor their classroom attendance;

5. GPS: Telematics, integrated use of telecommunications and informatics, is catching up in the transportation sector. Global Positioning System (GPS) is being used in Karnataka State Road Transport Corporation (KSRTC) buses (pilot project) in Bangalore. Many Indian logistics companies too are using GPS to track vehicle movements and errant drivers.. Other forthcoming applications include on-demand navigation, audio and audiovisual entertainment content.

6. Podcast: For the uninitiated, imagine a desktop aggregator where you subscribe to a set of feeds. Podcasting works similarly, except that instead of reading, you listen to the content.

Causes of Inappropriateness :

- Missing preferences of local markets and consumers
- Technology is based on imported raw materials
- Insufficient skills of local labour
- Not scaled down to local market
- Insufficient use of technology caused by the local labour
- Excessive usage of capital goods and imported equipment .

The Other general reasons :

- High cost of transfer
- Environmental pollution problems
- Impact due to plant location
- Impact due to energy inputs

Planning for Technology Adoption:

Planning for the implementation of new technology should be thorough and should encompass a relatively long time horizon to assure the stability of the new system. The complex process of introducing a new technology necessitates a practical plan which focuses on employees' needs and deals with issues of concern to them. The steps in the process of technology adoption plan include the following:

- **Identify the target group**

  The target group signifies the customers. This process involves the identification of the customers. The plan can be implemented well if we know the view of the customers.

- **Locate and analyse the resistance to change**

  The introduction of new technology in the organization causes the change process in the organization. People can resist change because they are very comfortable with the old values and beliefs.

- **Assess actual ability to change**

  It is required to check within the organization whether they are capable of introducing the technology and undergoing a change process.

- **Assess capacity and resources to change**

  To check whether one has sufficient resources to undergo the change process.

- **Access perceived priority of change**

  The organization has to prioritize the activities of the change process.

Impact of Technology on Globalization

The **various methods of globalization of technology** are:

- Companies with the latest technology acquire distinctive competencies and gain the advantages of producing high-quality products at low cost. With these advantages, these companies enter foreign markets and introduce their latest technology in foreign countries also.

- Companies may have technological collaboration with foreign companies through which technology spreads from country to country.
- Foreign companies allow companies of various other countries to adopt their technologies on royalty payment basis, or on outright purchase basis.
- Companies also globalize the technology through the modes of joint ventures and mergers. Companies spread the latest technology throughout the globe and technology itself makes the global company possible and fastens the process of globalization. Technology makes a company acquire distinctive competencies over other foreign companies and paves the way for their entrance into foreign markets. In addition, the latest developments in information technology have enabled the global company to develop into a virtual global company

FOUR stages in **Technological Development Process**

1. **Research and Development (R&D) Phase**

R & D is the very first stage of a typical technological life cycle (TLC). This is also sometimes known as the 'bleeding edge'. This is the stage when an organization introduces/implements a new technology and, therefore, the incomes from inputs are negative and where the projections of failure are normally high.

2. **The ascent phase:**

This is the second stage of technological life cycle. In this stage, out-of-pocket costs have been recovered and the technology has started getting acceptance by going beyond some Point A on the TLC. This stage is therefore, sometimes called as the 'leading edge'.

3. **The maturity phase**

This is the third stage of technological life cycle where an organization's earnings is stable and shows increasing trend, going into This is the last saturation, marked by M.

4. **The decline phase**

This is the last stage of a technological life cycle. This is commonly called 'decay' phase as the technology based revenues start continuously falling after a Point D. Ultimately a new technology comes in the market which replaces such fast declining technology

GLOBALIZATION - UNIT V

CONTENTS:

- **FEATURES**
- STAGES
- **ESSENTIAL CONDITIONS**
- **PROS AND CONS**

Mrs.P.VASANTHA, GUEST LECTURER IN COMMERCE, KNGAC, THANJAVUR

INTRODUCTION OF GLOBALIZATION

Globalization in its literal sense is the process of transformation of local or regional phenomena into global ones. It can be described as a process by which the people of the world are unified into a single society and function together.

This process is a combination of economic, technological, sociocultural and political forces. Globalization is often used to refer to economic globalization, that is, integration of national economies into the international economy through trade, foreign direct investment, capital flows, migration, and the spread of technology.

DEFINITION

Tom G. Palmer of the Cato Institute defines globalization as "the diminution or elimination of state-enforced restrictions on exchanges across borders and the increasingly integrated and complex global system of production and exchange that has emerged as a result."

FEATURES OF GLOBALIZATION

- **Industrial - Emergence** of worldwide production markets and broader access to a range of foreign products for consumers and companies. Particularly movement of material and goods between and within national boundaries.
- **Financial - Emergence** of worldwide financial markets and better access to external financing for borrowers. As these worldwide structures grew more quickly than any transnational regulatory regime, the instability of the global financial infrastructure dramatically increased, as evidenced by the financial crises of late 2008.
- **Economic - Realization** of a global common market, based on the freedom of exchange of goods and capital. The interconnectedness of these markets, however meant that an economic collapse in any one given country could not be contained.
- **Political -** Some use "globalization" to mean the creation of a world government which regulates the relationships among governments and guarantees the rights arising from social and economic globalization. Politically, the United States has enjoyed a position of power among the world powers; in part because of its strong and wealthy economy. With the influence of globalization and with the help of The United States'

- **Informational** - Increase in information flows between geographically remote locations. Arguably this is a technological change with the advent of fiber optic communications, satellites, and increased availability of telephone and Internet.
- **Language** - The most popular language is English. o About 75% of the world's mail, telexes, and cables are in English. o Approximately 60% of the world's radio programs are in English. o About 90% of all Internet traffic uses English.
- **Competition** - Survival in the new global business market calls for improved productivity and increased competition. Due to the market becoming worldwide, companies in various industries have to upgrade their products and use technology skillfully in order to face increased competition.
- **Ecological** - The advent of global environmental challenges that might be solved with international cooperation, such as climate change, cross boundary water and air pollution, over-fishing of the ocean, and the spread of invasive species. Since many factories are built in developing countries with less environmental regulation, globalism and free trade may increase pollution. On the other hand, economic development historically required a "dirty" industrial stage, and it is argued that developing countries should not, via regulation, be prohibited from increasing their standard of living.
- **Cultural** - Growth of cross-cultural contacts; advent of new categories of consciousness and identities which embodies cultural diffusion, the desire to increase one's standard of living and enjoy foreign products and ideas, adopt new technology and practices, and participate in a "world culture". Some bemoan the resulting consumerism and loss of languages. Also see Transformation of culture.
- Spreading of multiculturalism, and better individual access to cultural diversity (e.g. through the export of Hollywood and Bollywood movies). Some consider such "imported" culture a danger, since it may supplant the local culture, causing reduction in diversity or even assimilation. Others consider multiculturalism to promote peace and understanding between peoples.
- Greater international travel and tourism
- Greater immigration, including illegal immigration
- Spread of local consumer products (e.g. food) to other countries (often adapted to their culture).

- Worldwide fads and pop culture such as Pokémon, Sudoku, Numa Numa, Origami, Idol series, YouTube, Orkut, Facebook, and Myspace. Accessible to those who have Internet or Television, leaving out a substantial segment of the Earth's population.
- Worldwide sporting events such as FIFA World Cup and the Olympic Games.
- Incorporation of multinational corporations in to new media. As the sponsors of the All-Blacks rugby team, Adidas had created a parallel website with a downloadable interactive rugby game for its fans to play and compete.
- Social - Development of the system of non-governmental organisations as main agents of global public policy, including humanitarian aid and developmental efforts.
- Technical
- Development of a global telecommunications infrastructure and greater transborder data flow, using such technologies as the Internet, communication satellites, submarine fiber optic cable, and wireless telephones
- Increase in the number of standards applied globally; e.g. copyright laws, patents and world trade agreements.
- Legal/Ethical
- The creation of the international criminal court and international justice movements.
- Crime importation and raising awareness of global crime-fighting efforts and cooperation.

Advantages of Globalization

1. Wider Markets

Globalization offers larger markets to domestic manufacturers. Domestic houses can export their excess end product. They can understand the nature of foreign markets through direct and indirect selling channels. Domestic houses can recognize higher monetary values from foreign markets. Global operations help to better public image which is helpful in pulling better endowment.

2. Rapid Industrialization

Globalization helps in the free flow of capital and engineering between states. Global houses can get finance at lower cost of capital. Free flows of capital and engineering from advanced states help the developing states to hike up their industrialization. Industrialization of developing states leads to equilibrate development of all the states.

3. Greater Specialization

Globalization enables the domestic houses to specialize in countries where they enjoy competitory or comparative advantage. By concentrating on the maps or merchandises of their nucleus competency domestic houses can vie successfully in the international markets. Specialization besides helps to salvage resources and advance exports of the state.

4. Competitive Additions

Globalization addition competition for domestic houses through imports and transnational corporations. Domestic houses learn about new merchandises, new engineering's and new direction systems. They are under force per unit area to increase efficiency, present inventions and cut down costs. The domestic enterprisers who fail to learn from their foreign challengers suffer in the long tally.

5. Higher Production

Globalization leads to distribute up o fabrication installations in different states. Firms with world-wide contacts can outsource finances, engineering, distribution and other maps from anyplace in the universe. They can negotiate farm outing to stay focused on countries of their nucleus competency. International outsourcing and farm outing aid to better operational efficiency and o cut down costs.

6. Price Stabilization

Globalization can cut down monetary value differences between states. Free trade and international competition aid to equalize monetary value degrees in international markets. States with a high grade of globalization can pull greater foreign investing which supplements domestic finances, brings in foreign and improves balance of payments.

7. Addition in Employment and Income

Globalization creates occupation chances in developing states and the incomes of people additions due to increased industrialization.

8. Higher Standards of Populating

Lower monetary values, better quality and higher incomes help to heighten ingestion and life criterions of people peculiarly in developing states. Furthermore, increased economic development enables the authorities of these states to supply better public assistance installations like instruction, wellness, sanitation, etc. There is all circular addition in public assistance and prosperity of public.

9. International Economic Cooperation

Globalization improves economic cooperation between states in the signifier of trade understandings, international pacts, standardization of commercial process, turning away of dual revenue enhancement, rational belongings protection and so on. International cooperation besides helps states to harmonies their macroeconomic policies for their common benefit.

10. World Peace

Globalization promotes cultural exchange and common apprehension among different states. International cooperation and brotherhood contribute to peace and prosperity in the universe.

Disadvantages of Globalization

1. Mutuality

Globalization increases mutuality between states of the universe. As a consequence, economic sovereignty and control over the domestic economic system are reduced. There is a danger of foreign economic laterality over the underdeveloped economic systems.

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2. Menace to Domestic Industry

Globalization leads to the constitution of fabrication and selling installations by multinationals n developing states. The domestic houses in these states fail to confront the onslaught of multinationals. As a consequence they sell out to foreign houses. Cheap imports from China and other states besides kill domestic concern peculiarly in the little sector. Availability of high quality foreign merchandises reduces the demand for domestic merchandises and domestic production is eroded

3. Unemployment

Globalization leads to restructuring of industry. Technology upgradation and concentrate on countries of comparative advantage create unemployment and underemployment among low skilled workers. As a consequence income inequality, poorness and societal agitation may increase.

4. Drain of Basic Resources

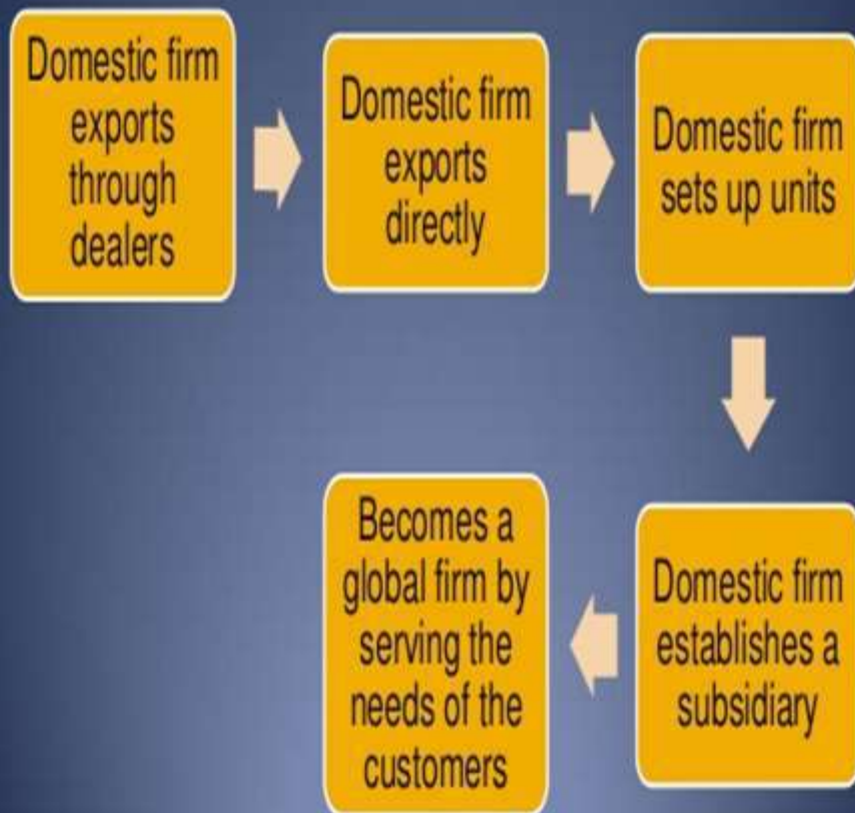
Globalization consequences in development of natural resources and basic natural stuffs in developing states. These states are frequently the Sellers of agricultural and other inputs and purchasers of finished merchandises. Talented human resources are besides transferred to developed states which offer better wage and calling chances. Economic underdevelopment of hapless states is the consequence of exploitatory character of international trade.

5. Technological Dependence

Globalization offers readymade foreign engineering which scuttles domestic research and development. Foreign engineering's are available at a high cost and frequently are non adaptable to local conditions. Developing states become technologically dependent on developed states.

6. Alien Culture

Globalization promotes ingestion forms and life styles which are inconsistent with the local civilization and values. It may take to switch in the industrialization form contrary to the national precedence's.



1. In the *first stage* of globalization, companies normally tend to focus on their domestic markets. They develop and strengthen their capabilities in some core areas.

2. In the *second stage* of globalization, companies begin to look at overseas markets more seriously but the orientation remains predominantly domestic. The various options a company has in this stage are exports, setting up warehouses abroad and establishing assembly lines in major markets. The company gets a better understanding of overseas markets at low risk, but without committing large amounts of resources.

3. In the *third stage* of globalization, the commitment to overseas markets increases. The company begins to take into account the differences across various markets to customize its products suitably. Different strategies are formed for different markets to maximize customer responsiveness. The company may set up overseas R&D centers and full-fledged country or region specific manufacturing facilities. This phase can be referred to as the multinational or multi-domestic phase. The different subsidiaries largely remain independent of each other and there is little coordination among the different units in the system.

4. In the *final stage* of globalization, the transnational corporation emerges. Here, the company takes into account both similarities and differences across different markets. Some activities are standardized across the globe while others are customized to suit the needs of individual markets. The firm attempts to combine global efficiencies, local responsiveness and sharing of knowledge across different subsidiaries. A seamless network of subsidiaries across the world emerges. It is very difficult to make out where the home country or headquarters is.

Essential Conditions for Globalization

1. Removal of quotas and duties.
2. Liberalization of Government regulations and ordinances.
3. Freedom to concern and industry.
4. Removal of bureaucratic formalities and process.
5. Adequate substructure.
6. Competition on the footing of quality, monetary value, bringing, and client service.
7. Autonomy to public sector projects.
8. Incentives for research and development.
9. Administrative and Government support to industry.
10. Development of money markets and capital markets.

12. Potential Pros of Globalization

1. Expansion of free trade

Globalization has increased free trade. Free trade encourages trading without barriers such as tariffs. It increases exports and provides greater choices for consumer goods. It reduces the expenditure of government by creating opportunities for foreign investment.

Free trade will allow people to buy anything from anywhere in the world if hurdles of tariffs, sales taxes and, other subsidies are removed. This way, business owners will find their safe haven in free trade. One cannot deny that free trade is the most significant advantage of globalization. That is because the lower prices allow more purchase of the product that stimulates growth eventually.

2. Increase in job opportunities

Globalization has increased competition. It drives labor toward more productive jobs. According to an estimate of the World Bank Group, 600 million jobs would be increased by the year 2027. You have a laptop, numerous websites, and Genius Google. There! You are all set to approach the world while sitting at your home.

Globalization has created endless job opportunities for people around the world. Apply anywhere according to your education and skills and bingo!. Also, you have a variety of options to choose from. This very advantage hides many cons of globalization

3. It can control the exploitation of currency

Global powers manipulate their money to increase their worth and demand. Currencies like euro, dollar, and pound are classic examples in this regard. The enhanced global contact can eliminate the need for this manipulation to gain an advantage of price so that the consumer can benefit from the outcome. Globalization does not allow countries to control the currencies of other local economies. In this way, it is the customer who can take advantage of the outcome. It is, yet one of the most significant advantages of globalization.

4. It can provide opportunities for developing countries

Many countries, especially third world nations are agrarian in their mode of economy. They are at the entry-level of industrialization. It offers these regions with better opportunities to prosper by providing them international access. he only scenario where the globalization is not termed bad by the critics is in the development of third world countries. Open borders promote trade. It brings out endless business opportunities. In today's time, it is bringing a considerable lot of aspiring entrepreneurs on board. With the chance to expand its global outreach, globalization is playing an important role.

5. It broadens the horizons of communication

Modern modes of communication allow access to more culture, information, and knowledge. There is more influx of international information. It provides necessary exposure for growth. The most evident and prominent advantage of globalization is open communication for All. With the advent of Facebook, Insta gram, and other social media platforms, people from all around the world can interact with each other freely. Free communication allows the intermingling of cultures. This is also known as a massive disadvantage of globalization which shall be discussed further in the Cons of Globalization.

6. World power is Emerging

Instead of divided centers of power, world power is emerging. It is beneficial to people all over the world. The global policymaking and decisions impact the power hubs. It necessitates them to abide by standards of global welfare such as human rights.

7. It increased openness to diversity

Nowadays, people are more open to variety than ever. It reduces a sense of alienation towards foreign culture because everything is globalized. People are becoming more open to learn and appreciate differences.
Globalization brings international corporations and governments together. This urges them to fulfill their responsibilities towards social and ecological problems of the global society. Only a stable community will embrace and welcome what all the business giants and innovative

8. It has made the world more convenient

Technological and scientific advancements have made the world a better place. There is an improvement in the quality of lifestyle and healthcare. Improvement of lifestyle has increased the life expectancy of human beings.
Now people can travel faster, communicate with each other, and benefit from life-saving medications. Rarities are no rarer. Various modes of trade have made it more accessible.

9. Pooling of resources

Pooling resources can combine multiple talents to work towards a single goal. Instead of numerous agencies doing the same thing, a single agency can do it all !. It can also enhance innovation in the industry.

10. It supports democracy

Globalization makes colonial designs hard to thrive. It gives rise to collective consciousness hence favoring democracy. It provides more power for people.

11. Reduction of prices

The global competition among various countries and markets with bring down the costs of goods. It is favorable for consumers due to economy of scale.

12. It provides stability to world politics

Despite the wave of populism and elitism, globalization encourages more cooperation than isolation. Isolated economies cannot grow well. Hence, a certain level of economic relationship

12. Potential Cons of Globalization

1. It allows capitalization of wealth

Free trade is more accessible for conglomerates as compared to small business and local buyers. It enables the accumulation of wealth. It leads to the monopolization of resources in the hands of fawn most of countries, there is 20 percent of Value Added Tax(VAT) which stops the consumers from buying imported products. It makes the rich grow richer and thrusts the poor down the poverty line.

2. The exploitation of low- cost job market

Global connectivity creates more jobs but the areas with low-cost labor get exploited. The same amount of work is outsourced at dirt cheap rates. It hinders the financial growth of workers.

The most prominent disadvantage of globalization is that it allows free transfer of companies. This makes them transfer themselves to lower-cost regions. It saves them a lot of money as the cost of labor is very cheap. It may allow a bunch of job opportunities and the expansion of the company, but it drags the poor to the bottom line in real. That's why it is the reason why critics call it as the most prominent disadvantage of globalization. This factor also gives rise to child labor.

3. It creates a disparity of resources

Wealthy countries will consume more resources as compared to poorer countries. It will create a global wealth gap.
According to the United Nations Development Program, 86% of world resources are consumed by G-20 countries, whereas 80% of the world consumes only 14% of the wealth.

Easy access to almost everything has created an enormous surge in cybercrimes, harassment, and terrorism. Globalization's biggest disadvantage till date is the increased activities of extremism which people "express" over the internet. It is eventually promoting a culture of fear and hate

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4. The spread of diseases is more rapid

Health conditions become more communicable due to increased contact and traveling .It is believed that a new virus can spread in less than 14 days all over the world, given the current situation of open global accesses.

It can expose diseases from remotest parts of the planet to healthy parts of the earth with deadly potential Diseases in today's world are most viral and pose deadly health threats to the world as due to globalization. Open borders provide the smooth movement of people, and this allows the diseases to communicate freely.

5. It can jeopardize safety net in the social welfare system

Social welfare exists in many countries. It provides several facilities to financially oppressed people, including food stamps, provisions, healthcare, and housing.

A country can afford that for its citizens through taxation. If expanded to the world, it would be difficult to provide a safety net to people that face poverty.

6. It can be dangerous for the environment

The pollution level can be increased due to an increase in industries and production. It can acidify the air and make the situation of global warming worst**.** Despite the various pros and cons of globalization, this one remains the biggest global threat.

7. Cultural identity would be lost

It inculcates a global culture that is popularized through pop culture. The globalization of homogenous culture leaves little room for indigenous cultures to nourish healthily.

It can lead to a collective identity crisis due to losing large swaths of cults into this homogeneity. Opening up borders poise a threat to national identity," says most of the critics. Larger countries experience this kind of trouble like America. For instance, a person may be from Iowa, but he will call himself an American first.

If it is applied on a planetary scale, this would mean large swaths of culture would lose their identity. This loss of culture would be a great loss for humanity. This very aspect is also a huge concern for critics when they debate the pros and cons of globalization

8. It can increase global corruption

The monopolization of power can lead to corruption. If a single unit began to govern the entire world, it could lead to many negative consequences such as despotism. This is the biggest con of globalization.

In many developed nations today, there are large organizations, lobbyists, and affluent people who are a*sociated with legislative issues. This allows them to have an arrangement of guidelines and laws which are in their favor. It paints a rather shallow picture of democracy which most of the superpowers portray. Again, it stands as one of the most significant disadvantages of globalization.

9. It can lead to political capitalism

Multi-national organizations take part in political activities and influence policymaking. They can manipulate political institutions for their vested interests through their economic influence.

10. High cost of labor

The developed countries have higher costs of labor, manufacturing, and distribution. Companies relocate to areas where costs are lower. It is not just the people, but the wealthy areas will also benefit from globalization. They get more abundant under the guise that they are producing more for the rest of the world. This scenario can be proved by the information from the United Nations Development Program. It states that the G20 nations consume 86% of the world's resources. In comparison, most deficient 80% of the world consume the other 14%.

11. Globalization increases consumerism

It has worsened the situation of over-consumption. It gives rise to a disparity of resources and issues regarding waste management. The wealthiest countries of the world consume 90% of all consumable items per day.

For example, a quarter of energy is used by the USA, while only 5% of the world population lives there.

12. It increased racism and hate crimes

The loss of identity creates mass hysteria in society. This is one of the most important among the Pros and Cons of Globalization. It leads to desperate attempts and racist behavior. In recent years, hate crimes are increased due to a heightened sense of racism.

A very important disadvantage of globalization is overpopulation.

Every country has a specific capacity to pile up people and cater to their basic needs. Open borders have put a massive burden on the countries. Densely populated areas are lacking behind the race to obtain and maintain social order. Food, Housing provisions, and other benefits are far from their reach as the government is unable to provide such a huge number of people.

CONCLUSION

Globalization is a broad concept that flows through many aspects of the world. Key areas of effect of globalization are economy, trade, industry, finance, culture and health etc.

The impact of globalization on international finance is a buzz topic in today's context with the world financial crisis. International finance is a main area that has a significant impact from globalization. Economy and international finance are closely interconnected where international finance accommodates the world economy.

There are number of benefits international finance and it can be stated as the backbone of the economy. International Monitory Fund, World Bank are the key institutions of international finance.

Overall international finance is both positively and negatively impacted from globalization. In conclusion globalization is double edged sword affects International Finance. A well thought through process of activities would enable a country to maximize the benefits while reducing the adverse results.

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